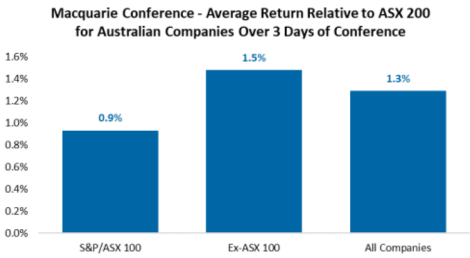
Research
Macquarie Wealth Management

8 May 2020

Australia

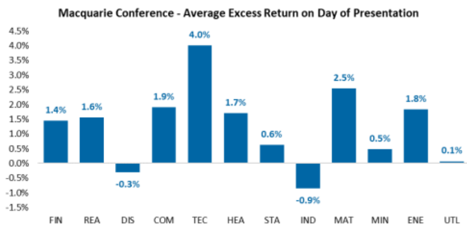
EQUITIES

On average companies who presented at the 2020 conference outperformed



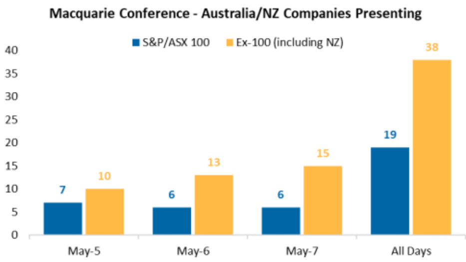
Source: FactSet, Macquarie Research, May 2020

With the strongest return in Technology



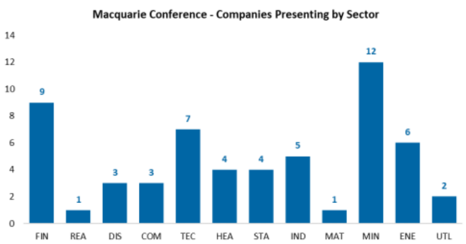
Source: FactSet, Macquarie Research, May 2020

The 22st Macquarie Conference had a broad representation of market caps



Source: Macquarie Research, May 2020

… and sectors of the Australian market



Source: Macquarie Research, May 2020

Australian Equity Strategy
Australia 2020 Conference Wrap

Key points

- 57 companies presented at the 22nd Macquarie Australia Conference.
- On average, companies that presented outperformed 1.3ppt on the day.
- Technology companies were the clear winner during the Covid-19 crisis, and among the biggest outperformers after their presentations.

Event

- We review key takeaways from the 22nd Macquarie Australia Conference.

Key Takeaways

1. **Worth it**. A total of 57 companies presented at the virtual conference. Like many economic variables, this is down on last year due to Covid-19. But we still heard from large and small companies from a range of industries. The stocks of presenting companies outperformed by 1.3ppt on the day.
2. **Technology is the clear winner in the Covid-19 crisis**, as the disruption has accelerated the digitisation of the economy that had already been occurring for years. Given few companies have guidance, **NXT**, **BVS** and **RDY** stand out for guiding to double-digit earnings growth in a contracting economy. Technology stocks were among the best relative performers with **NEA** +10%, **APX** +9.3% and **Z1P** +9% vs the ASX 200.
3. **Covid-19 impacts material and widespread**. Before the virus, we would not have expected to see traffic on **TCL's** domestic toll roads fall over 50%, that jet fuel demand would fall 80-90%, that Spotless Hospitality could see a temporary period of zero revenue or that private health insurer **MPL** would commit to return any extra profits to policyholders (not shareholders).
4. **How far will activity rebound after shutdowns?** An easing of government restrictions is expected to drive a quick recovery in some areas. But there is uncertainty how long it takes to return to pre-Covid levels of activity given high unemployment and a potentially weaker housing market. Increased government investment is expected to support growth, with **TCL** and **DOW** two names that see themselves as positioned to benefit.
5. **Consumer hardship**. **AGL** expects bad debts to increase in FY20, with a further increase in FY21. Mortgage broker **AFG** noted 4.6% of their book was already in hardship. **LNK** processed early super payments of $3.65bn for 0.5m members, and in 5.4% of cases the account was then closed. Fiscal stimulus has supported spending during hibernation, but measures could also be hard to withdraw while unemployment remains high.
6. **Cost-cutting headwinds**. Many companies, especially those in Energy (**STO**, **OSH**, **BPT**, **WOR**, **CTX**, **VEA**) and media (**NEC**, **OML**, **DHG**) but also others are cutting operating costs in response to lower revenues. **DXS** for one are negatively impacted by tenants not paying their rent. Energy stocks have also cut capex, some by as much as 40-50% in response to low oil prices. Spending cuts make sense at the company level but will contribute to the contraction by reducing revenue and jobs elsewhere.
7. **Primary industry resilient**. **NUF** and **ELD** both noted better seasonal conditions after years of drought. This is a positive story that has been overshadowed by Covid-19. China steel demand as signalled by inventory drawdowns has also supported the resilience of iron ore miners like **FMG**.

Please refer to page 12 for important disclosures and analyst certification, or on our website www.macquarie.com/research/disclosures.

Fig 1 Summary of presenting companies at the 22nd Macquarie Australia Conference

Company Name	Code	Presentation Day Relative Return	MRE Analyst Revisions Over Conference # Target Price	EPS FY1	EPS FY2	DPS FY1	DPS FY2	Mkt Cap A$m	Sector
Day 1									
PolyNovo	PNV	9.5%						1,719	Health Care
Zip	Z1P	9.0%						1,117	Financials
Bravura Solutions	BVS	5.1%						1,156	Technology
Domain Holdings Australia	DHG	5.0%	10%	18%	0%			1,683	Telco & Media
* Santos	STO	3.4%	(0%)					9,916	Energy
oOh media	OML	2.7%						613	Telco & Media
* Dexus	DXS	1.6%	(13%)	(0%)	(3%)	(0%)	(3%)	9,493	Real Estate
* Oil Search	OSH	1.5%						5,961	Energy
* Fortescue Metals Group	FMG	0.6%	(0%)					35,254	Mining
* Transurban Group	TCL	(0.4%)	(0%)	(4%)	(0%)	(3%)	0%	36,705	Industrials
Elders	ELD	(0.5%)						1,418	Staples
EBOS Group	EBO	(0.8%)						3,413	Health Care
* AGL Energy	AGL	(1.5%)	(9%)	(0%)	(4%)		(4%)	10,311	Utilities
NextDC	NXT	(1.5%)	7%	(1%)	31%			4,354	Technology
* Nine Entertainment	NEC	(2.0%)						2,388	Telco & Media
Starpharma Holdings	SPL	(3.6%)	(13%)	(7%)	(9%)			369	Health Care
Australian Finance Group	AFG	(4.0%)						302	Financials
Day 2									
Nearmap Ltd	NEA	10.0%						756	Technology
Appen	APX	9.3%						3,534	Technology
* Medibank	MPL	4.2%	2%	(22%)	(10%)	(13%)	(12%)	7,849	Financials
* Worley	WOR	3.8%						4,408	Energy
FINEOS	FCL	3.0%	1%					839	Technology
Pinnacle Invt Mgmt Group	PNI	3.0%	15%	17%	44%	16%	44%	703	Financials
Western Areas	WSA	2.3%						589	Mining
* Cleanaway Waste Mgmt	CWY	2.1%						3,748	Industrials
OceanaGold CDIs	OGC	2.1%	8%	1%	(1%)			1,706	Mining
Blackmores	BKL	1.6%						1,346	Staples
* Northern Star Resources	NST	1.4%						9,502	Mining
* Evolution Mining	EVN	0.6%						9,170	Mining
Resolute Mining	RSG	0.4%						1,024	Mining
HUB24	HUB	(0.4%)						653	Financials
Saracen Mineral Holdings	SAR	(0.5%)						4,764	Mining
* Downer EDI	DOW	(1.5%)						2,379	Industrials
Netwealth Group	NWL	(1.7%)						1,809	Financials
Gold Road Resources	GOR	(2.0%)						1,386	Mining
Bingo Industries	BIN	(4.8%)		0%	1%			1,340	Industrials
Day 3									
Readytech Holdings	RDY	4.9%						120	Technology
Sandfire Resources	SFR	3.0%						757	Mining
Nufarm Ltd	NUF	2.5%						1,974	Materials
* NIB	NHF	2.5%	(3%)	(19%)	(19%)	(25%)	(23%)	2,248	Financials
* Beach Energy	BPT	2.4%						3,433	Energy
BWX	BWX	2.0%						460	Staples
Oceania Healthcare	OCA	1.4%						426	Health Care
* Spark Infrastructure Grp	SKI	1.7%	(3%)	(1%)	(14%)		(7%)	3,409	Utilities
Steadfast Group	SDF	1.4%						2,624	Financials
Corporate Travel Mgmt	CTD	1.0%						1,317	Discretionary
* Caltex Australia	CTX	0.5%						6,078	Energy
IPH	IPH	0.4%						1,554	Industrials
IGO	IGO	0.2%						2,759	Mining
Regis Resources	RRL	(0.3%)						2,358	Mining
* Wesfarmers	WES	(0.3%)						41,272	Discretionary
Inghams Group	ING	(0.5%)						1,197	Staples
Viva Energy	VEA	(0.7%)						2,790	Energy
Perpetual	PPT	(0.9%)						1,351	Financials
Jumbo Interactive	JIN	(1.7%)						777	Discretionary
Pilbara Minerals	PLS	(2.1%)						445	Mining
* Link Administra	LNK	(2.7%)	2%	9%	2%	6%	5%	1,851	Technology

Source: FactSet, Macquarie Research, May 2020. *Indicated ASX 100 constituent. # MRE revisions may be driven by non-Conference factors.

Financials – Health insurers have been more resilient than many financials

Covid-19 restrictions reduced claims and Medibank committed to returning any extra profits to policyholders

- **Medibank (MPL)** have been resilient compared to most financials as Covid-19 government restrictions reduced claims. MPL have committed to returning any benefit from lower claims to policyholders. Fewer than 1% of customers suspended their policy. MPL said policyholder growth was below expectations, but this may be due to stores being closed. On longer-term impacts, MPL sees an acceleration in telehealth and in-home care, as both can deliver better cost outcomes and experiences. MPL argue PHI reform is needed to improve affordability but given the current focus on Covid-19 this is likely to by an issue for FY21.

NIB say activity is returning to normal faster than expected even a few weeks ago

- **NIB (NHF)** saw a 22% reduction in Australian health insurance sales in April. Lapse of almost 5,900 policies was 23% below last year but excludes 5,114 policy suspensions (which may lapse at a later point). NHF has postponed the April 2020 premium rise by 6 months and offered premium relief or suspension of cover to those in financial hardship. NHF recognise their may be some savings from lower claims as some members could not access health care for a period but note any refund to policyholders must be balanced against a need for NHF to remain well capitalised and the extent to which there is a “catch-up” in claims.

Perpetual are looking locally for acquisitions

- **Perpetual (PPT)** continues to look for acquisition opportunities but is looking more locally given the difficulties completing international due diligence. PPT remains focused on costs and tightened its range of expected savings to $21-23m (from $18-23m). Fund performance was reasonable is March, then strong in April and the start of May. PPT noted that cash allocations have been volatility, and fixed income inflows weaker, but flows overall are largely as expected. Corporate Trust is expected to outgrow other segments, but lower securitisation volumes are likely to be a headwind for revenues.

Pinnacle have seen delays to their institutional pipeline but are sticking to their long-term growth strategy

- **Pinnacle Investment (PNI)** had been growing strongly until the Covid-19 crisis by investing in and supporting a portfolio of 16 specialist investment managers. Total Affiliate FUM fell just under 15% over the March quarter. Net flows have been small with retail under pressure and the institutional pipeline deferred. PNI said the speed and magnitude of the March sell-off caught asset owners off guard and drove short-term liquidity needs (e.g. early release of super, member switching, capital calls to fund hedging losses). PNI also said Covid-19 exposed the illiquidity risk of high private market exposures.

Netwealth still confident in achieving $8.5bn in new flows in FY20

- **Netwealth (NWL)** remain focused on investing for future growth and achieving functionality and efficiencies in its roadmap. NWL remains focused on transition related FUA and market share. During the recent volatility advisors were working with existing clients on rebalancing and portfolio changes, But NWL noted advisors are moving back towards transition work. NWL continue to migrate its back book to a new rate card which was effective from the start of March 2020. NWL are confident in achieving the expected $8.5bn in net flows for FY20. NWL had ~1,900 accounts claim hardship at an average of ~$9,000 per account.

Hub24 has seen increased trading activity on its platform

- **Hub24 (HUB)** said Covid-19 led to increased trading activity on their platform and a shift to client service from advisors focussed on writing business. Net flows remain positive in early 4Q20 but were not quantified. The combination of increased trading activity and increased cash balances provide earnings tailwinds to at least partly offset adverse market moves. A total of 600 accounts had applied for voluntary super withdrawals of ~$6.0m.

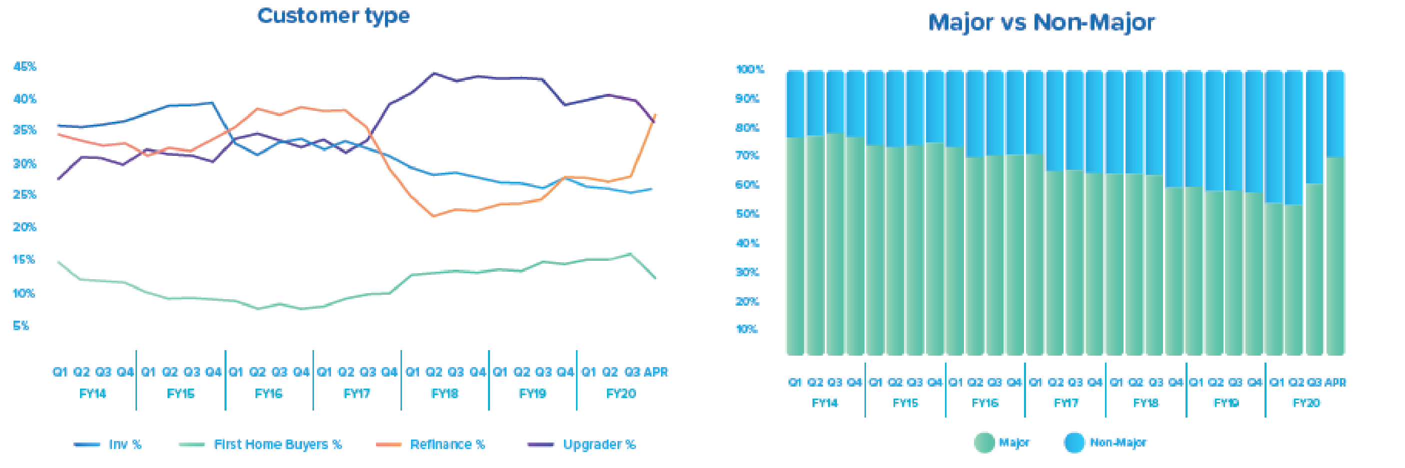
Covid-19 accelerated the shift to e-commerce and BNPL brands like Zip can benefit so long as they can manage credit quality in a weaker economy.

- **Zip (Z1P, not rated)** has benefited from strong growth in e-commerce spending as Covid-19 restrictions negatively impacted spending at bricks mortar locations. Not only was there a rise in new customer accounts and repeat purchase creating an online shopping habit, but also an uptick in businesses wanting to go live. This is a good example of Covid-19 accelerating the pre-existing shift to e-commerce. With concerns around the credit cycle top of mind for investors, Z1P highlighted adjustments to their machine learning algorithm had been made to lower spending limits and to lock dormant accounts. Z1P noted government stimulus had even improved repayment rates, and that these programs may be extended.

Mortgage lenders are tightening lending standards, which is likely to be a headwind for home price growth.

- **Australian Finance Group (AFG).** AFG expects Covid-19 to be a temporary disruption to Australia's mortgage market. April residential lodgements were up 34%, driven by a spike in refinancings. Some lenders tightened credit criteria as Covid-19 increases unemployment and puts downward pressure on house prices. AFG Securities lodgements were down 69% in April, as AFG lowered their risk appetite and increased pricing. AFG securities has 4.6% of its book in hardship. Tighter credit creates uncertainty as to what percent of lodgements will convert into settlements. AFG noted initiatives like the RBA's Term Funding Facility and the AOFM's Structured Finance Support Fund support lenders through the pandemic.

Fig 2 AFG has seen a spike in refinancings, while major banks seeing share gains for the first time in years



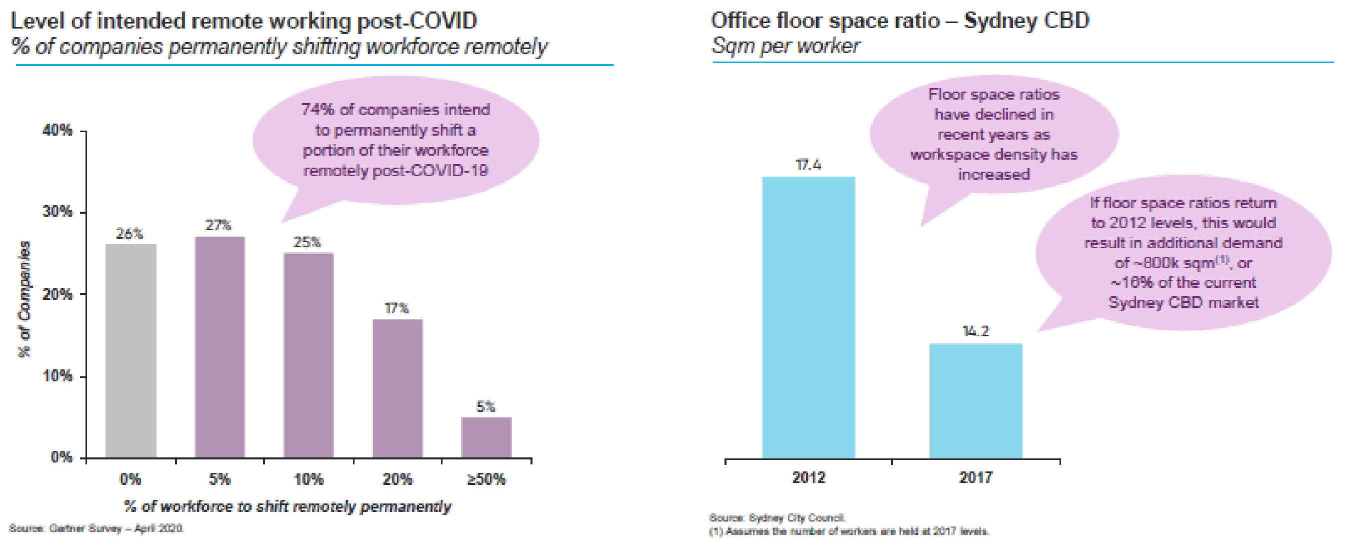
Source: AFG Presentation, May 2020

Real Estate – Office demand could be impacted by WFH

Dexus is dealing with tenants not wanting to pay rent, but the longer-term issue is how WFH impacts office demand

- **Dexus (DXS)** has a high-quality portfolio of office and industrial assets, but likely many REITs it has been impacted by the non-payment of rent. In April, DXS collected 80% of their office rent, and 70% for industrial. One-third of the portfolio has also requested some sort of rent relief, but DXS plan to only support SMS's with turnover <$50m (~8% of NOI). Occupancy in office fell 20bps to 97.2% over the March quarter. Office leasing enquiry levels have fallen, and inspection rates have slowed. A key area of discussion is how WFH will impact office demand, if increased space per worker for social distancing provides an offset. At this stage, DXS do not have a view on the longer-term impact of Covid-19 on office demand.

Fig 3 Office demand will change as more people work from home, but there may also be a rise in space per person



Source: DXS Presentation, May 2020

Discretionary – Wesfarmers is good position to make acquisition

Wesfarmers has fared better than most retailers during Covid-19 and has a war chest for acquisitions

- **Wesfarmers (WES)** saw strong growth at Bunnings and Officeworks but is uncertainty how long the higher level of sales growth will continue. Online sales growth was strong across the Kmart, Target and Catch brands. In-store sales at Kmart and Target were negatively impacted by lower traffic, with profitability at Target deteriorating significantly. WES adapted to the Covid-19 environment by launching Drive & Collect for Bunnings and Officeworks and using 3 Kmart stores as 'dark' stores to support the rise in online sales. WES sold down a 10.1 interest in Coles (COL) over 2 transaction, raising over $2bn for investment opportunities.

Reduced cash burn and waiving of covenants positions Corporate Travel for the domestic travel recovery

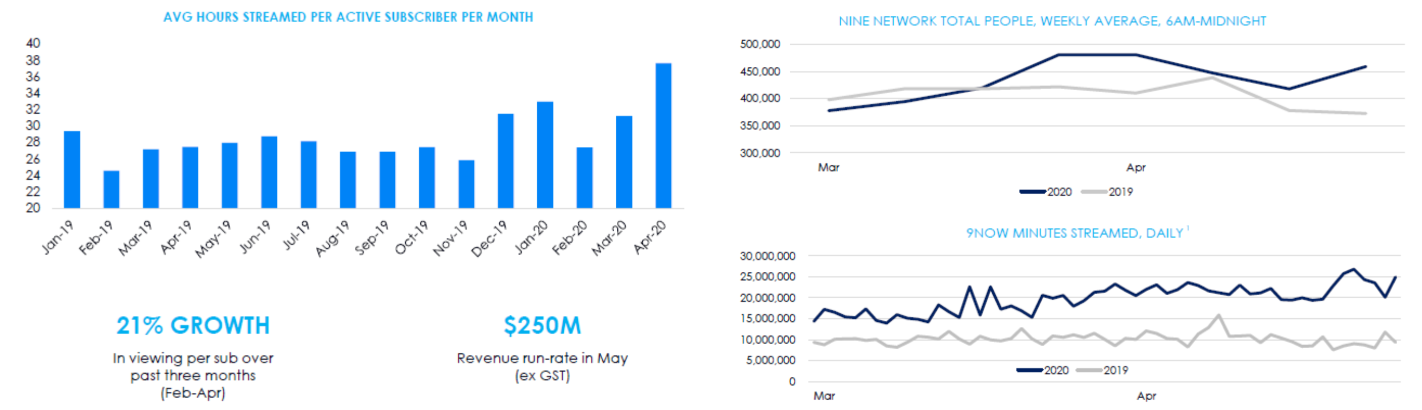
- **Corporate Travel (CTD)** is at the centre of the Covid-19 headwinds, with revenue currently 10-15% of the normal range, which is better than the industry at ~5% of normal. Cash burn is running at the lower end of the $5-10m range (including capex), with monthly running costs less than half what they were before Covid-19. CTD has had all financial covenants waived for CY20 and testing for FY21 will be based on the second half results. CTD had net cash of ~$30m on May 7 with a committed facility of ~$200m. Domestic (60% of revenue) is expected to recovery well before international, as restrictions on the latter remain in place longer.

Communication Services – Stan was a beneficiary of Covid-19 restrictions

A reset of sports rights could be a positive outcome from Covid-19

- **Nine Entertainment (NEC)** continues its digital transformation. Digital EBITDA from Stan, 9Now, Domain (59% interest) and other digital assets is expected to grow ~30% in FY20 to 45% of total EBITDA, up from 28% of earnings in FY19. People staying at home have been watching more Stan (21% growth in viewing per sub), which has lifted the revenue run rate to $250m and 2H20 EBITDA is now expected to exceed 1H20 (prior guide was 2H<1H). Nine's FTA TV revenues fell 30% in April, with May looking worse. In a sign of how unsustainable sports rights have become, NEC profits could be lower if the NRL season goes ahead. Covid-19 could therefore be a catalyst for a reset of sports rights to make them more sustainable.

Fig 4 NEC has benefited from an increase in viewers for Stan (left chart), 9Now (bottom right) and current affairs (top right)



Source: NEC Presentation, May 2020

Covid-19 accelerated the digital evolution of real estate with DHG for example facilitating 434 online auctions

- **Domain (DHG)** was benefiting from the housing recovery before Covid-19, with a rise in new listings and a 10% rise in revenue (both off an easy comp). But April new listings fell in the high 20% range due to Covid-19, which is better than MRE had expected. Residential depth yield continued to grow in April, but at a slower rate than March. DHG is aggressively cutting costs and sees 2H20 costs down 7%. On the plus side, Covid-19 is accelerating the digital evolution of real estate, as DHG facilitated 434 online auctions from late March 2020. There was also strong growth in Loan Finder accounts, with a 9-fold rise in refinance accounts.

OOH advertisers lost over half their audience due to restrictions, but the eyeballs will return as restrictions ease

- **oOh Media (OML)** is one of the leading out-of-home advertisers, but at the trough physical separation reduced their ANZ and Global audience by more than 50%. March quarter revenues were flat on last year. Some categories (e.g. Finance, Alcohol and Toiletries) did grow significantly in 1Q20, but this was offset by weakness in other areas (e.g. Fly and Retail). Given the tough revenue environment, OML is focused on cost reductions and compared to late May guidance flagged higher cuts to spending on rent, operating expenses and capex. OML's audience will return as government restrictions are relaxed, but a weak economy is likely to mean that advertising does not quickly return to pre-Covid levels.

Some technology companies continued to grow through Covid-19 crisis

NextDC think Covid-19 will accelerate the enterprise transition to data centre providers

- **NextDC (NXT).** Covid-19 drove a significant uptick in demand for data centres as more people were working from home. NXT believe in the next 1-2 years the impact of Covid-19 will likely pull forward ~5 years of enterprise transition to data centre service providers such as NXT. An acceleration in cloud services will play a major role. There has been no slowdown in the sales pipeline for new enterprise contracts to date, with many customers accelerating the digital transformation plans. NXT is one of few companies with guidance in the market, and with demand strong they reaffirmed guidance for FY20 EBITDA of $100-105m.

Link saw revenue headwinds due to Covid-19 and reduced spending in response

- **Link Administration (LNK)** has seen a range of immediate impacts from Covid-19. LNK has processed payments of $3.65bn for early access to super, with 5.4% of payments resulting in account closure. Lower rates reduce margin income, with lower asset values reducing fund solutions revenue. PEXA saw lower volumes of property transactions, but Covid-19 is likely to accelerate the shift to electronic property settlements. In response to headwinds, LNK cut non-essential spending and temporarily reduced salaries across the group.

Bravura's pipeline is seeing some delays, but kept FY20 guidance of mid-teens NPAT growth

- **Bravura Solutions (BVS)** has not seen a material impact from Covid-19, although there have been some delays in the sales pipeline. BVS maintained guidance for FY20 NPAT growth in the mid-teens, with acquisitions adding $3m. While there is some risk to contract signings, maintaining guidance is a positive in a market where most have withdrawn guidance. BVS expect the sales pipeline to rebound as clients seek to improve their digital capabilities while managing the evolving regulatory environment.

Nearmap doubled their customer retention team to support those most impacted by Covid-19

- **Nearmap (NEA)** has seen no significant impact so far from Covid-19. The customer base is diverse and the larger enterprise customers in less cyclical industries continue to far better. That said, NEA doubled its customer retention team in the last month to support customers impacted more by Covid-19. NEA's target for cashflow breakeven was pulled forward to June 2020 and management expect to hit the target with cost optimisation. The new AI product is being sold to some customers in beta and should see a broad release in 1-2 months.

Readytech still expects to deliver ~20% revenue growth in FY20

- **Readytech (RDY)** has seen little impact from Covid-19. Some sales cycles will take longer due to Covid-19, but others are taking advantage of this opportunity to drive change and increase the focus on digital solutions. There has been no noticeable churn to date, but some sectors (e.g. retail and hospitality) may have been supported by JobKeeper. RDY is one of few companies to retain guidance, and they continued to expect FY20 revenue growth of ~20% (low double digit organic) at an EBITDA margin of 40%.

Health Care – SPL may have product to use against Covid-19

PNV raised their estimate of the market opportunity for BTM

- **Polynovo (PNV)** is commercialising the NovoSorb® polymer, which is a unique platform technology supported by 51 patents 100%-owned by PNV. BTM is on track with minimal impacts from Covid-19 and strong sales in March and April 2020 and clinical trials ongoing. Management upgraded their estimate of the market opportunity for dermal scaffolds to ~US$1.5bn (was US$1.0bn). The US$850m ventral hernia market is the next target for PNV, with Syntrel on track for FDA filing by early CY21 and US market entry in Jul/Aug 2021.

There is potential for the active ingredient in VivaGel to be used against Covid-19

- **Starpharma (SPL)** is commercialising the VivaGel® product, which is licensed in more than 160 countries with more to come subject to regulatory approval. There has been no disruption to the supply chain for VivaGel® and inventory levels are adequate. Clinical programs are also not expected to be adversely affected, but the timing of trial results may be delayed. SPL are investigating product opportunities for using the active ingredient in VivaGel (SPL7013) to prevent infection, reduce severity of disease, or to treat infection by SARS-CoV-2. SPL is in discussions with regulators in approved markets to confirm the approval pathway.

Consumer Staples often saw one-off boost from panic buying

Blackmores saw a spike in demand for immunity products, but this was offset by softness in other vitamin products.

- **Blackmores (BKL)** has benefitted from a spike in demand for immunity products due to Covid-19, but these are a small percent of sales (~10%) and the benefit is offset by softness in other ranges. BKL remains on track for FY20 guidance provided in February which included the estimated impact from supply chain disruptions caused by China's shutdown. Price rises were put through in late 2019 and another adjustment will be needed in FY21 to offset FX movements and raw material inflation. China will require increased investment to drive share as competition has intensified over the past 3-4 years.

Inghams say the panic buying for in-home consumption of chicken has passed

- **Inghams (ING)** said Covid-19 presented challenges, but all facilities in their supply chain remain operational. Retail panic buying for in-home consumption was unprecedented but has settled to a new normal. Out-of-home consumption was negatively impacted in food service, although QSR shifted to drive-through and delivery channels. New Zealand's level 4 restrictions prevented QSR from opening, but the easing of restrictions should allow activity to improve. Inventory build in food service and wholesale will slow the recovery.

Industrial activity has been negatively impacted by shutdowns

TCL's traffic was not hit as hard as global peers and looks to have stabilised. Traffic is likely to be impacted by a weak economy and TCL has shifted to a FCF-backed distribution

- **Transurban (TCL)** said Covid-19 restrictions drove peak traffic falls of 57% in the week of April 12. TCL's Australian assets saw smaller falls than some global peers. TCL's traffic has stabilised, with a smaller fall of 44% in the week of April 26. Easing restrictions should boost traffic further. TCL noted China highway traffic is generally up on last year, as some look to avoid public transport. TCL's warned it will take time for traffic levels to return to pre-Covid levels given: i) high unemployment, ii) increased WFH and iii) reduced immigration. TCL do expect increased infrastructure investment to support growth. The distribution policy has been changed with payouts to be backed by FCF starting from 2H20.

Fig 5 TCL's Australian traffic fell less than peers (left) while China roads recovered faster than public transport (right)

Source: TCL Presentation, May 2020

DOW's Government customer base positions them well for a potential increase in Government spending

- **Downer EDI (DOW)** talked through some of the key Covid-19 impacts including zero revenue for Spotless Hospitality in April (was $600m in FY19), which led to 6,000 staff being stood down, as the recovery is likely to be slow. Restrictions on elective surgery also impacted hospitals and laundry volumes, but this business is expected to bounce back fast. Most of the DOW group is in a good position, with the government a key customer. DOW are focused on cash collections and noted government customers were paying on time. DOW believe the economy will be tough post Covid-19 and believe they are positioned well for more public spending. DOW see opportunities to reset risk allocation in the current environment.

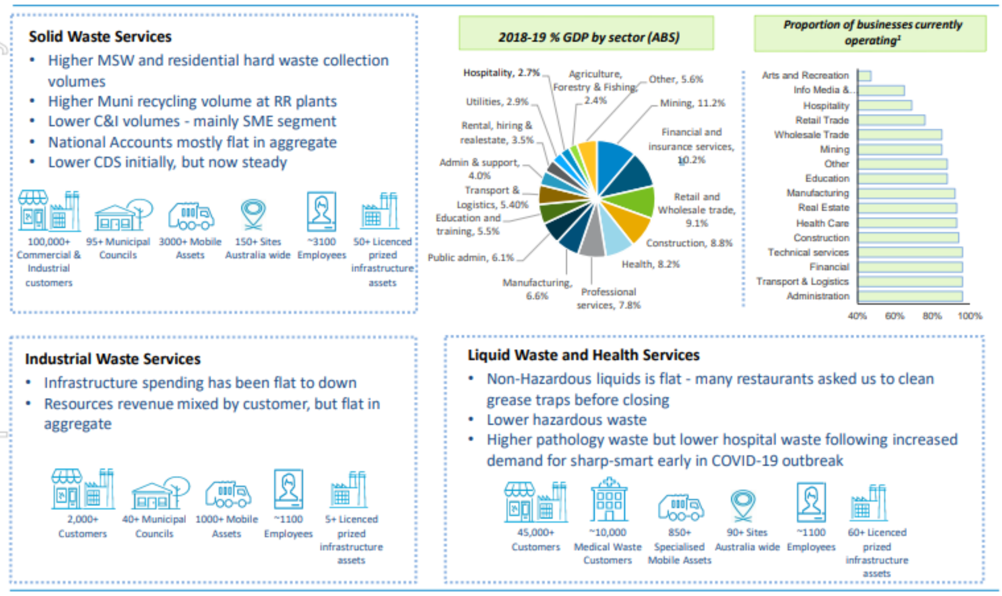
IPH has seen little disruption from Covid-19 but lower filings can have an impact over multiple years

- **IPH (IPH)** has seen minimal disruption from Covid-19 and note that offices in Beijing, Hong Kong and Singapore have been working remotely for many months. There has been some slowdown in instructions from clients impacted by the pandemic. Trade marks are expected to be more affected as they are more closely aligned with the economic cycle, but this is a smaller part of the IPH business. IPH noted filings for Australian patents take 2.5-3.5 years, and thus lower filings today could impact earnings in future periods.

Waste management is an essential service, but CWY and BIN were both negatively impacted by lower C&I collections due to Covid-19. Activity will improve as restrictions are eased

- **Cleanaway (CWY)** have seen a decline in C&I volumes, mainly in the SME segment due to Covid-19 but also some offset from increased residential waste volumes due to WFH. There are early signs of increased C&I activity, but the recovery depends on the pace of easing of restrictions. CWY remains focused on longer-term trends, with ongoing developments in resource recovery, energy from waste and landfill aimed at capturing and processing a larger captive waste following export limitations.

Fig 6 Cleanaway highlighted how Covid-19 impacted their GDP-linked revenues

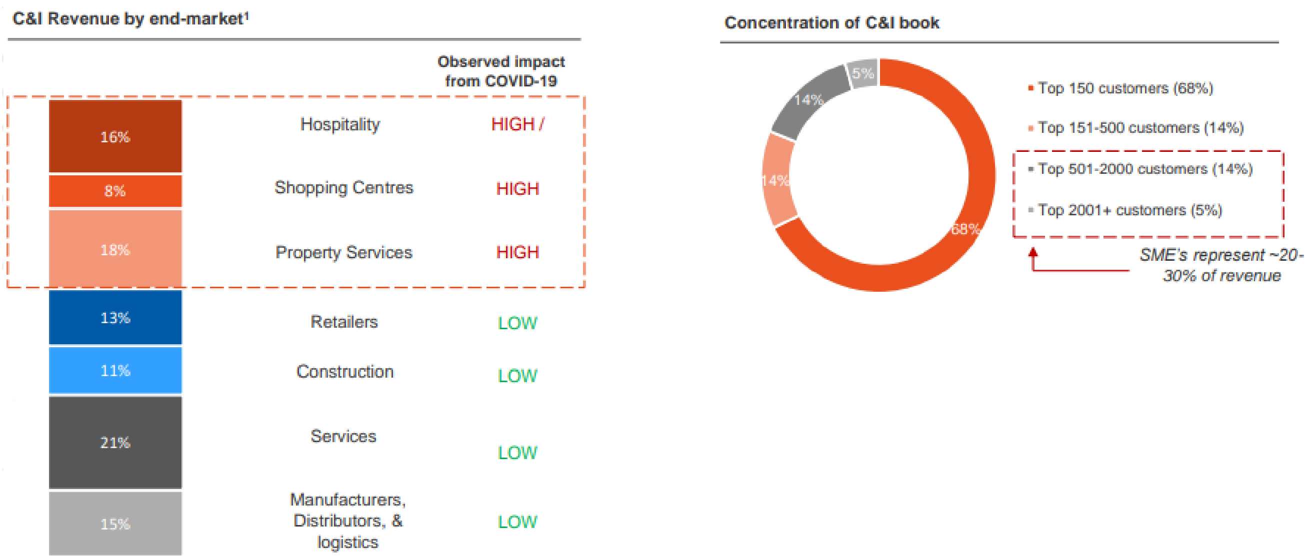


Source: CWY Presentation, May 2020

Bingo noted their exposure to infrastructure has risen since their IPO

- **Bingo Industries (BIN)** has also benefited from waste being recognised as an essential public service. Bingo's commercial & industrial collections business has seen a 20-30% fall in revenue due to Covid-19 restrictions. This is expected to continue into 4Q20, although a rebound in C&I collections is expected when restrictions are lifted. Management also see Covid-19 delaying the housing construction recovery to mid-to-late 2021. BIN responded to headwinds by reducing variable costs in 4Q20 and reducing capex. BIN argue their 25-30% revenue from infrastructure positions them well for fast tracked government stimulus.

Fig 7 Bingo's commercial & industrial collections business saw 20-30% fall in revenue due to Covid-19 restrictions



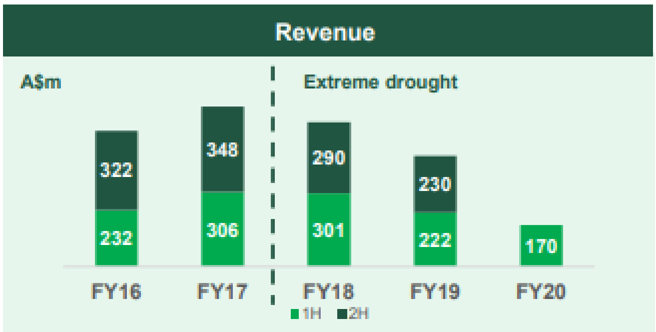
Source: BIN Presentation, May 2020

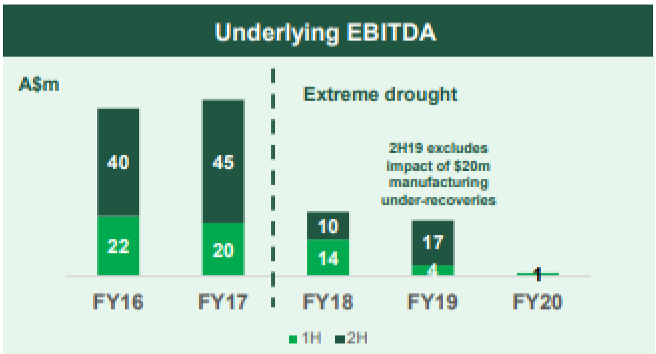
Materials – An easing drought is a positive for NuFarm

NuFarm called out the better seasonal conditions in Australia

- NuFarm's (NUF) presentation was focused on the long-term growth of Omega-3, with the fish oil market expected to double over the next decade. Omega-3 is expected to start commercial sales in FY20, become EBITDA positive in FY21 then see a step change in margins and EBITDA by 2024 as the business scales. NUF is waiting for US FDA approval, which is needed from a human nutrition and safety perspective. The drought has been a headwind for two years and NUF noted better seasonal conditions in Australia and North America.

Fig 8 NuFarm believe severe drought has negatively impacted demand and earnings for the past two years





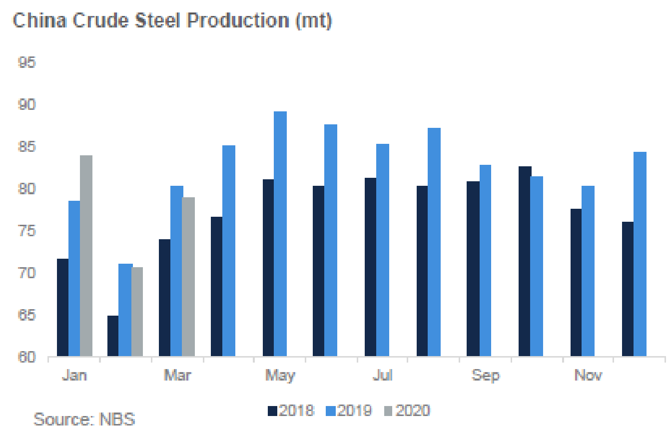
Source: NUF Presentation, April 2020.

Mining – iron ore and gold have outperformed

FMG is making hay while the sun shines, has a net cash balance sheet and still paying large dividends

- **Fortescue (FMG)** has been a solid performer during the Covid-19 crisis as steel output continues to grow (+1.2% in March quarter) and FMG is a low-cost producer (1H20 EBITDA margin was 65%). FMG also has a strong balance sheet (net cash US$0.1bn) and continues to pay dividends (1H20 payout was 65%). FMG say China's steel inventories are being drawn down as economic activity recovers. The disruptions to supply have also helped support the iron ore price. FMG has reduced modestly their exploration spend (mainly outside Australia) but is still looking to exploration (mainly for copper) for growth and diversification.

Fig 9 China's steel production grew 1.2% in the March quarter, while iron ore prices have remained resilient



Source: FMG Presentation, May 2020

Energy companies cutting costs and capex in response to low oil price

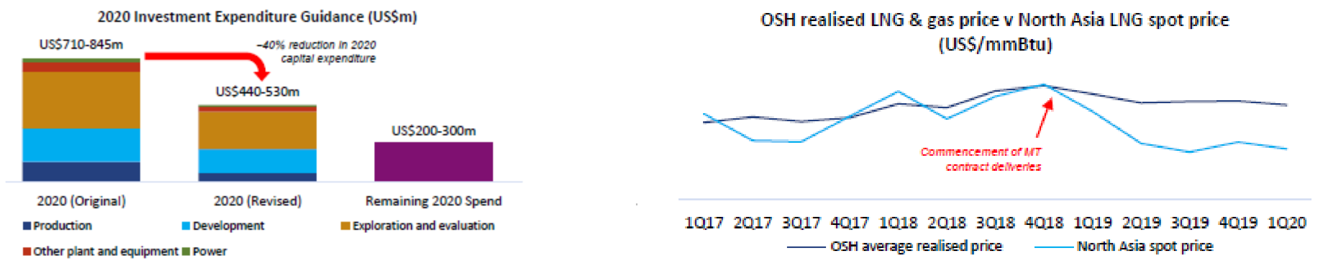
Santos have reduced their target FCF breakeven oil price to US$25 per barrel

- **Santos (STO)** has reacted to Covid-19 and lower oil prices by reducing 2020 capex 38% to $550m and reduced production costs by $50m. STO's 2020 target FCF breakeven oil price has been reduced to US$25/bbl. Roughly 70% of 2020 forecast production is either sold under a fixed price domestic gas sales contract, or hedged at an average floor price of US$39/bbl. Coupled with over $3bn in liquidity and STO believe they are well positioned to weather a period of low oil prices. STO are in control of their capex profit and are yet to take final investment decisions on all major capital projects.

Oil Search are better positioned for a low oil price following the recent equity raise

- **Oil Search (OSH)** have been proactive in responding to low oil prices by reducing operating costs (reduced headcount, salary cuts) and capex. The FY20 capex spend has been cut 40% to US$440-530m (was US$710-845m) and the budget for FY21 is dependent on the outlook for oil prices later in the year. The US$700m equity raising has boosted pro-forma liquidity to US$1.8bn, which provides cash to ensure this period of low oil prices. PNG LNG production has not been impacted and OSH note there is <10% exposure to spot LNG prices. When the market recovers, OSH has the PNG LNG expansion and Alaska development.

Fig 10 OSH are cutting capex due to low oil prices, but contracts provide some insulation from spot prices



Source: OSH Presentation, May 2020

Beach Energy's minimal spot price gas exposure is an advantage

- **Beach Energy (BPT)** has also responded to the oil price downturn by targeting a deferral of up to 30% in FY21 capital expenditure, with reductions across all basis. FY21 investment will be targeted to areas with the highest payback. Beach is also looking at operating cost cuts. BPT has minimal spot price gas exposure, with more than 97% of East Coast gas sales sold under contract in FY21. Revenue from gas sales also covers group operating costs and stay in business costs. Oil production (~33% of FY20 product mix) generates positive operating cash flow when Brent is above US$10 per barrel, according to BPT.

WOR is trading like an oil stock even through exposure to O&G capex has well below where it was a few years ago

- **Worley (WOR)** have responded to Covid-19 by reducing operating costs, postponing non-essential capex, managing receivables and protecting cash. Headcount was reduced 5% from January to March 2002. Chargeable hours reduced 2% in March, and the workforce was described as stable in April. Productivity has reduced in some areas, but the productivity risk is borne by the customer. WOR highlighted the diversification of their business, with 20% exposure to O&G capex (down from 65%) and 37% exposure to the less cyclical chemicals sector (up from 10%). WOR also highlighted their significant exposure to new energy projects, with 1,500 such projects in their pipeline.

Shutdowns have reduced demand for fuel and CTX and VEA have responded by cutting capex and costs

- **Caltex (CTX)** has seen a significant impact on their business from the weakness in crude oil markets due to shutdowns and reduced travel. Australian industry jet demand is expected to be down 80-90% while travel restrictions are in place. Convenience retail fuel volumes are down 16% YTD to April, with more resilience in diesel/premium than base grades. CTX are seeing demand resilience in mining, agriculture and road transport. In response to lower revenues CTX has reduced costs by $10m a month, reduced 2020 capex to below $250m and deferred all non-essential capex items.

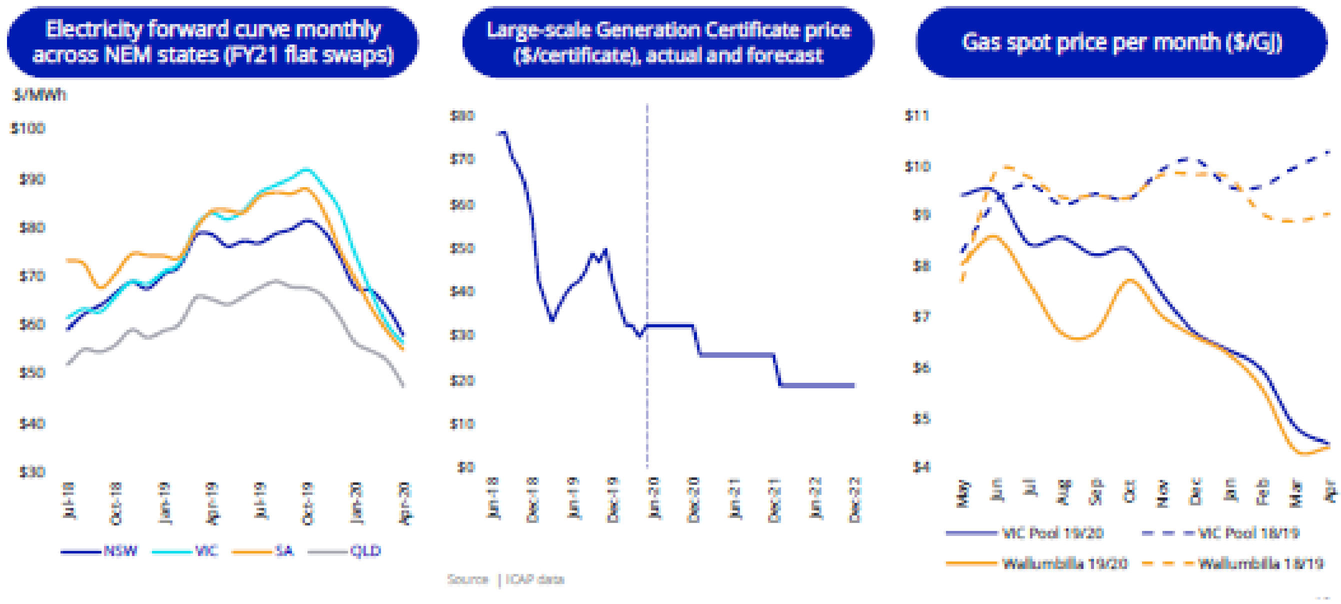
- **Viva Energy (VEA)** saw a 34% fall in retail sales volumes in April 2020, with jet fuel sales down 75%. In response to lower revenues, VEA cut FY20 capex guidance to $60-80m, which is less than half the prior range of $140-160m. VEA noted the strength of their balance sheet given low net debt and $734m proceeds from Viva Energy REIT divestment.

Utilities were impacted less by Covid-19 than may other sectors

AGL has benefited from stable electricity demand but falling wholesale prices and bad debts are earnings headwinds into FY21

- **AGL Energy (AGL)** has been relatively resilient in the Covid-19 crisis. Electricity demand in March and April was flat (adjusted for mild weather) compared to falls of 25% in Italy and 35% in China, as Australia maintained its heavy industry. Residential demand rose significantly, and at 15.3% churn fell to the lowest in 4 years. But the trend of falling wholesale electricity prices continued under Covid-19, and prices are likely to remain depressed due to economic conditions. AGL also cautioned that Covid-19 related hardship would lead to an increase in bad debts, with a further increase in FY21. AGL maintained FY20 NPAT guidance at $780-860m but a result in the upper half is less likely. With AGL saying earnings headwinds are increasing going into FY21, **Ian Myles** lowered his FY21 EPS 4% to $1.15.

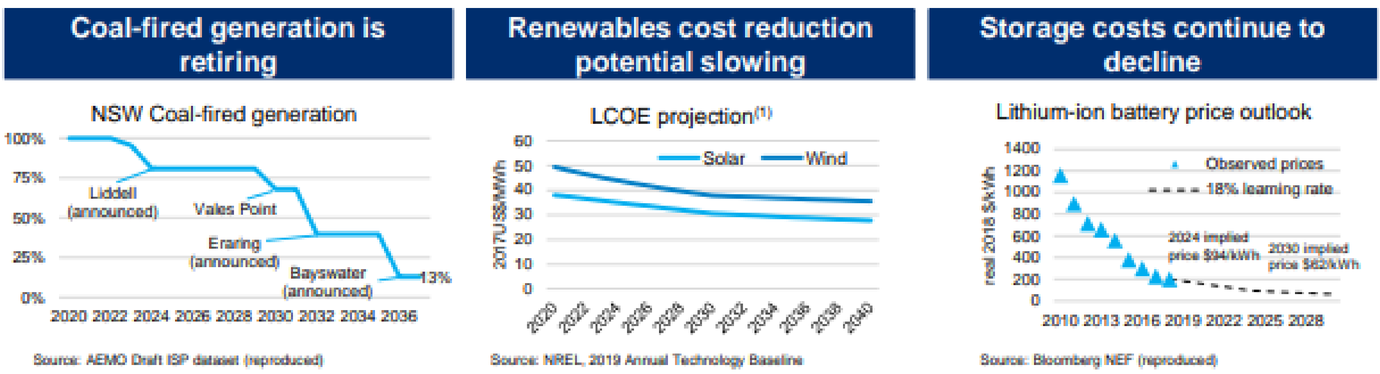
Fig 11 Declining wholesale energy prices have been accelerated under Covid-19 and contributed to weak guide for FY21



Source: AGL Presentation, May 2020

- Spark Infrastructure (SKI) saw a minimal impact from Covid-19 compared to many others as they own energy infrastructure assets. SKI saw some rise in operating costs as they adapted to social distancing requirements, but there were offsets from less spending on consultants and external service providers. SKI reconfirmed fY20 distribution guidance of 13.5c, and this is already backed by look-through net operating cash flows. SKI is therefore one of the few companies with a relatively stable distribution. An upcoming regulatory determination will provide more certainty over the longer-term distribution (MRE FY21 estimate is 12.5c).

Fig 12 AGL noted the shift to batteries in their presentation, while SKI highlighted the declining costs of battery storage.



Source: SKI Presentation, May 2020

Important disclosures:

Recommendation definitions

Macquarie – Asia and USA
Outperform – expected return >10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Australia/New Zealand
Outperform – expected return >10%
Neutral – expected return from 0% to 10%
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to select stocks in Asia/Australia/NZ

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2020

	AU/NZ	Asia	USA	
Outperform	53.43%	61.07%	67.03%	(for global coverage by Macquarie, 4.62% of stocks followed are investment banking clients)
Neutral	34.30%	26.77%	31.87%	(for global coverage by Macquarie, 3.10% of stocks followed are investment banking clients)
Underperform	12.27%	12.17%	1.10%	(for global coverage by Macquarie, 3.57% of stocks followed are investment banking clients)

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This publication was disseminated on 08 May 2020 at 06:35 UTC.