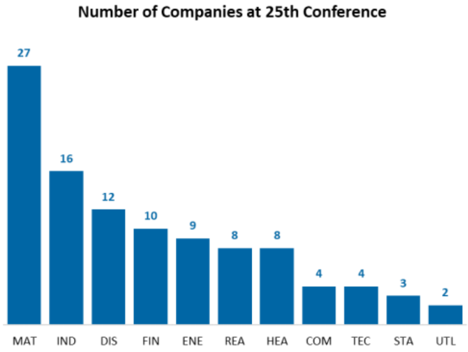
Research

5 May 2023 Australia

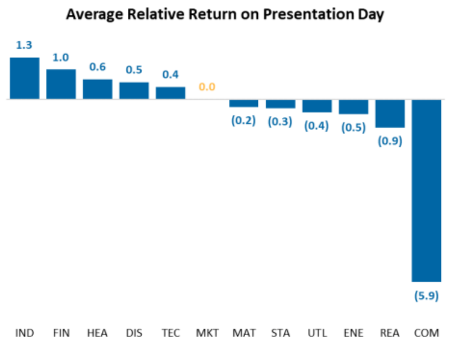
EQUITIES

Over 100 companies presented at the 25th Macquarie Australia Conference



Source: Macquarie Research, May 2023

Communication stocks underperformed driven by downgrades in Media



Source: FactSet, Macquarie Research, May 2023

Highest and lowest relative returns on the day of their presentation

Company	Code	Return	Company	Code	Return
Highest Relative Returns			Lowest Relative Returns		
Jumbo Interactive	JIN	7.8	oOh media	OML	(23.0)
Pinnacle Investment	PNI	7.0	Super Retail	SUL	(7.1)
Cleanaway	CWY	6.7	Piedmont Lithium	PLL	(6.1)
Regis Healthcare	REG	5.9	PolyNovo	PNV	(5.2)
Evolution Mining	EVN	4.7	Syrah Resources	SYR	(5.0)
Smartgroup	SIQ	4.1	ARB	ARB	(4.7)
Integral Diagnostics	IDX	3.7	Computershare	CPU	(3.9)
PSC Insurance	PSI	3.6	Monash IVF	MVF	(3.7)
Pilbara Minerals	PLS	3.4	Mirvac	MGR	(3.3)
Flight Centre	FLT	3.2	Fortescue	FMG	(3.1)

Source: FactSet, Macquarie Research, May 2023

Australian Equity Strategy
Australia 2023 Conference Wrap

Key points

- The 25th Macquarie Conference had over 100 companies, and with travel still recovering from COVID there were more offshore attendees.
- Australian consumer is slowing, but many updates less bad than feared.
- Inflation continues to ease, with labour availability starting to improve.

Event

- We highlight some of the key takeaways from the 25th Macquarie Australia Conference, which saw over 100 companies present from May 2-4, 2023.

Impact

- **Australian consumer is slowing**. Despite the lowest unemployment in decades and high immigration, there are ongoing signs the consumer is slowing, especially in the areas that benefited most from COVID and where demand is impacted more by interest rates. Multiple companies talked to consumers trading down as household budgets come under pressure. As more fixed-rate mortgages roll-off, and past rate hikes bite the pressures on consumer spending will likely increase. Travel remains a bright spot, with upgrades from **FLT** and AIA as pent-up demand supports sales.

- **Inflation is easing**. Last year labour cost pressures were a theme of the conference, but this appears to be normalising. Industrial and Mining companies in particular appear to be seeing improving labour availability. Health Services appear to be one area where labour cost pressures are still more acute, but from a contrarian view Health Services are one of the last areas impacted by COVID that can still see an earnings recovery.

- **Was this the downgrade conference some feared?** Probably not. There were downgrades, and all four media stocks posted disappointing earnings updates. Outside of media, **CPU** was the other notable downgrade as they cut guidance for FY24 margin income. On the positive side, there were upgrades in PHI (**MBL** and **NHF**), travel (**FLT** and **AIA**), while **CWY** was the biggest outperformer in the ASX 100 after maintaining guidance, calling out improving labour availability and the potential for improving margins.

- **RBA + Australian housing.** Residential REITs called out the improvement in operating trends they were seeing when the RBA did not hike in April. It remains to be seen how much the surprise RBA hike impacts the nascent housing recovery in the short term, but MGR/SGP underperformed after the hike. Longer term, there was a bullish view on residential property given Australia's strong immigration and the housing shortage.

Action & Recommendation

- **Remain defensive**. We believe the results of the 25th Australian conference are consistent with our cautious view on the cycle. We continue to think the US is headed for a recession later this year and that this will drive more volatility. Australia may avoid recession thanks to high immigration, but a US recession is still likely to impact Australian equities. For our latest thoughts on positioning, see our Portfolio Update: A healthy pause (April 2023). We raised Health to our top overweight with an increase in **CSL**, but reduced exposure to Energy and some expensive defensives.

Key takeaways by sector

With the RBA closer to the end of its hiking cycle the rotation is out of yield beneficiaries and this was evident in the CPU downgrade to FY24 margin guidance

- **Financials**. A year ago, the RBA kicked off a new tightening cycle on the first day of the 24th Macquarie Conference. This year the RBA surprised the market with a 25bps hike when the market expected a pause. A year ago, investors were looking for the stocks that benefit from higher yields, but with the hiking cycle largely over, investors are more often rotating to the stocks that benefit from falling bond yields. **CPU** epitomises this rotation. It was one of the best performers in 2022 as central banks hiked, but it reduced FY24 margin income guidance to US$860m (was US$990m) due to lower client balances. The private health insurers were also notable, with **NHF** upgrading policyholder growth and **MPL** upgrading its non-resident portfolio. On Banks, **BOQ** said the heightening mortgage competition was here to stay, but credit quality was benign. At +7%, **PNI** was the top outperformer of the conference, driven by a positive flows updated (+$1.9bn inflows) on the eve of the conference.

With high immigration and a housing shortage, resi real estate seems like the new Industrial in terms of having a multi year growth story… office is most out of favour even before any rise in unemployment

- **Real Estate**. Residential recovery was a key theme on Day 1, with **MGR**, **SGP** and **PXA** talking to the improvement seen after the RBA paused in April. This was before the surprise RBA hike on Day 1, which caused MGR and SGP to underperform. If remains to be seen if the surprise hike stalls the residential recovery in the near term, but there was optimism over the longer-term outlook for the sector given strong immigration and the housing shortage, with 'build to rent' seen as an attractive investment opportunity. Australia's strong population growth, supported by immigration was a recurring theme in property presentations, likely due to the larger number of offshore investors who attended the conference. The tension between where equity investors see asset values (lower) and the lag in transaction values was also a theme. While REITs acknowledge risk to office values, they also believe there is less risk for the higher-quality assets typically owned by listed REITs. On capital allocation, REITs are shifting to Industrial and Residential, and away from office. On funding, **QAL** discussed the capital shortage and that they are seeing less competition on deals than a year ago.

Discretionary demand is already slowing even before unemployment has started to rise

- **Discretionary**. Last year, there seemed a large disconnect between investors who worried about the economy as the RBA started to hike and companies who said the consumer was still fine. That gap has narrowed a lot in a year. Demand trends continue to slow, but not as fast as many feared given many consumers still have savings buffers. **JBH** is a good example of this dynamic, with the stock outperforming despite positive a relative flat 3Q comp for JBH Australia, as this was above expectations. **WES** and **BAP** also talked to customers trading down and focusing more on value. **SUL** was the worst performer in Discretionary despite saying comps were positive as they called out inflation pressures within most areas of their business. Within Consumer, Travel remains a bright spot, with **FLT** upgrading guidance and **CTD** talking to good momentum going into FY24. We remain cautious on Discretionary given the roll-off of fixed rate mortgages and the expectation of higher unemployment, which would both be a headwind for consumer spending.

Media stocks tended to provide negative updates, as it tends to slow with the consumer

- **Communications**. Media stocks were the underperformers of the conference. **SWM** started the trend, saying 3Q23 TV ad revenue was down 11%, but the stock outperformed as they also announced an additional $15-20m of cost out. **NEC's** initial FY23 EBITDA guidance of $590-600m was below Street expectations. **DHG** said 3Q23 revenue was down 4%, but also that costs would be at the upper end of their guidance range. Lastly, **OML** was the largest underperformer of the conference, underperforming 23% after calling out slower than industry sales growth for 1Q23 (+3% vs industry +12%) and a 10% fall in April. On the positive side, May and June forward bookings were ahead of the pcp. From a strategy perspective, the weakness in ad markets is consistent with the slowing growth in consumer spending.

Health Services impacted by COVID are seeing improving volumes, but earnings recovery is often slower than expected

- **Health**. Health Services stocks have been seeing improving volumes in their businesses that were negatively impacted by COVID. **IDX** also talked to the decline in sick leave and resulting absenteeism that had been negatively impacting productivity. Aged Care. The Australian Government announced additional funding for the aged care sector on the eve of the **REG** presentation. **REG** also provided a trading updated where they showed a rise in occupancy to 92.6%, as of April. While not presenting at the conference, **RHC** also provided a 3Q23 trading update this week that shows improving activity trends, but with weaker than expected earnings due to labour constraints and inflation. Health Services that were negatively impacted by COVID remain one of the few areas where earnings are still well below pre-COVID levels.

Consumers are trading down at supermarkets… but food inflation appears to be slowing

- **Staples**. The theme of consumers trading down was also evident with the supermarkets. **COL** said consumers were switching from red to white meat, and from fresh to frozen vegetables, while also buying in batches. **WOW** said the consumer was holding up well, but they were seeing a shift into own brand products. In Big W, management has seen some softness emerge in home categories, particularly discretionary items. Food inflation is moderating, with less frequent supplier price increases. **WOW** said access to labour is mixed, with supermarket staff availability rising, while supply chain labour remains tight.

Technology stocks can continue to deliver growth in a slowing cycle, but the challenge is the valuations.

- **Technology** companies at the conference tended to focus on their strong growth outlook, something that could be increasingly scarce as the cycle continues to slow. **WTC** highlighted the macro impact on their business is limited, and that they can more than offset industry headwinds though its business specific growth levers. The challenge for investors is the valuation, especially given we are in a QT environment, not a QE one where valuations are more likely to expand. One of the most attended sessions of the conference was a fireside chat with **Dr Michael Kollo**, who showed an example how in just 10-15 minutes an investor could use **ChatGPT** to analyse a speech by the RBA Governor. The rise of AI tools should add to demand for data centres, benefiting companies like **NXT**.

Multiple industrial stocks talked to easing labour cost pressures

- **Industrials** had the highest average outperformance of any sector, with no company reducing guidance or posting a materially disappointing update. **CWY** was the largest outperformer in the ASX 100 after they maintained their guidance, as some were concerned they may downgrade. **CWY** also said that labour costs were easing, with vacancies down 12% since December. This theme of labour pressures normalising from high levels seemed to be mentioned by a few companies (e.g. **SVW**, **VNT**, **ALQ**, **FBU**), and is a reverse of last year. Not all companies see easing cost pressures, and **BLD** is one example as they are not seeing inflation ease in the next year and will continue to push price increase. Infrastructure stocks (**TCL**, **AIA**) both had guidance upgrades in conference week, and while the share prices underperformed after the surprise RBA hike, we think both should benefit from falling bond yields as the cycle slows (and central banks eventually ease).

Some mining stocks also called out easing labour cost pressures

- **Resources.** Mining companies also tended to call out easing labour availability after feeling more pressure last year. The larger gold stocks (esp. **EVN** +4.7%, **NST** +2.6%) tended to be among the stronger outperformers at the conference. The sector has benefited from a strong run over the last 6 months due to a weaker USD, lower real yields and concerns over the US banking system. Roughly one-third of the mining companies at the conference were lithium companies. As you would expect, most are bullish on the outlook as they are focused on the long-term shift to EVs, not the current inventory/sales issues in China.

- **Utilities & Energy.** **APA** said a gas crisis is coming (timing unknown) and this could provide some opportunities. Energy developer STX talked specifically to an Emerging WA energy crisis as that market tightens over the coming decade with decline in legacy fields, lower exploration activity and growing power generation demand.

Fig 1 Macquarie Conference 2023 – highest and lowest returns relative to ASX 200 on day of presentation

ASX 100 - Best return relative to ASX 200 on presentaiton day (%)

Company Name	Code	Return	Industry
Cleanaway	CWY	6.7	Environmental & Facilities Services
Evolution Mining	EVN	4.7	Gold
Pilbara Minerals	PLS	3.4	Diversified Metals & Mining
IGO	IGO	3.0	Diversified Metals & Mining
JB Hi-Fi	JBH	2.9	Computer & Electronics Retail
NIB	NHF	2.6	Life & Health Insurance
Northern Star	NST	2.6	Gold
Seven Group	SVW	2.3	Trading Companies & Distributors
Downer EDI	DOW	1.8	Diversified Support Services
APA Group	APA	1.6	Gas Utilities
Sonic Healthcare	SHL	1.5	Health Care Services
NextDC	NXT	1.3	Internet Services & Infrastructure
Iluka	ILU	1.2	Diversified Metals & Mining
WiseTech	WTC	0.8	Application Software
Allkem	AKE	0.5	Diversified Metals & Mining
Aurizon	AZJ	0.4	Rail Transportation
Medibank	MPL	0.3	Life & Health Insurance
Newcrest	NCM	0.2	Gold
Lynas	LYC	0.2	Diversified Metals & Mining

ASX 100 - Worst return relative to ASX 200 on presentaiton day (%)

Company Name	Code	Return	Industry
Computershare	CPU	(3.9)	Data Processing & Outsourced Services
Mirvac	MGR	(3.3)	Diversified REITs
Fortescue	FMG	(3.1)	Steel
Charter Hall	CHC	(2.6)	Diversified REITs
Stockland	SGP	(2.0)	Diversified REITs
Dexus	DXS	(1.9)	Office REITs
Ampol	ALD	(1.7)	Oil & Gas Refining & Marketing
Santos	STO	(1.6)	Oil & Gas Exploration & Production
Woodside	WDS	(1.3)	Oil & Gas Exploration & Production
Atlas Arteria	ALX	(1.1)	Highways & Railtracks
ALS	ALQ	(1.0)	Research & Consulting Services
Transurban	TCL	(1.0)	Highways & Railtracks
Nine Entertainment	NEC	(0.9)	Broadcasting
Challenger	CGF	(0.8)	Diversified Financial Services
Endeavour	EDV	(0.6)	Food Retail
Mineral Resources	MIN	(0.5)	Diversified Metals & Mining
Bank of Queensland	BOQ	(0.4)	Regional Banks
Wesfarmers	WES	(0.4)	Broadline Retail
Worley	WOR	(0.3)	Construction & Engineering
Woolworths	WOW	(0.2)	Food Retail
Coles	COL	(0.1)	Food Retail

Ex-100 - Best return relative to ASX 200 on presentaiton day (%)

Company Name	Code	Return	Industry
Jumbo Interactive	JIN	7.8	Casinos & Gaming
Pinnacle Investment	PNI	7.0	Asset Management & Custody Banks
Regis Healthcare	REG	5.9	Health Care Facilities
Smartgroup	SIQ	4.1	Human Resource & Employment Services
Integral Diagnostics	IDX	3.7	Health Care Services
PSC Insurance	PSI	3.6	Insurance Brokers
Flight Centre	FLT	3.2	Hotels Resorts & Cruise Lines
Fletcher Building	FBU	3.0	Building Products
EBOS	EBO	2.7	Health Care Distributors
Boss Energy	BOE	2.5	Coal & Consumable Fuels
Perseus Mining	PRU	2.4	Gold
John Lyng	JLG	2.3	Construction & Engineering
Seven West Media	SWM	2.2	Broadcasting
IPH	IPH	2.1	Research & Consulting Services
Liontown	LTR	2.1	Diversified Metals & Mining
Strike Energy	STX	2.0	Oil & Gas Exploration & Production
MAAS	MGH	1.9	Construction & Engineering
Star Entertainment	SGR	1.7	Casinos & Gaming
G.U.D.	GUD	1.7	Automotive Parts & Equipment
Capricorn Metals	CMM	1.4	Gold
Home Consortium	HMC	1.4	Retail REITs
Autosports	ASG	1.4	Automotive Retail
Credit Corp	CCP	1.1	Consumer Finance
Sandfire	SFR	1.0	Copper
Qualitas	QAL	0.9	Diversified Real Estate Activities
Kelsian	KLS	0.8	Passenger Ground Transportation
Bapcor	BAP	0.7	Distributors
Australian Finance Group	AFG	0.7	Commercial & Residential Mortgage Finance
Core Lithium	CXO	0.4	Diversified Metals & Mining
Centuria Capita	CNI	0.3	Diversified REITs
Nanosonics	NAN	0.2	Health Care Supplies
Ventia	VNT	0.1	Construction & Engineering
29Metals	29M	0.1	Diversified Metals & Mining

Ex-100 - Worst return relative to ASX 200 on presentaiton day (%)

Company Name	Code	Return	Industry
oOh media	OML	(23.0)	Advertising
Super Retail	SUL	(7.1)	Other Specialty Retail
Piedmont Lithium	PLL	(6.1)	Diversified Metals & Mining
PolyNovo	PNV	(5.2)	Health Care Supplies
Syrah Resources	SYR	(5.0)	Diversified Metals & Mining
ARB	ARB	(4.7)	Automotive Parts & Equipment
Monash IVF	MVF	(3.7)	Health Care Facilities
De Grey Mining	DEG	(2.8)	Gold
Chalice Mining	CHN	(2.7)	Diversified Metals & Mining
Bellevue Gold	BGL	(2.7)	Gold
Meridian Energy	MEZ	(2.5)	Renewable Electricity
Imdex	IMD	(1.9)	Diversified Metals & Mining
Domain	DHG	(1.8)	Interactive Media & Services
Beach Energy	BPT	(1.8)	Oil & Gas Exploration & Production
West African Resources	WAF	(1.7)	Gold
Karoon Energy	KAR	(1.5)	Oil & Gas Exploration & Production
Viva Energy	VEA	(1.0)	Oil & Gas Refining & Marketing
Boral	BLD	(1.0)	Construction Materials
Regis Resources	RRL	(1.0)	Gold
Silver Lake	SLR	(0.7)	Gold
Auckland Airport	AIA	(0.7)	Airport Services
Codan	CDA	(0.6)	Electronic Equipment & Instruments
Perpetual	PPT	(0.6)	Asset Management & Custody Banks
Corporate Travel	CTD	(0.5)	Hotels Resorts & Cruise Lines
Patriot Battery Metals	PMT	(0.4)	Diversified Metals & Mining
PEXA	PXA	(0.1)	Real Estate Services
Breville	BRG	(0.1)	Household Appliances
Pro Medicus	PME	(0.0)	Health Care Technology
Readytech	RDY	0.1	Application Software
Paladin Energy	PDN	0.1	Coal & Consumable Fuels

Source: FactSet, Macquarie Research, May 2023

Fig 2 Sector Summary – relative returns and consensus FY23 earnings revisions

Strategy Group	Number of Companies	Percent of Market Cap	Average Return Relative to XJO	Relative Return on Day of Presentation: Outperform	+/- 2.5%	Underperform	% Outperforming
Domestic Cyclical	41	6.9	(0.0)	7	28	6	2
Defensive	11	8.0	0.4	2	9	0	18
Growth	9	1.5	0.2	1	7	1	0
Global Cyclical	10	1.9	(0.0)	2	7	1	10
Resources	32	11.5	(0.2)	5	21	6	(3)
All Sectors	**103**	**29.9**	**0.0**	**17**	**72**	**14**	**3**
ASX 100	40	26.1	0.2	7	29	4	8
Ex-100 Stocks	63	3.9	(0.1)	10	43	10	0

Sector	Number of Companies	Percent of Market Cap	Average Return Relative to XJO	Relative Return on Day of Presentation: Outperform	+/- 2.5%	Underperform	% Outperforming
Financials	10	1.8	1.0	3	6	1	20
Real Estate	8	1.7	(0.9)	0	6	2	(25)
Discretionary	12	3.8	0.5	3	7	2	8
Communications	4	0.2	(5.9)	0	3	1	(25)
Technology	4	0.8	0.4	0	4	0	0
Health Care	8	1.1	0.6	3	3	2	13
Staples	3	3.7	(0.3)	0	3	0	0
Industrials	16	4.3	1.3	3	13	0	19
Materials	27	7.4	(0.2)	4	17	6	(7)
Energy	9	4.7	(0.5)	1	8	0	11
Utilities	2	0.6	(0.4)	0	2	0	0

Industry Group	Number of Companies	Percent of Market Cap	Average Return Relative to XJO	Relative Return on Day of Presentation: Outperform	+/- 2.5%	Underperform	% Outperforming
Banks	1	0.2	(0.4)	0	1	0	0
Financial Services	6	1.0	0.6	1	4	1	0
Insurance	3	0.6	2.2	2	1	0	67
Equity Real Estate Investment Trusts (REITs)	6	1.6	(1.3)	0	4	2	(33)
Real Estate Management & Development	2	0.1	0.4	0	2	0	0
Automobiles & Components	2	0.2	(1.5)	0	1	1	(50)
Consumer Durables & Apparel	1	0.1	(0.1)	0	1	0	0
Consumer Services	4	0.4	3.0	2	2	0	50
Consumer Discretionary Distribution & Retail	5	3.1	(0.5)	1	3	1	0
Media & Entertainment	4	0.2	(5.9)	0	3	1	(25)
Software & Services	3	0.8	0.7	0	3	0	0
Technology Hardware & Equipment	1	0.0	(0.6)	0	1	0	0
Health Care Equipment & Services	8	1.1	0.6	3	3	2	13
Consumer Staples Distribution & Retail	3	3.7	(0.3)	0	3	0	0
Capital Goods	6	0.6	1.6	1	5	0	17
Commercial & Professional Services	5	0.8	2.7	2	3	0	40
Transportation	5	2.9	(0.3)	0	5	0	0
Materials	27	7.4	(0.2)	4	17	6	(7)
Energy	9	4.7	(0.5)	1	8	0	11
Utilities	2	0.6	(0.4)	0	2	0	0

Source: FactSet, Macquarie Research, May 2023

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 2023

	AU/NZ	Asia	USA	
Outperform	56.13%	64.77%	64.49%	(for global coverage by Macquarie, 2.51% of stocks followed are investment banking clients)
Neutral	37.74%	23.98%	32.71%	(for global coverage by Macquarie, 1.83% of stocks followed are investment banking clients)
Underperform	6.13%	11.26%	2.80%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

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