Paul Rickard:

Hello, and welcome to the August Switzer Report Webinar, I'm Paul Rickard from locked down Sydney, and also from another part of locked down Sydney is Peter Switzer.

Peter Switzer:

Hello, Paul. Yeah, we're kind of inmates, aren't we? But in different organised institutions or incarceration institutions. Still, it's better than nothing. Yeah.

Paul Rickard:

I'm feeling a bit casual for a webinar.

Peter Switzer:

It feels unusual, isn't it? Not being in the same room and all that sort of stuff. But end of the day, we'll get excited when people start asking us questions. And it'll get there. Exciting time coming up, reporting season, Paul.

Paul Rickard:

Yep, we'll get to that in a second. We'll just look at what happened last month. But as we always do, let's just start at the beginning. And first of all, we do these webinars for exactly an hour. So, it's just after 12:30 PM Eastern Standard Time, we'll finish no later than 1:30 PM. The page in front of you shows you our disclaimer. Now, it's really important that, not just a lot of legalese, but what that disclaimer is essentially saying is that we don't know anything about your particular needs, individual circumstances or financial objectives. So, what we might think as brilliant financial education, it may not be appropriate for you because your circumstances or needs or objectives are different. So, as always, we encourage you to seek the appropriate professional advice if in any doubt.

Paul Rickard:

And then, the next slide if we move that forward, Jon, just shows you how you can ask questions. So, I've got a lot of questions in here already. We're going to get to as many of those as we can. But also, there are two ways you can ask a question. You can click on the hand button and talk to us, or alternatively, that's raise your hand button and we'll try to get to you shortly. And you can use your laptop or the microphone inbuilt into your laptop to communicate directly to us. Alternatively, you can ask a question and just type that in and we'll try to get to those as well.

Opening observations

- The market in July

	July	2021 YTD
S&P/ASX 200 (Price)	1.1%	12.2%
S&P/ASX 200 (Accum)	1.1%	14.1%
S&P/ASX 20 (Accum)	1.3%	17.6%
Midcap 50 (Accum)	0.7%	11.1%
Small Ordinaries (Accum)	0.7%	11.5%

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Paul Rickard:

Okay, let's get started. Just as always, Peter, we just like to have a quick review of what happened last month. July, another up month. I think the take out of that is that the top part of the market is going better than the bottom part of the market. And that's really... And the July numbers don't include the Afterpay effect we saw this week. So, that's even better. But that's really because of the performance of the banks and the major resource companies are really driving that. So, that trend has been now in place for some months. So, again another up month, and we're still looking pretty well as we go to another week that's probably going to close higher. So, our market's still heading higher.

Market & Sector Performance

	Weighting	July	2021 YTD
S&P/ASX 200 (Price)		1.1%	12.2%
S&P/ASX 200 (Accum)		1.1%	14.1%
Communication Services	4.1%	-1.4%	18.7%
Consumer Discretionary	8.1%	-0.5%	20.4%
Consumer Staples	5.2%	1.5%	7.3%
Energy	2.9%	-2.5%	-1.7%
Financials	29.3%	-1.4%	20.3%
Health Care	10.2%	1.2%	7.7%
Industrials	6.8%	4.3%	9.6%
IT	3.8%	-6.9%	-7.4%
Materials	21.5%	7.1%	20.2%
Real Estate	6.7%	0.6%	9.1%
Utilities	1.5%	1.6%	-4.8%

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Paul Rickard:

Let's just go to the sectors, Peter, if I just flick into those. And you can see that, look, an interesting month in the sense that some diverse... Bit of mixed performance. But over the course of the month, still strong performance from materials, and that's really the BHP and the RIOs and the Fortescues, plus some of the other companies, like Amcor. And financials actually had a down month, but year to date, financials, that's the major banks, are leading the way, as are the major resource companies. And the only sector really in the red for the year, apart from utilities, is information technology.

Peter Switzer:

And what's also interesting, Paul, is, I didn't realise this, that real estate's starting to do okay, isn't it? It's up 9.1% for the year. A lot of it would have been driven by the more... Like, the Goodman Group type REITs. But the other ones will probably start kicking in over the next year or so, those...

Paul Rickard:

Yeah, I'm surprised that it has recovered so well, Peter. I mean, given that everything I read about commercial offices is vacancies.

Peter Switzer:

And lockdowns are terrible for it.

Paul Rickard:

And lockdowns. So, I'm a bit surprised by the real estate. But it did get hit hard last year, but you're right. I mean, Goodman Group's at an all-time high. It just keeps on going up and up, very expensive stock. A great company, but people are paying a huge premium for that. And that's probably, I guess one of the companies leading it. But it is one of the standouts there. It's up 9.1% on the year. That's a return in any year you wouldn't sneeze at.

Paul Rickard:

I guess the other take on those numbers is the consumer stocks, until the lockdown were probably doing the best of all. So, things like the discretionary sector. Although, down a bit in July, and that's part of the lockdown starting to help. Let's move on, Peter. We've got a lot of questions. I just want to talk about the gold medal stocks of reporting season. So, maybe I can ask you just upfront, what are the stocks you're really looking to hear what they've got to say? And what particularly are you looking for?

Peter Switzer:

Yeah, well, look, all the conventional ones, you know? I'm waiting to see what BHP tells us about their dividend and the outlook for more dividends and all that sort of stuff. I'm curious about a company that a lot of people are mentioning to me in my interviews, Paul, at the moment is OZ Minerals because of its copper exposure. And copper's really getting a lot of people loving it, not only for the usual reason that, when you have a global recovery and there's lots of industrial production, copper gets used. So, copper's a good indicator.

Peter Switzer:

But also, the fact that there's now a structural desire for copper for electric vehicles and batteries and all that sort of stuff means that it's got new demand. And you might have noticed with Joe Biden making this big call. What is he making? What is he saying? 50% of US vehicles will be electric by 2030, big call, probably won't happen. But the fact that they're saying that means electric cars and copper's association will benefit.

Paul Rickard:

Well, you know, we're seeing that following the lead obviously that the EU has already put those sort of targets in place, and particularly ceasing production of diesel cars. That's one of the reasons I say to people, don't buy a new diesel car because they've got a very short lifespan in my opinion. Different for diesel trucks and other types of vehicles. But in the luxury market, there aren't going to be any new ones. So, I think that's going to impact their price longer term.

Paul Rickard:

Anyhow, yeah, I mean, it's a big call. And we've seen that in copper, we've seen it in lithium, we've seen it in nickel. We're seeing a lot of those other companies involved in that whole EV/storage/battery space. So, that's a mega trend. And those stocks keep on roaring ahead. But it is a big call from Biden. It's only a target, Peter. And I don't think there's any legal sanctions.

Peter Switzer:

No.

Paul Rickard:

But it shows you the way the world is going. And you know, it's got to have an impact in those sort of parts. Just on actual stocks for reporting season you're going to look out for?

Peter Switzer:

I'm really keen to see how my ZEET collection of stocks will do. Obviously Zip's benefited from Afterpay. And I was having a quick look at the ZEET stocks. Now, I wrote that story in May of last year. At one stage, they were up nearly 50%. Then they were down about 15%. No, they were up 15, but down from the 50%. They're climbing back now. They're up 20% since I wrote that in May 19. Zip itself is up 105%. EML is up 3.85%. Now, if it didn't have the Irish Bank problems, I'm hoping they make some reference to that problem when they report. They're up 3.85%.

Peter Switzer:

Tyro, of course, had that damaging report from Viceroy, which is probably three quarters BS. I'm hoping that Robbie Cooke, the CEO there, tells me something good. You can't tell me anything because you're on the board, so you're no use to me at all. And then, of course, ELMO's been the big disappointment. I think it's a good company. I think I even talked you into it, Paul.

Peter Switzer:

But I have noticed that over the last week or so, the share price has been improving. I'm also happy to report that the CEO, Danny Lessem, has put his hand up to come on the TV show. I often find when CEOs are doing that, they often put their hand up when they think they've got a bit of news to share, but not always, you know? I remember Christine Holgate, when she was at Blackmores, she always came on, she always had good news until one year she came on it with bad news. So, they're the four I'm interested in, apart from the more conventional ones, which I know you'd be interested, CBA, BHP, Telstra and the like.

Paul Rickard:

Yeah, I'm particularly keen to see CBA's... Whether it announces an off-market share buy back. So, I'll write about that for Monday. Telstra is a good standout. It's done really well in the market, Telstra. And it's been very steady climbing up. We both said some months ago, we thought about $3.70. $3.75, it's actually above that a fraction. I'm interested in Telstra to see whether actually they're making headway on the revenue side. I think they did some smart things this week. I think the announcement about not charging for payphones was a good PR move. And they rolled out an advertising campaign straight away. So, I think that Telstra's getting their act together. But look, they've still got to actually... At the end of the day, they've got to increase earnings. And so, that's one to look out for there.

Paul Rickard:

And then, BHP, size of dividend. And then, some of the retailers, just to see just how much impact the lockdown has had and what they're saying about sales, particularly in July, now we've got three states back in lockdown. So, overall, if you followed the US trend, reporting season should be pretty good, because I think in the US, they're about... Is it 83% of the S&P500 have beaten expectations? So, they normally do. But that's on the high side. So, that's pretty good, and we should do the same.

Peter Switzer:

And Paul, what's really interesting is that the market is also saying, we know the quarter after can't be as good as this. But it's still going to be a good quarter. It's like, I can't remember the precise numbers. I think I put it on Saturday's Switzer Report last Saturday. But it was like, if the current one was collective earnings up 45%, the next one will be 15 or 20%, which is still good, but just not as good as the one that comes as a consequence of getting out of lockdown and all those vaccination rates.

Paul Rickard:

Okay, let's get to some questions. I might just start with this question that's just come in first, Peter, because we'll just get the big picture out of the way. This is from Michael, "Do you think the ASX 200 could hit 8000 by the end of the year? If not, could it hit the mark in quarter one next year?" So, what's your longterm scenario for the market?

Peter Switzer:

Yeah, 8000 sounds too big to me for this year. We're at 7500. 500 points by the end of the year. Look, no, I think 8000 some time across 2022 for sure, but not this year. I think I made a fairly big call of a 10% plus rise in the early part of this year.

Paul Rickard:

Which we've had, right?

Peter Switzer:

Yeah, we've pretty well got there, so I'm really happy with that. And I said, if you throw in the dividends, it's probably going to be 14%. And that's probably going to happen. But I think there's going to be a little bit of a sell-off somewhere between September and October, Paul, there often is. But for me, I'll be telling everyone I think it's a buying opportunity because the closer we get to the end of the year, the higher the vaccination rates are going to be in Australia, the higher the vaccination rates will be around the world, the closer to international borders opening up. All of that's going to be great for those stocks that are currently suffering, and Qantas is a classic case of a company that's suffering, Flight Centre, Webjet and all them.

Peter Switzer:

So, as the reality of vaccinations improve and we get closer to international borders, we're going to see the rebound of those reopening type stocks. That'd be great for the market. So, 8000 plus in 2022 for sure.

Paul Rickard:

Okay. All right, let's go a few questions on Afterpay. We'll deal with the buy now, pay later and all those companies first. Just a slightly broader question from Wendy, "Does the takeover of Afterpay by Square present any concerns to Australia's banking sector, the Big Four in particular?"

Peter Switzer:

I don't think in the short term, Paul. I think, eventually the banks will have to look at this challenge and they'll have to adapt. Fortunately, they are so big, people aren't going to walk away from these institutions overnight, and they'll be cherry picking. These fintechs will be cherry picking parts of the business, which could undermine profitability more in the longer term than the short term. So, I'm not worried short term. But in the longer term, these companies might not be as profitable, Paul.

Paul Rickard:

Yeah, no, I think the longterm is that it's a risk for the banks. And as is often the case, you know? You'll see the banks will buy the fintechs. So, yeah, I think they're all pretty worried about the... Square is someone not to be... You know? You've got to look at the success of Jack Dorsey in Square and the

Australian banks would be a little concerned and saying, "That's a powerful force." And Square clearly wants to be a lender to business, in addition to being a payments company. And yeah, I don't think it's a short-term risk, but certainly they'll be worried about it in the long-term.

Paul Rickard:

So yeah, I think you're spot on there, Peter. Second one from Mark, with Square taking over Afterpay, does this place a floor under the likes of Tyro and EML payments? Now, you've talked about both already. But just sort of, do you see any relationship between the Square and Afterpay deal and those two companies in particular?

Peter Switzer:

Yeah. I don't know EML so much, but EML is in the payments business. And this week, I think they added something to their arsenal. I can't remember it. I'll have to look into it again. But I must admit, I wouldn't be surprised, once again, Paul can't say anything because you're on the board, so he never talks or tells me anything about Tyro. But I wouldn't mind betting that it would have crossed the mind of board and the CEOs at Tyro and Zip that they would say, "Well, it might be in our interests to hook up." Sure, Tyro doesn't give Zip international help. But locally, if Afterpay and Square are going to be working together locally, why wouldn't Zip be looking at a company like Tyro? Which I think is just going to get better and better as the reopening trade happens. So, that could be one really important tie. And I do think it probably does put a bit of a floor under their prices.

Paul Rickard:

I think we can both agree, because I won't say anything, but it doesn't do it any harm, right?

Peter Switzer:

And it means that it's possible a foreign company could look at it. But also, just going back to our earlier conversation, there's no reason why our banks might be thinking, "The longer we hang around here, the more valuable these things will become and the more expensive they'll be." And we know already, CBA has a bit of Zip through Klarna, doesn't it, Paul?

Paul Rickard:

It does. CBA owns about 15% of Zip, sorry, of Klarna, roughly. Yep, so it hasn't been caught out...

Peter Switzer:

And Klarna's got about four or five percent of Zip?

Paul Rickard:

Yep, that's correct. Yep. Okay, let's just deal with the banks while we're here. So, a question from Judith Ann, "Paul Rickard said buy Commonwealth Bank buyback if offered next Wednesday." Well, I'm going to write about that on the weekend, Judith, so you can read all about that on Monday. "Does this apply to all the Big Four and Macquarie if offered?" So, Commonwealth Bank is the only one that's doing an off-market buyback. Both NAB and ANZ have announced on-market buybacks. So, you don't see that, that's just a broker buying, effectively in the marketplace.

Paul Rickard:

And the reason that Commonwealth Bank is going to do an off-market buyback is it's got lots of franking credits, and they're valuable in the hands of shareholders. So, it doesn't apply to the other banks. And Macquarie won't be doing an off-market buyback either.

Paul Rickard:

And there's also a related question here from... I saw a question about Westpac. So, Westpac hasn't announced a buyback yet. So, just see where this question is from... Is it likely to? I think it's less likely than the others. Its capital's not quite as strong, and it's still got some issues. But let's just... I don't think you'll get an announcement from Westpac until it brings out its half year result, which is not due until some time in early November. That'd be my guess on the Westpac side.

Peter Switzer:

Yeah, I agree.

Paul Rickard:

I think we're sort of done. I suppose the final question, do you see any much value in the banks, Peter, at the moment?

Peter Switzer:

You know, you and I have been big supporters of the banks. Look, I wouldn't be surprised over the course of the next 12 months they rise anywhere between five and 10%. It wouldn't surprise me one little bit. And the dividends will be quite good. But yeah, I can't see them falling for any good reason. If they fell too much, I'd be buying, I'd buy it.

Paul Rickard:

Yeah. That question from Westpac was from you, Niru, if I've got that correctly? So, we'll consider that as answered. Okay, a lot of questions about the lithium and so forth. So, this question from Gary, this probably covers the whole lot. There's another question on the same line. It says, "Should you start getting some exposure to EV stocks? I.e. Linus, OZ Minerals, Orocobre, Pilbara, or stay with BHP and Wesfarmers which have some exposure?"

Peter Switzer:

Well, let me say this to you.

Paul Rickard:

They've gone up a long way, some of them.

Peter Switzer:

Yeah. They've gone up a long way. And I think probably the smartest strategy would be to be cashed up if there's a sell-off and buy for the longterm. They're all going to do well in the longterm. And anyone who's interested in this question should look at that... Listen and look at that podcast I did with Luke Smith from Ausbil last week. Not only did he talk about BHP's outlook and the iron ore price, but he also looked at all the miners that would do well going forward.

Peter Switzer:

And the conclusion was, okay, you might buy in now and you're buying at elevated levels, but in five years' time, they're going to be much more elevated. I think that's the bottom line. So, you either wait buying on the dip, or if you buy now, you might have to wait a while. But let me say this to you, Paul, in March, when Linus was around $6, look at how quickly it rose. It went from... What? $2.50 to $6. And it came off the boil a bit. And look at it, it's gone again. It's gone from... What? $5.50 up to $7.50.

Paul Rickard:

Yep.

Peter Switzer:

And I think companies like this will do this over time.

Paul Rickard:

Yeah, I've missed sort of the Linus bus. I haven't wanted to sell it, I've been trying to look to buy it. But I haven't been brave enough, and no sooner do you look and it's up to $7.50. I'm probably a little hesitant to get in now. But I think on the dip, I think Linus looks interesting. So, let me ask the question on the other end, this is from Sandro, it says, "Is it time to take some profits in Linus, IGO, which is big in the nickel space, and also Galaxy?" Which of course is another lithium producer?

Peter Switzer:

Well, sure. If you're that kind of investor, you take profit, I would maybe sell half of them and pocket the profit and assume that there might be a sell-off. But if there's not a sell-off, you've missed the next leg up. But that next leg up might be a lot slower, given how solid these gains have been. But I must admit, I let my profits run until I get a little bit more negative. At the moment, the inclinations are pretty steep, aren't they, Paul?

Paul Rickard:

Yep, they are. So, we might just do another question here. I might come back to those. So, this is a question in on George, we'll deal with this quickly. What do you think of the reporting by BWP Trust? Do you expect the share price to fall? I think it only went down a couple of percent. BWP Trust of course owns Bunnings. It should be pretty stable. Look, I don't think there's a huge... I'm not surprised it's come down that much, but maybe that puts it back on the radar a little bit. I think some of these trusts got pretty expensive. And I don't know how... What I suggest you look at is what the market price, how that relates back to it's NTA. So, maybe that fall is actually creating a bit of an opportunity in BWP Trust.

Peter Switzer:

Yeah, I think so, Paul. Yep.

Paul Rickard:

Okay. Question here from Tony, "Hi guys, what do you think of the prospects of the BetaShares ETF Emerging Markets?" Which I think is EM... Just have to find that.

Peter Switzer:

My worry there, Paul, is gee, China's making it hard. This week, they got stuck into Tencent and then got stuck into Alibaba. I think Baidou's also copped it as well. I just think that the China aspect and what

Beijing's up to at the moment makes me very hesitant. Now, sure, you could go back and use the Buffett quote, be greedy when everyone's fearful. But I just think Beijing's just putting a curve ball into investing in emerging economies, such that I don't know what to do. I'm going to avoid it, quite frankly, until... Because to the left, that's what this fund should have been doing, you know? That really steep rise.

Peter Switzer:

But look, since Beijing's been playing silly you know what's, it's just wreaked havoc. And I'm just not interested in investing when those sort of curve balls are being thrown at you.

Paul Rickard:

I might do another one here and then show you the way I think you can invest in this a little bit more intuitively. So, this is a question about the Asian Tigers, which has also come off. That's ASIA. So, that includes a lot, think of like Tencent, we saw what happened when China got a bit Nazi about... This week, if that's the right word, about the games and so forth. I think there are other ways you can play these markets. I actually prefer an active manager in this space, simply because I think they can better position, rather than... This is the trouble with the index ETFs, sometimes there's no... They're on autopilot, right? And you've got no way of sort of guarding against the unexpected, particularly what I describe at a pretty higher risk part of the market, which is Asia and emerging markets. Have a look at FEMX, which is from Fidelity. If you can put FEMX up there, Jon?

Peter Switzer:

Yep.

Paul Rickard:

Yeah. I mean, that's the way I prefer to play emerging markets, right?

Peter Switzer:

Look at the chart. Yeah.

Paul Rickard:

So, that's my answer to that question.

Peter Switzer:

Good answer too, Paul.

Paul Rickard:

It is a good answer, I was pretty pleased with that. I wasn't expecting that to look so good, quite as good. Anyhow.

Peter Switzer:

Me either. But by the way, they have featured on our investor seminars for the last two or three years. And Anthony Doyle often comes on. The point he makes is that they do go after those up and coming Chinese companies that Chinese people deal with. But yeah, they've done very well.

Paul Rickard:

Okay, a question from Melinda, and I've got a couple of questions on gold. So, "Which gold stocks would you recommend which have dividends and also have most of their mines in Australia or other first world countries?" Linda, I think I wrote about that the other week, but most gold companies don't pay... Most miners don't pay dividends, and I think if they are, they're very small. I'd probably suggest you have a look at Newcrest, which is NCM, which is the biggest. The other one which is big locally, of course, is Northern Star, which I think is the one you prefer, Peter, don't you?

Peter Switzer:

Yeah, only because... Look, because it's been a good performing company over a long period of time. The CEO and management's very, very good. I agree with you, buying both of them makes a lot of good sense, Paul.

Paul Rickard:

And I think you raise a good point. I mean, that's one thing to mining companies, I always feel a little more comfortable when the mining company's assets are local.

Peter Switzer:

Me too.

Paul Rickard:

Or companies from first world as opposed to third world, because just standards are less political risk, less legal risk. And it's why I always get a little concerned about operations in Papua New Guinea or Africa. And so, you need to, as well as, I think, looking at cost of assets and assets quality, I think you just can't ignore political and geopolitical risk when it comes to some of these businesses. So, I understand the point of the question. Okay, another question-

Peter Switzer:

Paul, the analysts think about 21% upside for Northern Star, Paul.

Paul Rickard:

Okay. So, this question also from Rama, a related question, "Is there any reason why the BetaShares Gold Bullion ETF, which is currency hedged, that's under the code of QAU, pays a distribution, while the ETFS Physical Gold, which codes under the ticker GOLD or Perth Mint Gold do not?" I can't tell you offhand as to why they do. I would expect the distribution is pretty small, like less than 1%. But you know, something to bear in mind.

Paul Rickard:

Typically, maybe they're just more active at lending their gold. And these ETFs hold physical gold, and they will lend it in the market and they get paid to lend it. And so, that comes back to you. But I can't give you a point of reason. But I'm sure the distribution, if it is, is very small.

Paul Rickard:

Then a question from Gail, "Does a hedged ETF protect you against a falling or a rising dollar?" Maybe I can just answer that one quickly, Peter. It protects you against a rising dollar. And it's a rising Australian dollar. So, that's one of the issues to be on guard about. Okay, question here about from Douglas on

AGL, "AGL lowest for a long time. Worth buying now, even though energy is slow?" So, do you want to... I wrote about AGL earlier in the week, Peter. Did you want to comment on AGL? Would you like to have at the data there?

Peter Switzer:

Yeah, my comment would be, read Paul Rickard because you've been anti-AGL for some time. And you've gone a little bit more positive on AGL, Paul.

Paul Rickard:

Yeah. Well, I mean, I'm a little more positive, and I do like the idea of their split between the dirty AGL and the green AGL. Dirty being the power station business. AGL is not a gas company, folks. It has a little bit of gas. It is a power company, it produces electricity. It owns three major power stations. It owns the Liddell Power Station, it owns the Bayswater Power Station, both in New South Wales, and also owns Loy Yang B in Victoria. And also owns a power station in Adelaide, in South Australia, the Torrens Island. So, it's major business is producing electricity. It is also a retail business, and that's essentially what's being split off of it, the retail and the green parts. Whereas, the dirty part stays into a company that's now going to be called Axel. But I think there's a bit of upside with that demerger, take a little while. But there's no short-term reason to say that it's going to get a big boost, but I think there's value in AGL longterm, for those who are patient.

Peter Switzer:

I'll get Mike Gable, Paul, on Monday to look at AGL and see what the charts are saying. It's obviously trying to form a base right now, you can see it. But gee, it's been terrible for quite some time.

Paul Rickard:

Okay. So, that leads us on to ESG. And some questions here, this is a question from June, I'll throw this one. It relates to BHP, but we can also have a discussion around Woodside, "Can you please give your opinion on the valuation and continued rise or otherwise of BHP re: ESG risk?"

Peter Switzer:

Yeah. I think BHP is trying to manage that. Obviously the coal assets are no help to them, but they are going back to their potash, it was this fertiliser, Paul, isn't it? And they've got copper. And I think the green world is going to have to accept that copper is a part of improving the implications for the environment from fossil fuel driven cars, electric vehicles are going to be much better there.

Peter Switzer:

I think BHP will go okay. But I don't think it's going to be savage like other miners might be, like coal miners. And I think they will try and tap into the ESG community by improving their asset mix. And what was the other one, Paul?

Paul Rickard:

Well, I guess just to add to that, it's a headwind for BHP, that's why it's also trying to get rid of its coal assets. It's been trying to sell its thermal coal assets for some time. And why it's also trying to do a bit of a deal with Woodside on some of its oil assets. So, BHP is trying to tackle it, but you've got to say it's still a little bit of a headwind. I guess that relates to Shernavaz's question on Woodside, "Your view on Woodside? Why is its price falling when the oil price is so high? Is it worth holding?"

Peter Switzer:

Yeah, it's a good question, Sharnavaz. Yeah, the analysts think there's 26% upside, but they're gambling on the oil price, they're gambling on ESG affected funds not dumping Woodside. I must admit, we did talk about buying it at around $17 or so. So, I'm currently in the money, but I'm like Shernavaz wondering whether I should sell it now, because-

Paul Rickard:

Yeah, I mean, Woodside has got... I mean, certainly, I think there's ESG forces at play with Woodside. You've got the discussion around Woodside and BHP, Woodside buying effectively BHP's oil assets in Australia, the Bass Strait. And then, issuing a whole lot of shares to BHP, which BHP would then demerge and give to its shareholders, so that would increase a whole big increase in Woodside's shares. I guess all those things are depressing the price a little bit. You've also got... We've got an acting CEO, and you've got major investment decision around Scarborough up in the air at the moment. We had some news on that during the week about how much that might now cost. So, I think all of those things, people aren't seeing any urgency to go and buy Woodside, and that's why it's not doing well.

Paul Rickard:

If you look at that whole energy sector, perhaps we didn't draw that out, Peter, it's been the weakest performing... Terrible performance this year. All oil companies, Australian oil companies are doing it tough. And I think the ESG is a big part of that.

Peter Switzer:

Yep, and I'm thinking to myself, even if Woodside rebounds, how high is it going to rebound? Is my money better off in a company like Qantas, who I think will rebound in 2022 when international borders are opening up? So, I think you do have to look at, even though I think Woodside will go higher, my question will be, are there better companies to be in, even in the short term, you know? Short term being one year.

Paul Rickard:

Okay, so a question here from... Well, I'll just do another one from Shaun, "Origin Energy again disappoint. Should I continue to hold or sell?" Let's have a look at Origin Energy while we're just dealing with the energy companies. Again, it's like most of these charts, Peter, it's pretty disappointing. And it's a bit like the AGL chart. I'm just not a huge fan of Origin. But I think again, the analysts see upside, don't they?

Peter Switzer:

I think they do, Paul. Just give me one second with Origin. I don't know if I said to Shernavaz, the analysts think Woodside's got 26% upside. Let me go to Origin now, here we are, 10.8% upside with Origin.

Paul Rickard:

Yeah, I'm just not in the Origin camp. So, I just can't get excited about that as a company. But they're getting cheap. So, I'm not a buyer of Origin at the moment, just not on my radar. Okay, so a question here from... I'll just go to this question on Appen. This is from John. And he also asks about Elmo. So, I think we've done ELMO already. We talked about ELMO is up about $5, has had a bit of a boost this week. But thoughts about Appen, which is just still washing around, Peter?

Peter Switzer:

Yeah. And I'm kind of surprised that it hasn't started... The analysts still think Appen has a 47.1% upside. And I'm expecting to see something positive over the next six months, or I might have to revise my view on Appen. I do have someone who is close to one of the significant board members. I'm going to try and get him to deep throat some information on Appen. But yeah, I'm sticking with it, Paul. But I'm surprised that as America gets back to more normal, why Appen hasn't shown a little bit more improvement.

Paul Rickard:

Yeah, I think there might be some upside in Appen, it's one result I'm looking for fairly closely, that's if we come back to reporting season. I think you might just get a bit more positive out of Appen at this reporting season.

Peter Switzer:

I wouldn't dump it before reporting season.

Paul Rickard:

Yep, but that's one I'm looking at. Okay, so a question here Carlos about Bega Cheese, which is a good one because I've been recommending that, "Bega Cheese has had a large pullback, is it a buying opportunity for a longterm hold?" I'm not really sure why Bega Cheese has come off this year, at least in the last few months or so. So, I actually think it's a pretty well-run dairy producer. They've made some good acquisitions. And I've been a shareholder of Bega Cheese now for some years, and I've done okay. So, I guess I'm not sure why it was ever quite at $6.50, but that's where it was. And it's come back. So, it may be one worth just looking on the radar a little bit.

Peter Switzer:

Yeah, analysts think 30% upside, Paul. I don't like the look of the chart at this point in time. I'd like to see it sort of forming a bit of a base. Can't see why it would go off the boil, I really can't.

Paul Rickard:

Okay. Question on a company that reported today, about ResMed. So, that reported last night in the US, it reports quarterly. This question is from... Where's it gone? Anyhow, from Hugh. I think it's off a little bit today because it just came off a little bit in the US last night. But look, it reported pretty strongly, I thought. Pretty well-matched expectations. So, you know, it's a pretty expensive stock. But a number of our clients hold it in their portfolios, and we continue to recommend it. It hasn't disappointed so far, and may have had too steep a run up, that's probably my only question looking at that chart.

Peter Switzer:

We've been supporters of ResMed, and they have delivered. They do fit into that definition that we have around investing in world class companies. And that's what it is. And also, Paul, I think one of its rivals, Phillips, has had a recall, haven't they? On their products.

Paul Rickard:

Yeah. One of its... That was one of the reasons the price was depressed was because of competition risk. That's what the market was worried about, because ResMed is in the sleep apnoea game. And you've now seen... I think even having had to watch a bit of commercial TV with the Olympics recently, Peter, you're starting to see some ResMed ads on mainstream TV.

Peter Switzer:

I thought you were going to complain about your partner falling asleep while watching the Olympics and you were disturbed by it, or vice versa.

Paul Rickard:

But of course, their major market's not in Australia, it's in the US, right? US and Europe. So, that was probably the reason why the price came down a bit, because of competition risk. But the competitors haven't eventuated. And ResMed's done pretty well. So, the other thing it has done, Peter, is it owns a... It did a bit of a diversification in buying sort of a software company, which is an adjacency. And that seems to have been like a fairly strategic move. Anyhow, look-

Peter Switzer:

Very good management, Paul. Very good management.

Paul Rickard:

Yep. Okay. Let's go to a question here on Boral from Vincent. "Will my Boral shares go up further with the Seven Group takeover? Should I be selling now?" Well, I'd suggest to you, Vincent, you've missed the boat. The takeover was at $7.40. Seven Group now owns about 62 or 63%, it might even be higher than that. That price is not going to go up unless Seven Group wants it to go up. So, look, I'm not sure how far lower it's going to drift. But the time to get out was either to accept a takeover or to sell on market when it was $7.38.

Paul Rickard:

So, the question you now have is, will it go back? Because Seven Group doesn't need to buy any more shares, they control the company. On the one hand, you can say, well, Kerry Stokes and Ryan Stokes saw a lot of value at $7.40, so doesn't that make this thing pretty valuable at $7.05. That's one way to look at it. The other way to look at it as well, at some stage they'll buy more. But they're probably in no hurry to. And a lot of people in the market won't invest because they don't want to be in a company which they're minority shareholders. So, don't know how to advise you on that one. But I think you've missed the boat in terms of selling, put it that way.

Peter Switzer:

Well, at the best price, you mean, don't you, Paul?

Paul Rickard:

Yeah. I mean, I don't think it's going to go back up to $7.40 for some time. I think it's-

Peter Switzer:

In the short-term at least.

Paul Rickard:

Yep. Okay, so question here from David about Wesfarmers. When I wrote this article about six months ago saying Wesfarmers would go to $60, I didn't get much feedback, it's now at about $63. It's getting very pricey, David. I think Wesfarmers, suddenly people have realised it's got some lithium assets, that's part of it. They're probably paying too much. Maybe Bunnings, maybe they're benefiting from lockdown. It's a very well-run company. I would say it's probably in profit-taking zone at the moment. I wouldn't be buying at this sort of level. What do you think, Peter?

Peter Switzer:

Totally agree. Great company, we've always liked it. It's defied the pessimists. But I think it's probably... If you buy now, you could get disappointed. You're still holding a great company that one day will be $70 and $80. But I think in the short-term, it's more likely to come off than keep going at that rate.

Paul Rickard:

Okay, a question here about the REA, R-E-A, which reported this morning. This is from Shabbir. It's come off a bit, I think. Just to... We can put that up. It's just down today. I don't quite know... I had a quick look at the report, it didn't look that bad to me. But it may have been just shy of expectations. It's a really well-run company. I think if it pulls back a long way, I'd be looking to perhaps get back into it. What do you think, Peter?

Peter Switzer:

Yeah, Paul, we look at that chart, that's a bit of profit taking. The lockdowns may well be affecting it to a degree because some auctions aren't going ahead. But you'd think there's going to be a lot more reliance on the website if you can't actually physically go to the actual sites. Once again, this is a stock that's been around $170. It'll be probably $200 by the time a couple of years goes by, a very good company.

Paul Rickard:

Okay, questions here from Karen and Shernavaz about the new issues of Macquarie capital notes, which are going to be... I think they're capital notes five. So, look, the yield's very low. It's at a rate of... Going to be at 2.9%. I guess, with any hybrid security, my advice is, don't invest if you don't understand it. But if you need some income exposure and you want access to a pretty regular distribution, which I'd describe as pretty low risk, then 2.9%, which Macquarie is paying, is the market rate for a second tier... Not a second tier, but a non-major bank. So, the major banks are now more like around about two and three quarters or 2.6%. So, there's value compared to the major banks, that's one way to look at it.

Paul Rickard:

And one trade possibly is sell some of your other bank hybrids and invest in Macquarie. It won't be as liquid, but you'll get a slightly higher rate because it has to pay more in that category. Okay.

Peter Switzer:

Paul, just before we go, if say over the next two years, interest rates rise by 1%, for those people who don't understand hybrids, what do you think Macquarie's hybrid rate will be?

Paul Rickard:

Well, it shouldn't change the margin, Peter. So, if interest rates rise, you should get more. It really is a supply and demand market. If interest rates were to rise a lot, I guess the hybrid margins would go back out because they're just... It would be more choice available for people in terms of interest. I mean, one of the reasons we're getting the compression, Peter, is because there's simply nothing paying any interest out there. And so, that's why demand is strong.

Paul Rickard:

So, if interest rates were to go up a long way, I think hybrid margins would go up as well, and the banks would have to pay more to get their way. Let's go to a question here from David, if we can take that one live, Jon, and unmute that? I'm seeing a... Yep.

David:

Hello.

Paul Rickard:

We'll be able to hear you.

David:

Hi, can you hear me?

Paul Rickard:

Yep.

Peter Switzer:

Yep.

David:

I just wanted to find out your thoughts on Santos?

Paul Rickard:

Yep, I like Santos. I think the Oil Search merger is probably okay. I mean, there's going to be some synergies. I don't really like some of Oil Search's assets. But I think it's just depressed because they're issuing a lot of script and everyone's now going to be long Santos and you're getting ESG risk. So, I think of any of the oil companies, I'd be more inclined to buy Santos than anyone else. So, that's my view. I don't know what the analysts or your view is, Peter?

Peter Switzer:

Yeah, my view is it probably is a buying opportunity. With these sorts of takeovers, it sometimes can take a year or two to materialise the benefit of it. Looking at the chart, to me it looks like a buying opportunity, and the analysts agree with me. They've got 25.7% upside for Santos. But once again, you've got all the problems that we discussed with Woodside, ESG, you're in the hands of OPEC Plus, you never know what these jokers are going to do. But if you look at the chart and look at the quality of the company, management's very good. There's probably a buying opportunity around these levels.

Paul Rickard:

Yeah, look, it is really hard to just get a feel of just how big the ESG issue is because our institutions don't disclose what they're doing, this is the fund managers. And I suspect that a lot of these companies, people have just been exiting, not because they don't say they're not valuable, but they just don't want to have exposures because ESG has sort of suddenly become a really big issue for them.

Peter Switzer:

And industry super funds are putting pressure on the fund managers they employ to respect what they think their members want.

Paul Rickard:

Yeah.

Peter Switzer:

Yep.

Paul Rickard:

So, I don't know whether that selling has stopped, how much more is to come, and just what role it has. But it is something that just makes me nervous about putting more money into that sector at the moment because I think it's a major reason why these companies just haven't gone up. So, that's the thoughts on Santos. Okay. A question here from Julio about CIM, which I think is Cimic.

Peter Switzer:

Yep.

Paul Rickard:

I actually own some shares in Cimic, Julio. And I just haven't bothered to get rid of them. I just sort of don't think that's a company you need to invest in. And the reason I say that is, it's 80% owned by effectively the Spaniards, who own Hochtief. And they're working for them, not working for you. Doesn't mean they're not doing... You won't get rewarded, but their interests come before minority shareholders. So, I'm not sure why you want to be invested in a company where one party owns over 80% of. It doesn't make a lot of sense to me.

Peter Switzer:

Yep. I agree. I agree.

Paul Rickard:

So, there are other options available to you. So, that would be my thoughts on Cimic. Okay, a question here from Graham, a bit more general, "If there was a selloff, which large and midcap stocks would be your preferred buys?"

Peter Switzer:

Gee. Well, I-

Paul Rickard:

Well, I've got a couple. There's a lot of very expensive stocks. I'd probably go for what I think are longterm stocks like CSL. I think I wrote an article about the stocks that I want to be a core part of my portfolio. They're the ones I look at, so the CSLs, big selloff, CBA if it was a big selloff. BHP if there was a really good selloff, Xero, those type of companies, Pete. That'd be my options.

Peter Switzer:

NEXTDC would be one that I'd be happy to buy in a selloff. You know, Paul, you're right, I like Xero. If it was back down around $100 again, I'd fly into it. It's good to see NEXTDC has actually had a nice run lately. But also, Paul, if you're looking for some interesting more risky ones, I suspect that in a year or two, the Nuix share price will be a lot higher than it is today once they flush out all the problems that have emerged, because the prospectus basically said this was a $5 company or so that went to $11. At its current level of $2.68, I suspect within a year or two, it's going to be closer to $4 than it's going to be $2.60.

Paul Rickard:

Okay, question here from Niru about Atlas Arteria and Auckland Airport and Transurban. "Do these stocks react to bond yields?" Well, they do, yes. Whether that's logical or that's right, but they do. Do you think it's up? So, let's just have a look at Transurban. It's not doing a lot, Jon, I don't think. I think there are other drivers apart from bond yields. It's more about traffic. Auckland Airport's in the same situation. So, I don't think there's a lot of upside in the short term in these stocks. I think they've had pretty good recoveries. Let's have a look at Auckland Airport, Jon. I haven't seen that for a while. Could you put up AIA? Hasn't done much. I do note that Tony Featherstone yesterday said he's a fan of Auckland Airport. And Atlas Arteria, which is the former Macquarie infrastructure company that owns toll roads offshore. I think it's AIX, is it? Or ATL?

Peter Switzer:

I've got it here. It's ALX.

Paul Rickard:

I don't think there's huge upside. What do you think, Peter?

Peter Switzer:

No, look, I think in 2022, these companies will benefit because the reopening trade is all about businesses are currently suffering. And I know when we leave our office here in Spring Street in Sydney at 6:30 and I can go straight through the eastern distributor and not being held up. I know these sorts of businesses aren't doing as well as they will be in 2022. And so, that will be... Their share prices will be higher. And you can see, Atlas was once close to $7, now $6.20. They will gain. They will gain.

Paul Rickard:

Yep. Okay, question here about Amcor from Nindi , "Value your opinion re: Amcor, it's gone sideways for a long time." I think it's been going up, it's up this year a little bit.

Peter Switzer:

February's been a nice rise, Paul.

Paul Rickard:

I know if we ever talk to Rudi, we'll get Rudi on the program again shortly. It's one of Rudi's favorite stocks. It's also, I like Amcor. I think it's done a really good job. But you know, it's probably not the most sexiest part of industry packaging. But it's paying a pretty consistent dividend, it's a quarterly reporter. I think it's a good core stock in your portfolio.

Peter Switzer:

And by the way, going back to that question earlier, if there was a selloff in the market, this is the kind of company I'd be happy to buy at $14 again.

Paul Rickard:

Yeah. And you might say that as well about a company like James Hardie and those sort of companies that have been pretty pricey. I think questions about Treasury Wine Estates, this one from Lynette. That's one I'd look at in a good selloff world. Let's have a look at TWE. Again, not doing a lot. But not going down either.

Peter Switzer:

Well, considering how it was savage around November, December when China started to pick on these guys, look at that, it's kept climbing up, telling us that, despite the Chinese discrimination, it's done pretty well. Like, it was... What was it? $8 or so in November and December. And now it's $11.99. I think that's going to hover around here until the news changes. There was talk about pulling out all their quality products, wasn't there Paul? Either potentially being sold off to somebody else. Was there any talk about possibly listing the quality stuff independent?

Paul Rickard:

I don't recall, Peter, I'm sorry.

Peter Switzer:

Certainly there's talk about a private equity could put a pretty substantial offer in, or another wine maker in say the US or OS.

Paul Rickard:

Okay. Got a few minutes left, let's go to a question here from Craig on the phone.

Craig:

Yeah, g'day, guys. I'm just wondering, Crown, is it a good chance to get into it now because it's dropped by quite a bit? Or is it still-

Peter Switzer:

You're a gambler, Craig. You're a real gambler. Mate, look, I'm not going to do it, but personally, I think this probably is around a buy in price for a gambler. We don't know what's going to happen. But I think the value of the company probably is around $13. But if it has to sort of get a replacement company to effectively carry on the license, that's going to be messy. But seeing the stock go from $8.80 to maybe $10 or $11 doesn't seem inconceivable, Paul, does it?

Paul Rickard:

Yeah, I think I read a report yesterday that said the breakup value without a license was about $7.50ish or something.

Peter Switzer:

Yeah.

Paul Rickard:

Look, I'm probably of the view that they won't lose their Victorian license, but they will have to take on a whole lot of things, which includes a new board, new CEO, all those sort of things. In other words, they'll have to basically sell the license to someone. And they'll be given time. That would be... I'd be surprised if the Royal Commission recommends losing the license totally. You've also got the issue in WA. So, I reckon it's a gamble. It's probably a gamble that's almost worth taking, right? But you know, you're going to have to be... You've got Victorian Royal Commission to come out, you've got to get through a Royal Commission in WA. This whole thing might take a long time.

Peter Switzer:

That's right. That's right.

Paul Rickard:

And you expect those players like Tabcorp to come back again, right? That was just strategic pulling out of that. And look, they haven't lost interest, I don't think. So Star offered a takeover offer, and Tabcorp was... There's three of them. I reckon they'll come back at some stage.

Peter Switzer:

And Paul, conceivably out there, there's a big hotel group that would be very happy to buy the resorts and all that sort of stuff. And the gambling license would be just cream on the cake.

Paul Rickard:

Okay, we might conclude on this question, this one question from Peter, "What are your travel favorite stocks when COVID restrictions lift?" There's a forward looking question.

Peter Switzer:

Yeah, I think there's four you can pick from, Qantas. And this is the order, Qantas, Corporate Travel, Webjet, Flight Centre, that's the order I would put them in.

Paul Rickard:

There you go. First Qantas, second Corporate Travel.

Peter Switzer:

Corporate Travel. Then Webjet, and then Flight Centre.

Paul Rickard:

Okay. All right, well we're out of time, but before we conclude, let's just have a quick think, look forward to tomorrow, Peter. Big night in the US with employment data out. What are we expecting and what do you think we'll be talking about on Monday?

Peter Switzer:

Yeah, well the ADP number that came out in the middle of the week was a bit disappointing. The market did sell off on that day. But ever since then, the market's been rising on Wall Street. A number around 880,000 is kind of out there. If it comes bang on the 880, I think the market would like it. If it's well below, the market will sell off. If it's far too high, they could sell off as well, on the basis that the inflation and the interest rate issues could be in focus. But I think the market would rather a beat, rather than a number that comes under.

Paul Rickard:

Okay. Well, you can read about that tomorrow, because Peter, you'll be up really early as you always are on a Saturday morning.

Peter Switzer:

Yep.

Paul Rickard:

We'll get that out to you so you can see what happened in the US, what we've been talking about on Monday. Don't forget our regular Boom, Doom, and Zoom session on Thursdays, 12:00 PM Eastern Standard Time for half an hour, we do all the questions then. And we'll be back, of course, you can read about our report on Monday. But Peter, thank you for joining us for our monthly webinar.

Peter Switzer:

Pleasure.

Paul Rickard:

And it being 1:30, which we like to close these right on time, thanks everyone who sent questions in today. Sorry we didn't get to them, but if it's really important, make sure you join us next Thursday for the Boom, Doom, and Zoom. And from everyone here at the Switzer team, thanks for joining us this afternoon, have a great weekend, and we'll talk to you next week. Bye-bye.