

— Opinion

What the fundies like (and don't) for 2020

Ramsay, Smartgroup and Santos are rated 'buys', while AMP and office REITs are out of favour.

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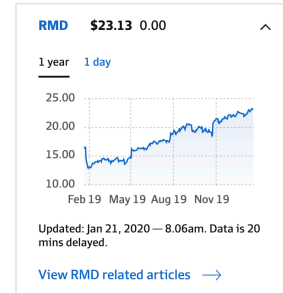
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To kickstart 2020, here are eight investment ideas from some of Australia's leading fund managers.

Ramsay Healthcare (buy)

RHC is the largest hospital operator in Australia, France and Scandinavia with a market-leading position in the UK. Over the next five years, populations in all three countries are certain to age which will almost certainly require greater medical procedures at RHC's facilities. Unlike other healthcare companies such as CSL, Cochlear or Resmed, RHC is not exposed to the chance of a drug recall, intellectual property theft or competitors developing a superior medical device. *Hugh Dive, portfolio manager, Atlas Funds Management*

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News Corp (buy)

One of the few companies in the market today with quality assets and a low valuation, its best assets include a 61 per cent stake in Realestate.com (REA) and The Wall St Journal. The company trades at a low valuation due to its poor corporate governance. But this has been improving with the company looking to sell loss-making media assets, improve financial disclosure and drive cost efficiencies harder through the business. *Dan Moore, portfolio manager, Investors Mutual*

Smartgroup (buy)

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Smartgroup suffered many problems last year, including the resignation of its long-term CEO [Deven Billimoria](#) and a change in insurance supplier contractual relationship leading to a 10 per cent profit wipe out. While the group's reputation has taken a hit in the short term, the core business of novated leasing has been travelling well, particularly in the face of poor new car sales. The business offers a higher return on invested capital, dividend yield of 6 per cent and trades at a steep discount to the market. *Matt Williams, portfolio manager, Airlie Funds Management*

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Santos (buy)

STO is the second-largest oil and gas company on the ASX by market capitalisation. The company has significant leverage to expectations for ongoing oil price strength, as the oil market tightens due to improved demand combined with the lack of investment in new supply. Each of the company's five core assets are expected to drive significant growth. Developments at Dorado in Western Australia and Barossa in the Northern Territory are key drivers of growth, with production forecast to grow by more than 60 per cent within the next five years. *Luke Smith, portfolio manager, Ausbil Global Resources Fund*

Independence Group (buy)

IGO is focused on the production of nickel and gold, with a high-quality asset suite in Western Australia. Both the Tropicana mine (gold) and Nova (nickel) are generating strong free cash flow. The company is aligned to a long-term theme of battery demand likely to lead to a deficit in nickel markets that would benefit IGO. Geopolitical issues continue to be supportive of the gold price. The group has a strong balance sheet, and is expected to generate significant earnings growth in 2020. *James Stewart, portfolio manager, Ausbil Global Resources Fund*

EML Payments (buy)

EML is a [structural growth fintech](#) specialising in digital gift cards and pre-paid cards for corporate clients across Australia, Europe and North America. Leveraging its leading technology platform, the company has strategically targeted large and growing industry verticals requiring innovative and customised payment solutions, such as gaming and wagering, shopping malls, salary packaging and neo-banking. US sports betting and European neo-banking are particularly exciting growth sectors for the company. Also attractive are the scalability of the business model, the strong cash flows and solid upside potential from the recently acquired Prepaid Financial Services business. *Gary Rollo, portfolio manager, Montgomery Investments*

AMP (sell)

While AMP's share price has fallen substantially and may look undervalued in January 2020, it is hard to make the case that this business will be in a stronger position in January 2026. Over the next five years, the troubled financial services company is attempting to cut the number of AMP advisers, renegotiate the buyer of last resort (BOLR) contracts, fend off class-action suits and migrate a large portion of conservative customers on to computer-driven or robo financial advice, all while minimising outflows from clients. *Hugh Dive, Atlas Funds Management*

Office REITs (sell)

Office REITs have had a fantastic run for a number of years, with strong rental growth and falling capitalisation rates leading to record high valuations. The outlook, though, is not as rosy – rental growth is starting to slow and new supply is earmarked to hit the market over the next few years. Given this medium term outlook, there is a risk to the record low cap rates on which office properties are being valued. Office REITs have even more downside, trading at large premiums to their net asset valuations. *Dan Moore, Investors Mutual*

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