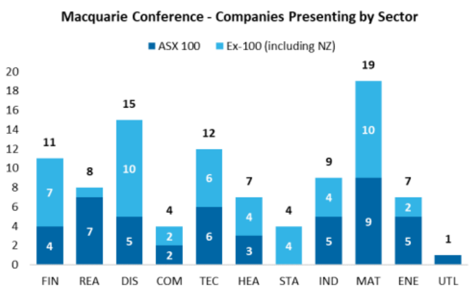

7 May 2021 Australia

EQUITIES

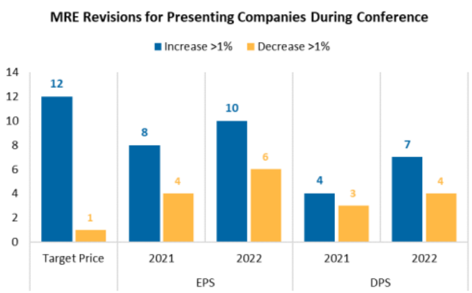
# Australian Equity Strategy
## Australia 2021 Conference Wrap

### 97 companies presented at Macquarie's 23rd Australia Conference



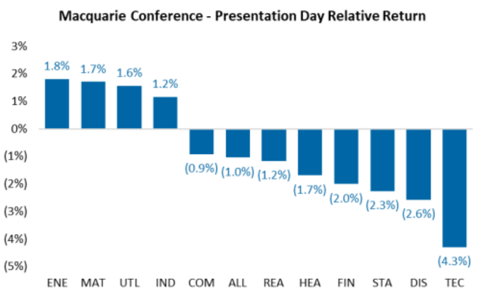

Source: Macquarie Research, May 2021

### For presenting companies, our analysts upgraded more than they downgraded




Source: Macquarie Research, May 2021

### Resources outperformed over the conference, while Technology lagged




Source: FactSet, Macquarie Research, May 2021

### Key points

- 97 companies presented at the Macquarie Conference, up 70% on pcp.
- Trading updates were mostly positive, consistent with a solid upgrade cycle.
- Cost inflation was a theme, and we think inflation concerns were a reason why Resource stocks outperformed Technology over the conference.

### Key takeaways from the 23rd Macquarie Australia Conference

- 97 companies presented at the 2021 Conference, up 70% on last year, and just 7% below 2019. With Australia managing the pandemic well, and the ASX back near all-time highs, the mood was more positive than last year. This is important as confident companies are more likely to invest and hire. COVID was again a theme, but the focus was growth beyond the pandemic, and which stocks are better re-opening plays as the economy normalises.
- Unlike last year when many had withdrawn guidance, companies were more willing to give trading and guidance updates. Most updates were positive, and our analysts upgraded their earnings for many more stocks than they downgraded. This continues the trend of positive earnings revisions that started in September 2020. After years of weak earnings, investors should be enjoying what is Australia's best upgrade cycle in decades.
- **Cost inflation was the key macro takeaway from the conference**. About one-quarter of the companies presenting talked about rising input costs, including raw materials and labour. Given the health of the economy, most are in a good position to pass on higher costs, although some believe they can gain share by not passing on higher costs (e.g. WES). Either way, there are cost pressures and we believe inflation concerns were the key driver of sector returns over the conference. The best returns were from resource stocks, with lithium and copper miners also helped by discussion of the energy transition and the shift to EVs. Rising inflation is also a headwind for PEs, and we think the fall in valuations despite positive earnings surprises is the reason why many stocks underperformed during the conference. This is also likely the reason why technology stocks were the notable laggard.

### On price reactions, COVID winners can't win, but losers can lose

- **COVID winners**. With borders still closed, retailers that benefited in 2020 are usually still seeing solid growth, although in many cases growth is slowing. Investors are concerned with how COVID winners will perform as they comp last year's sales boom, and this often mutes their share price reaction to positive surprises. This counter-intuitive reaction to news could continue until after the August reporting season when COVID winners report sequentially weaker results and more negative trading updates.
- **COVID losers**. Problems with Australia's vaccine rollout and sporadic COVID outbreaks (e.g. Sydney during conference week) continue to delay the recovery of some companies. Unlike February reporting season when investors looked past earnings disappointments from COVID losers, the market is reacting more normally to negative earnings surprises from this group. This is illustrated by the underperformance of FLT, RHC. Our strategy view is that investors should buy the dip in COVID losers like General Insurers, and re-opening plays in Travel & Leisure and Energy.

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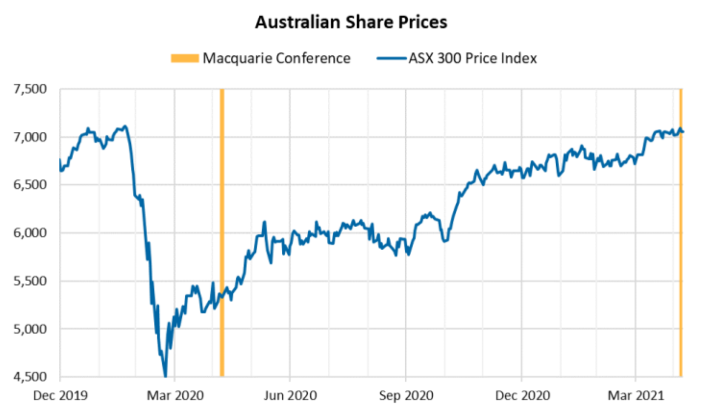
# Macquarie 2021 Australia Conference

## A tale of two conferences – corporate Australia more optimistic in 2021

*97 companies presented at the 2021 conference, and the mood was much more positive than 2020*

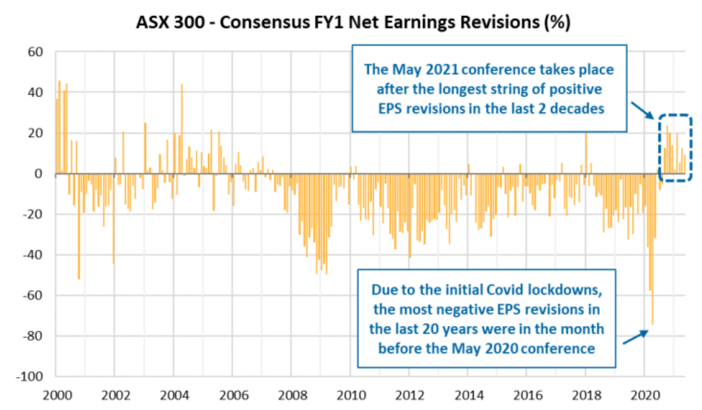
- 97 companies presented at the 23rd Annual Macquarie Conference… and our 2nd virtual one. This was up 70% on 2020, and only 7% below pre-pandemic levels.
- The companies presenting were much more optimistic than they were a year ago, and why wouldn't they be? Australia's COVID experience was much better than feared.
- **Equity markets have rebounded strongly**. At the time of the 2020 conference, stock prices were still 25% of the highs from just a few months earlier. Fast forward a year and stocks posted a new record high (on an intraday basis) during the 2021 conference.
- **The earnings outlook is much stronger**. In the month before the 2020 conference, the consensus earnings revisions were the most negative in two decades (minus 75%). Again, what a difference a year makes. Going into the 2021 conference net earnings revisions had been positive for 8 months. This is the longest string of positive revisions in two decades, and it continued with MRE upgrading 2x the companies that were downgraded at the conference.
- **Looking forward to the post-pandemic world**. COVID was as much a focus as last year but the mood was more positive. In 2020, the themes of the conference included the impact of the shutdowns, how quick activity would rebound, the hardship faced by consumers and the cuts to operating costs and capex that were made in response to weak sales. As a result, investors were looking for defensives or stocks that would do well in the pandemic.
- As the sporadic COVID outbreaks like the one in Sydney during the conference show, we are not out of the pandemic yet. But with vaccines being rolled out and ongoing progress with treatments, there is a hope that negative impacts of COVID are fading. The focus of investors at this year's conference was more on which stocks will benefit more from re-opening of the economy. Instead of the cost cut theme from last year, investors were more interested in the impacts of rising input costs, including raw materials and labour.
- While most are in a good position to pass on cost increases, the widespread discussion of cost increases during the conference (and in global markets generally) is a sign of inflationary pressures. We therefore continue to favour stocks positioned to do better in a reflationary environment (e.g. Resources, Value, Financials) and remain underweight sectors that could underperform if bond yields continue to rise (e.g. Growth, Bond Proxies, Gold).

**Fig 1 Australian stocks made new highs during the 2021 Macquarie Conference… last year the ASX was down 25%**




Source: FactSet, Macquarie Research, May 2021

**Fig 2 EPS revisions were the most positive in two decades ahead of the 2021 conference… not at record lows as in 2020**



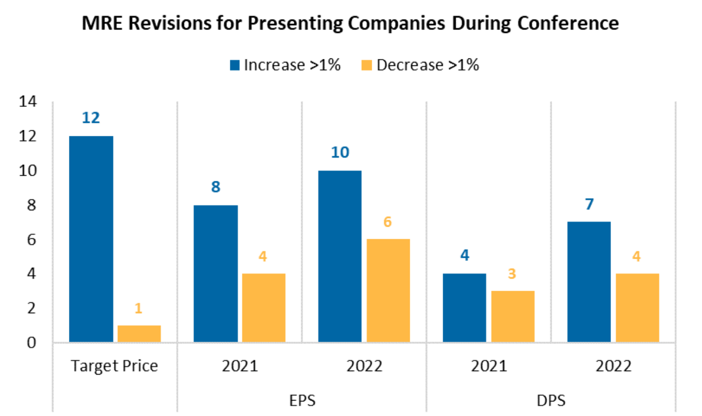

Source: FactSet, Macquarie Research, May 2021

## More earnings and trading updates a signal of increased visibility

***More companies were willing to give updates at the 2021 conference, and in most cases the news was positive***

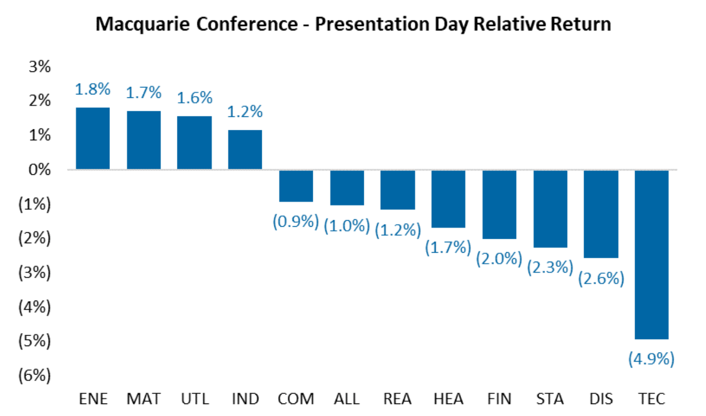
- Many companies withdrew guidance at the start of the pandemic in 2020. As a result, there were fewer companies that quantified any forward-looking comments at the last conference. That's if they made forward looking comments at all. There was simply so much uncertainty with the first major pandemic in a century and the first recession in decades.
- **Companies were more willing to give updates in 2021**. There were numerous trading or guidance updates in presentations, or released ahead of a presentation. The willingness to provide guidance is often a sign companies have good news to share, but even in the rare cases where the news was a disappointment (e.g. FLT, RHC, VCX), the earnings and trading updates are still a sign that visibility on the outlook is improving over time. This is yet another sign of the normalisation occurring as we look forward to the end of the pandemic.
- Here are some of the positive earnings updates during the conference:
  - ⇒ **NEC** (2021 EPS +6%) – FTA revenue continues to surprise positively with Nine's 4Q21 Metro FTA revenue expected to be up ~50%.
  - ⇒ **DHG** (+4%) – 3Q21 revenue +2%, with digital +8%. April 2021 new residential listings rebounded strongly, but the main positive was lower cost growth.
  - ⇒ **SKC** (+6%) – positive trends at the 1H21 result continuing to April 2021. Also noted the instant recovery in visitation after the most recent reopening.
  - ⇒ **HLS** (+5%) – Testing volumes remain robust with ~800k tests in 3Q21 (similar run-rate to 1H21), while the base pathology business is recovering.
  - ⇒ **AMC** (+2%) – Despite concerns about raw material cost increases, constant currency FY21 EPSg guidance upgraded to +14-15% (was +10-14%).
  - ⇒ We also highlight **BVS** and **WOR** as two names that maintained guidance when the market feared a downgrade. This is evident in the share price reactions, with BVS outperforming 10% and WOR by 4% on the day of their presentations.
- The updates that led to negative earnings revisions by our team included:
  - ⇒ **FLT** (2021 EPS -23%) – Management guided to a 2H21 PBT loss in line with 1H21, implying a FY21 loss of ~$500m (consensus loss $375m). FLT expects to breakeven in 2H22, with TTV at pre-COVID levels in FY24.
  - ⇒ **RHC** (-2%) – Australian volumes have been impacted by lockdowns, with the UK weaker (but favourable exit rates) and France still challenging. While 3Q21 has been impacted, our team remain positive on the medium-term outlook.

**Fig 3 For companies presenting at the conference our team upgraded their numbers much more than they downgraded**




Source: FactSet, Macquarie Research, May 2021

**Fig 4 Reflationary sectors like Energy and Materials outperformed technology over the conference**




Source: FactSet, Macquarie Research, May 2021

## COVID still one of the most common themes

*Because the pandemic is not over many of the companies that benefited such as the retailers are still seeing good demand.*

*But we still see more opportunity for investors in companies negatively impacted by COVID in advance of their recovery.*

- Covid everywhere. As you might expect one of the most important issues to discuss was the pandemic, including how companies protected the safety of staff and customers, how the business adapted to operating in a pandemic and the ongoing earnings impacts.
- We calculated a price ratio for a basket of COVID winners to losers, and the chart below (left) shows the losers have tended to outperform in CY21. That said, the winners are still well ahead if you compare price returns since the start of 2020, just below the pandemic began.
- Following are some of the sector themes related to COVID discussions:

⇒ **Discretionary' s COVID winners seeing solid demand, but face a tough comp**. **JBH** said the consumer is still in a good position, and they think this should support all retailers over the next year. **SUL** also see strong demand and have had little need to discount. **BRG** have also seen little need to drive demand but note 2H21 growth will slow relative to 1H21 as they cycle the initial COVID sales spike. **DMP** say they are retaining many of the delivery customers gained during shutdowns while carryout increases on reopening.

⇒ **Media was a COVID loser but seeing strong recovery**. **NEC's** trading update was better than expected with +50% growth in 4Q21 FTA Metro broadcast revenue. **SXL** also noted the QoQ improvement in the ad market in terms of spending, and noted we are cycling the worst of the decline in FY20. National Advertising is leading, but SME is improving.

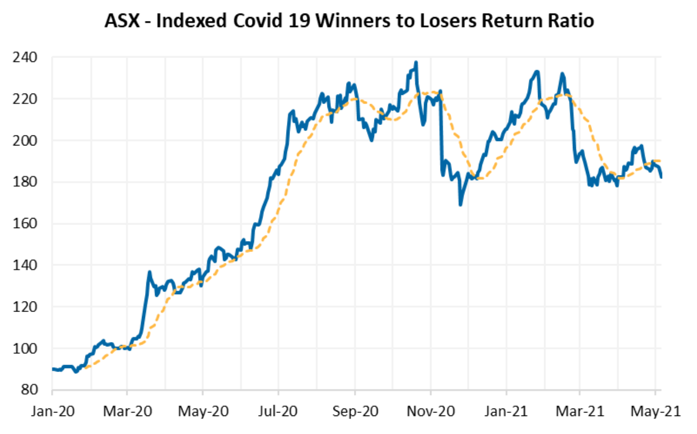
⇒ **Travel recovery pushed to the right**. FLT noted that corporate spend is 30% of historical TTV and growing, but leisure is lagging. Recovery will be driven by vaccinations programs and re-opening borders. On digitisation, FLT said online sales were now 30% of leisure, up from 7-8% before COVID.

⇒ **COVID's impact on health is mixed**. **CSL** are starting to see increased activity in collection centres but paying more to attract donors. **RHC** and **HLS** both see patient volumes fall during COVID lockdowns, and activity can sometimes recover slowly. Insurers (**MPL**, **NHF**) have lower claims when outbreaks occur, but see a claims catch-up when restrictions ease.

⇒ **WFH persists**. Office REITs reported improving occupancy and collections, as people return to CBDs. But as a DXS survey shows, ~67% of respondents want a hybrid work environment. Opal data on public transport use (below, right) shows work related travel is still less than 80% of pre-COVID levels.

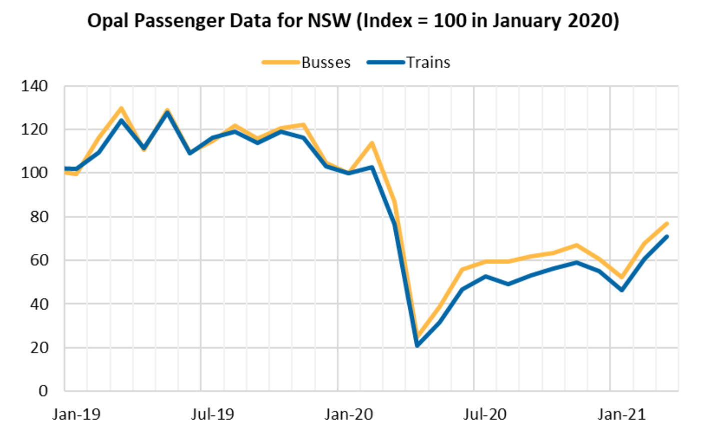
⇒ **Refining to benefit from re-opening**. VEA noted the stronger recovery seen in Retail volumes. Commercial is starting to recovery with jet sales up 15%, but border re-opening needed to drive growth in airline and cruise markets.

**Fig 5 A basket of COVID losers has tended to outperform a basket of COVID winners so far in CY21**




Source: FactSet, Macquarie Research, May 2021

**Fig 6 Opal Card data up to March indicated the recovery in public transport use in NSW still had further to go**




Source: Opal, Macquarie Research, May 2021

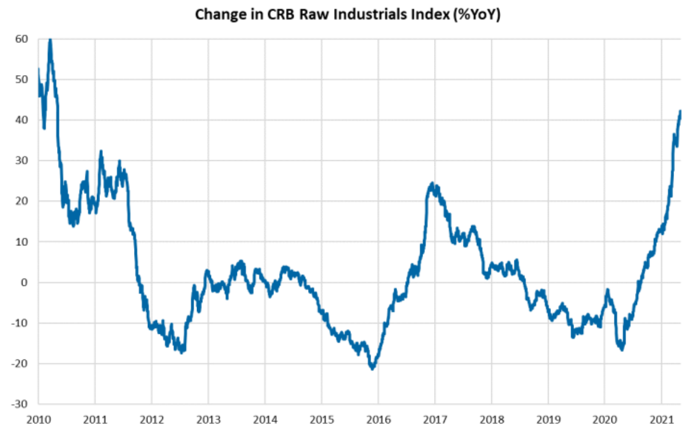
## Rising input costs often passed on, but nonetheless signal inflation pressure

*About one-quarter of the presenters talked about rising input costs, whether this was raw materials or higher labour costs.*

*The widespread focus on cost increases is a reflection of the rise in inflationary pressure, and we still favour stocks that benefit in a reflationary setting.*

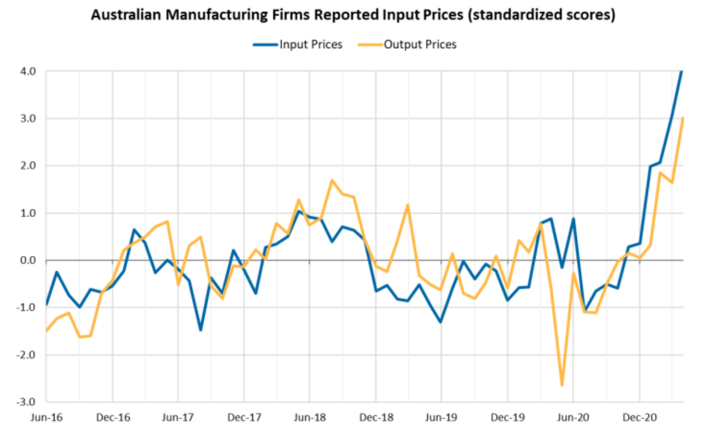
- With an increasing number of companies calling out increases in input costs, this risk has become a concern for investors, and a topic of questioning for impacted companies.
- **Raw material costs**. That companies would call out increases in raw material costs should not be surprising as commodity prices are rising at the fastest pace in over a decade.
  - ⇒ **Residential developers** – **MGR** said price rises are still benign, and they protect themselves by having pre-sales with 80% of construction cost locked in. **SGP** has also seen price increases recently but expects to be able to sustain high-teen margins for the time being and say they have good buying power.
  - ⇒ **Retail** – **WES** have seen cost pressure (e.g. lumber) and despite an ability to pass on costs, the company looks for alternative solutions with suppliers as they believe they can gain share by keeping prices competitive. **SUL** called out rising freight costs, but noted the stronger currency mitigates the impact. **NCK** also noted freight issues related to the shortage of containers as a reason why their revenue growth was tracking behind growth in written orders. **BAP** noted they had put through price rises for cost recovery in December/January.
  - ⇒ **Building Products** – **RWC** are seeing cost inflation but believe the costs can be passed on. **RWC** also argued that the cost of their products was small relative to the overall cost of R&R projects (pricing is relatively inelastic). **DOW** is seeing cost increases in steel, lumber, etc and take this into account when pricing.
  - ⇒ **Mining** – **FMG** highlighted that a rising AUD increases C1 cash costs, as it could for other USD reporters with Australian production. EVN noted the benefit from higher copper credits as a factor reducing costs, and this effect would be similar for other gold miners with copper by-products.
- **Labour costs**. Raw materials are not the only area of cost increases. Mining noted the rise in labour costs driven by border closures.
  - ⇒ **Mining** – labour was often mentioned by companies in WA. MIN called out the skilled labour shortage in WA many times. ENV noted the labour pressure in WA but did not see the same pressure on the East coast. Given labour cost pressures, FMG noted the benefit of their autonomous fleet.
  - ⇒ **Some examples from other sectors** – DOW said trade rates were seeing pressure. ABC said it was hard to get truck drivers given competition from mining. SLK noted it was hard to attract skilled hospitality staff.
- **CSL has a unique cost headwind**. They have seen a 30% increase in donor fees as the combination of stimulus checks and COVID. That said, our team upgraded CSL to OP (from Neutral) during the conference on the view that their collections issue was now easing.

**Fig 7 Raw material costs are rising because commodity prices are rising at the fastest pace since the 2000s boom**




Source: FactSet, CRB, Macquarie Research, May 2021

**Fig 8 Australian manufacturing firms are reporting record cost increases… but they are largely being passed on**




Source: FactSet, Ai Group, Macquarie Research, May 2021

### With an increase in M&A activity, this was a focus of investor questions

***When companies are confident you can expect to see more M&A***

***SLK even announced an acquisition on the day of their presentation***

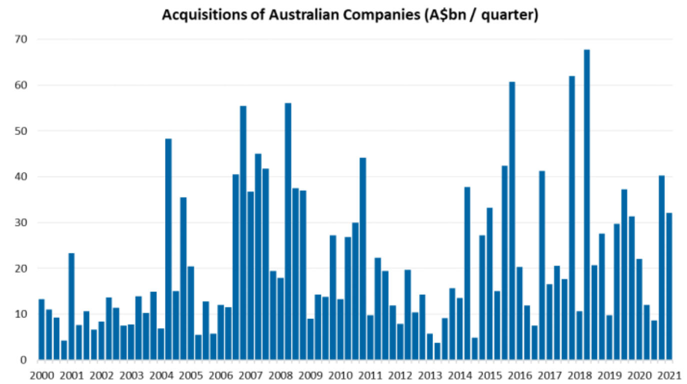
- At the 2020 conference balance sheets were a focus for investors and they wanted to know which companies were better positioned to survive through the COVID-19 recession.
- This year investor attention was focused more on the potential M&A opportunities. This could involve companies leveraging their stronger share price and cash flows to acquire growth, or the sale of non-core or underperforming assets to improve shareholder value.
- The level of M&A activity in Australia has improved over the last two quarters, as Boards and Management teams have more confidence and greater earnings visibility. That said, the value of deals is only average when compared to the market capitalisation of ASX stocks.
- With the ongoing improvement in business confidence, and supported by still low funding costs, we think the level of M&A activity in the Australian market will remain robust.
- In total there were 28 companies that either talked about M&A in their presentation, or in response to a question. This includes companies that are looking for acquisitions, those who made an acquisition recently, or those looking to sell one or more divisions. While the M&A topic often comes up in questioning, this does not mean any transaction is imminent.
- That said, there was a company that announced a deal on the day of their presentation. SLK acquired Go West, a bus operator focused on the WA resources sector.
- Here are some of the companies where there was a discussion related to M&A:

⇒ **Recent deals**. **IGO** sold its 30% interest in Tropicana and acquired a 50% interest in the Global Lithium JV. **CPU** acquired Wells Fargo's Corporate Trust Services business last month. **PPT** purchases Trillion and Barrow Hanley in the last year and continue to review opportunities.

⇒ **Potential buyers**. **WES** have the balance sheet for acquisitions, but are looking for deals that made strategic sense. **NCK** are hoping to make an acquisition in the next 12 months. Insurance brokers (**SDF**, **AUB**) expect bolt-on acquisitions to continue. **PNI** are looking at a range of opportunities, including multi-asset and distribution. **AMC** may consolidate in markets with bolt-ons, but valuations may not be attractive currently.

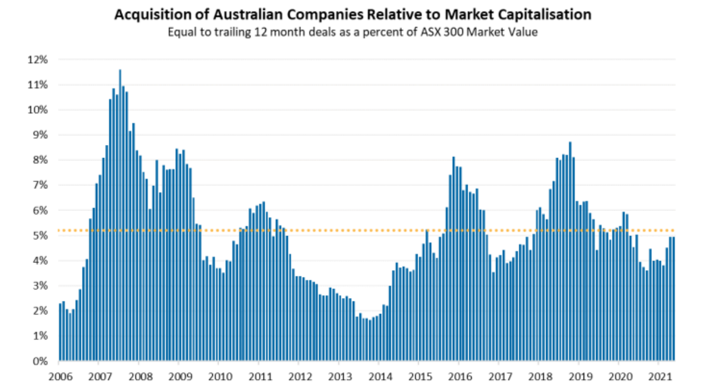
⇒ **Potential sellers**. In response to a question on chemicals, **WES** said they review every division to see if it should be sold. **LNK** is reviewing PEXA. **OSH** are looking to sell-down in Alaska prior to FID at the end of 2021.

**Fig 9 Australian M&A activity has been relatively robust since the last quarter of 2020… and the trend can continue**




Source: FactSet, Macquarie Research, May 2021

**Fig 10 Relative to the size of Australia's equity market the total value of M&A deals in the last year is roughly average**




Source: FactSet, Macquarie Research, May 2021

### Other themes at the 2021 Macquarie Australia Conference

- While the paragraphs below do not reflect the important of the issues, some other themes at the conference included Decarbonisation, Digitisation, Fiscal Policy and China.
- **Decarbonisation**. As investors are increasingly focused on lowering emissions, companies are further investing into renewable energies, including solar energy and wind farms, offsetting energy usage from fossil fuels. Many companies are now setting long-term targets to become carbon neutral (e.g. **TCL**, **GPT**, **FMG**, **STO**). Lithium miners (**PLS**, **MIN**, **WES**) are seeing that the lithium market conditions continue to improve. **WOR** notes its projects which involve sustainability or energy transition have more favourable gross margins.
- **Digitisation**. A theme that has emerged over the last year is the accelerated shift to online sales during the pandemic. Some companies reported double or even triple digit online sales growth for a period. The question for investors now is how far growth might slow of a higher base given there is both a structural element to the sales growth and a part that is more of a one-off, or supported by COVID lockdowns and WFH. While there were many more during the conference, here are two examples of digitisation at the conference:
  - ⇒ **SUL** is using AI to improve its sales, noting that 29-47% of recommended products clicked on by customers were purchased within 7 days.
  - ⇒ **VCX** developed its own insights tool based on Wi-Fi signals in shopping centres to provide insights on customer behaviours within the shopping centre.
- **Fiscal Policy**. With the Federal Budget on Tuesday, some investors were interested in how companies were impacted by Fiscal policy. **VEA** said government subsidies are currently helping profitability, but a longer-term solution is needed. **FLT** were looking for initiatives to support domestic travel, as the flights package had a larger benefit for airlines. **LNK** did not expect anything in particular, but changes to super are often made. **DOW** took the opportunity to highlight they have 90% government work and exposure to fiscal stimulus.
- **China**. On the last day of the conference it was reported that China's National Development and Reform Commission (NDRC) suspended its participation in the China-Australia Strategic Economic Dialogue. This was yet another sign of the strained relationship between the two countries. **CGC** noted the risk for their business in China was low as it involved domestic producers selling into the domestic market. **Casinos** also noted the impact would not be small given VIP has already been disrupted by border closures. **FMG** presented before the NDRC news but had said that 92% of their iron ore is sold to China. Australia is still a key iron ore supplier for China, and this is likely to remain unless there is alternative supply.

# Appendix

**Fig 11 Stock returns and Macquarie analyst revisions for presenting companies (May 4-6, 2021)**

| | Company Name | Code | Relative Return Over 3 Days | MRE Analyst Revisions Over Conference | | | | | Mkt Cap A$m |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Target | EPS FY1 | EPS FY2 | DPS FY1 | DPS FY2 | |
| | **Financials** | | | | | | | | |
| | Perpetual | PPT | 3.5% | 9% | 3% | 6% | 3% | 5% | 2,013 |
| * | Medibank | MPL | (0.1%) | | (3%) | 2% | | | 8,455 |
| | NIB | NHF | (0.5%) | | | | | | 2,861 |
| * | Westpac Banking | WBC | (1.3%) | 6% | | | (2%) | | 95,457 |
| * | ASX | ASX | (1.3%) | | | | | | 13,918 |
| | Steadfast Group | SDF | (1.9%) | 2% | | 1% | | | 3,617 |
| | AUB Group | AUB | (2.0%) | 13% | 1% | 6% | 2% | 6% | 1,533 |
| | Pinnacle Invt Mgmt Group | PNI | (2.5%) | | | | | | 1,942 |
| * | Bank of Queensland | BOQ | (3.0%) | | | | | | 5,730 |
| | Australian Finance Group | AFG | (4.7%) | | | | | | 730 |
| | Zip | Z1P | (8.3%) | | | | | | 3,994 |
| | **Real Estate** | | | | | | | | |
| * | Mirvac Group | MGR | 2.9% | | | | | | 10,907 |
| * | Dexus | DXS | 0.3% | | | | | | 11,057 |
| * | Goodman Group | GMG | (0.2%) | | | | | | 35,434 |
| * | Charter Hall Group | CHC | (1.5%) | | | | | | 6,558 |
| * | GPT Group | GPT | (2.0%) | | | | | | 8,863 |
| * | Stockland | SGP | (2.6%) | | | | | | 11,005 |
| * | Vicinity Centres | VCX | (3.9%) | | | | | | 7,011 |
| | **Discretionary** | | | | | | | | |
| | Super Retail Group | SUL | 2.7% | | | | | | 2,712 |
| | Breville Group | BRG | 0.7% | | | | | | 3,626 |
| | SeaLink Travel Group | SLK | 0.0% | | | | | | 2,184 |
| * | Wesfarmers | WES | (0.3%) | | | | | | 61,080 |
| * | JB Hi-Fi | JBH | (0.5%) | | | | | | 5,309 |
| | G.U.D. Holdings | GUD | (0.8%) | | | | | | 1,250 |
| | Nick Scali | NCK | (1.5%) | | | | | | 858 |
| * | Domino's Pizza Enterprise | DMP | (1.6%) | | | | | | 9,207 |
| * | IDP Education | IEL | (2.8%) | | | | | | 5,923 |
| | City Chic Collective | CCX | (2.9%) | 13% | 1% | 1% | | | 1,030 |
| | SKYCITY Entertainment Grp | SKC | (3.2%) | 6% | 6% | 8% | 14% | 8% | 2,474 |
| * | Star Entertainment Group | SGR | (3.7%) | 3% | | (4%) | | | 3,713 |
| | Bapcor | BAP | (3.9%) | | | | | | 2,505 |
| | Temple & Webster | TPW | (6.1%) | | | | | | 1,212 |
| | Flight Centre Travel Grp | FLT | (15.0%) | (13%) | (23%) | (151%) | | | 2,882 |
| | **Telco & Media** | | | | | | | | |
| | Southern Cross Media Grp | SXL | 3.3% | | | | | | 505 |
| * | Nine Entertainment | NEC | 1.7% | 3% | 6% | (2%) | | (2%) | 4,912 |
| * | Telstra | TLS | (0.8%) | | | | | | 41,389 |
| | Domain Holdings Australia | DHG | (7.9%) | 12% | 4% | (9%) | | (9%) | 2,746 |
| | **Technology** | | | | | | | | |
| | Bravura Solutions | BVS | 17.4% | | | | | | 801 |
| | FINEOS Corporation Holdings DR | FCL | 1.1% | | | | | | 1,201 |
| * | Computershare | CPU | 0.5% | | | | | | 8,519 |
| * | Link Administra | LNK | (0.7%) | | | | | | 2,654 |
| | Limeade CDI | LME | (1.1%) | | | | | | 201 |
| * | NextDC | NXT | (5.0%) | | | | | | 5,046 |
| * | WiseTech Glob | WTC | (5.8%) | | | | | | 9,468 |
| | Megaport | MP1 | (6.4%) | | | | | | 2,104 |
| | Nuix | NXL | (7.3%) | | | | | | 1,174 |
| | Tyro Payments | TYR | (7.3%) | | | | | | 1,740 |
| * | Afterpay | APT | (13.2%) | | | | | | 28,797 |
| * | Appen | APX | (23.5%) | | | | | | 1,431 |

Source: FactSet, Macquarie Research, May 2021. * Indicates stock is constituent in S&P/ASX 100.

**Fig 12 Stock returns and Macquarie analyst revisions for presenting companies (May 4-6, 2021)**

| | Company Name | Code | Relative Return Over 3 Days | MRE Analyst Revisions Over Conference # Target | EPS FY1 | EPS FY2 | DPS FY1 | DPS FY2 | Mkt Cap A$m |
|---|---|---|---|---|---|---|---|---|---|
| | **Health Care** | | | | | | | | |
| * | CSL | CSL | 1.7% | 5% | | 2% | | 3% | 126,018 |
| | Summerset Group | SUM | 0.0% | | | | | | 2,620 |
| * | Resmed CDIS | RMD | (0.1%) | | | | | | 36,190 |
| | Healius | HLS | (0.2%) | 2% | 5% | 9% | 5% | 10% | 2,560 |
| | EBOS Group | EBO | (0.7%) | | | | | | 4,618 |
| * | Ramsay Health Care | RHC | (6.3%) | | (2%) | (2%) | (2%) | (3%) | 14,461 |
| | PolyNovo | PNV | (6.4%) | | | | | | 1,885 |
| | **Staples** | | | | | | | | |
| | Costa Group Holdings | CGC | 0.8% | | | | | | 1,868 |
| | Inghams Group | ING | (1.7%) | | | | | | 1,201 |
| | Elders | ELD | (3.9%) | | | | | | 1,815 |
| | Blackmores | BKL | (4.3%) | | | | | | 1,327 |
| | **Industrials** | | | | | | | | |
| * | Reliance Worldwide | RWC | 6.5% | | | | | | 4,116 |
| | Emeco Holdings | EHL | 6.0% | | | | | | 539 |
| * | Downer EDI | DOW | 1.3% | | | | | | 3,948 |
| * | Transurban Group | TCL | 0.0% | | | | | | 38,607 |
| | IPH | IPH | (0.5%) | | | | | | 1,538 |
| * | Cleanaway Waste Mgmt | CWY | (0.5%) | | (1%) | (4%) | (1%) | (4%) | 5,705 |
| * | Atlas Arteria | ALX | (0.5%) | | | | | | 5,754 |
| | Smartgroup | SIQ | (0.8%) | | | 1% | | 1% | 924 |
| | Austal | ASB | (1.3%) | | | | | | 852 |
| | **Materials (ex-Mining)** | | | | | | | | |
| | Pact Group Holdings | PGH | 6.4% | | | | | | 1,342 |
| * | Amcor | AMC | 4.0% | 2% | 2% | 2% | | 2% | 25,126 |
| | ADBRI | ABC | 0.5% | | | | | | 2,082 |
| | **Mining** | | | | | | | | |
| | Chalice Mining | CHN | 7.2% | | | | | | 2,531 |
| | Iluka Resources | ILU | 6.0% | | | | | | 3,480 |
| | St Barbara | SBM | 4.8% | | | | | | 1,349 |
| | Pilbara Minerals | PLS | 4.4% | | | | | | 3,418 |
| * | IGO | IGO | 2.8% | | | | | | 5,755 |
| * | OZ Minerals | OZL | 2.7% | | | | | | 8,237 |
| * | Lynas Rare Earths | LYC | 2.4% | | | | | | 5,136 |
| * | Northern Star Resources | NST | 1.4% | | | | | | 12,426 |
| * | Fortescue Metals Group | FMG | 0.7% | | | | | | 70,046 |
| * | Evolution Mining | EVN | 0.4% | | | | | | 7,894 |
| * | Newcrest Mining | NCM | (0.3%) | | | | | | 21,511 |
| | Deterra Royalties | DRR | (0.5%) | | | | | | 2,299 |
| * | Mineral Resources | MIN | (0.5%) | | | | | | 8,978 |
| | Nickel Mines | NIC | (0.9%) | | | | | | 2,792 |
| | DDH1 | DDH | (3.9%) | | | | | | 341 |
| | Aurelia Metals | AMI | (5.3%) | | | | | | 488 |
| | **Energy** | | | | | | | | |
| * | Worley | WOR | 7.2% | | | | | | 5,946 |
| * | Oil Search | OSH | 3.5% | | | | | | 8,083 |
| * | Santos | STO | 2.8% | | | | | | 14,665 |
| | Karoon Energy | KAR | 1.2% | | | | | | 695 |
| * | Ampol | ALD | 0.9% | | | | | | 6,263 |
| * | Beach Energy | BPT | (0.9%) | | | | | | 2,897 |
| | Viva Energy Group | VEA | (2.0%) | | | | | | 3,143 |
| | **Utilities** | | | | | | | | |
| * | AGL Energy | AGL | 1.6% | | | | | | 5,657 |

Source: FactSet, Macquarie Research, May 2021. * Indicates stock is constituent in S&P/ASX 100.

## 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 Mar 2021

| | AU/NZ | Asia | USA | |
|---|---|---|---|---|
| Outperform | 51.86% | 68.57% | 66.67% | (for global coverage by Macquarie, 5.54% of stocks followed are investment banking clients) |
| Neutral | 36.27% | 20.79% | 33.33% | (for global coverage by Macquarie, 4.81% of stocks followed are investment banking clients) |
| Underperform | 11.86% | 10.63% | 0.00% | (for global coverage by Macquarie, 3.17% of stocks followed are investment banking clients) |

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