

Stocks that will take off after a vaccine

The World Health Organisation lists 10 vaccines in phase three trials. Investors would be wise to think about how to tilt part of their portfolio should some of these succeed.

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If a [vaccine](#) for COVID-19 is discovered, developed and distributed, there are several companies whose share prices reflect a continuation of lockdown conditions that will re-rate very quickly. Several leading fund managers nominate the stocks that are likely to do well should a vaccine become a reality.

Nathan Bell, head of research at InvestSMART, nominates [Sydney Airport](#) as a vaccine trade contender as “the share price is currently one-third below its high of \$9 late last year as Sydney’s major airport will remain a ghost town until our local borders and, later on, international borders reopen”.

He expects leisure travel will recover over the next few years. “Eventually the airport will greet more passengers than ever,” he adds. “An increase in online business meetings will reduce business travel, but it will also recover strongly even if it remains below previous levels indefinitely.”

Matt Williams, portfolio manager at Airlie Funds Management, suggests Qantas has good leverage to a vaccine rollout. He says: “International travel would recommence. However, Qantas is also a good bet even in case of vaccine delays. This is because Australian domestic borders will progressively open up regardless of vaccine arrival.”

Williams points to the Tourism Research Australia report (March 2020) which showed that Australia’s standing is in the global top 10 for outbound international travel and in 2019 Australians spent \$64.2 billion on international trips. With international borders closed, Williams argues that consumers will be keen to spend at least a portion of their former international spend in Australia.

Hugh Dive, CIO of Atlas Funds Management, approaches the vaccine trade by looking at poor performers since February and screening out companies that are likely to face a tougher road back to pre-COVID-19 profits. He cites Flight Centre as an example that may jump initially on news of a vaccine but is likely to disappoint with the trajectory of earnings. “A vaccine may not see corporate travel [around 60 per cent of Flight Centre revenue] bounce back”.

Instead Dive prefers Webjet as its domestic and leisure focus should see business bounce back quickly in the event of a vaccine. "Webjet is well placed to capture pent-up demand for leisure travel. Following the capital raising in April, Webjet has a strong capital position."

Exciting frontier

Gary Rollo, portfolio manager at Montgomery Small Companies Fund, also likes Webjet. "Its cash burn in the first quarter of financial year 2021 is \$10.5 million per month and this is helped by \$3 million of revenue and \$700,000 of government subsidies. The company reported liquidity of \$420 million which suggests that cash burn is not an issue."

Dive and Bell suggest Crown would be a beneficiary from a vaccine notwithstanding the AUSTRAC probe. Bell says most of its profits come from locals. Dive adds: "The only property open is Crown Perth, but a vaccine would see the reopening of Crown Melbourne, with Crown Sydney slated to open shortly and begin contributing to profits."

Rollo also flags Tyro Payments as a beneficiary of a vaccine. "Tyro provides small businesses with merchant credit, debit and EFTPOS services. This is the machine you use to 'tap and go' at the café when buying a coffee. If it's a machine not owned by the big four banks, it is likely to be a machine owned by Tyro. That's because Tyro is Australia's fifth-largest merchant acquiring bank by terminal count: as at June 30, 2020, the company had 62,722 tap and go point of sale terminals in circulation with just over 32,000 merchants.

"Most of those merchants, however, are in the retail and hospitality sector [Victoria represents 23 per cent of transaction value] which has been hit hard by lockdowns and border closures. Before COVID-19, the company was on track to hit its growth forecasts, where hospitality transaction values were growing at 47 per cent annually.

"A vaccine could mean the company's growth targets and prior growth rates aren't dead, merely deferred," says Rollo.

Finally, for those looking for a bit more excitement, Bell suggests investors look at Frontier Digital Ventures, an emerging markets online classified business. "The CEO believes COVID-19 has brought forward the growth in online property transactions, in the frontier markets where Frontier Digital operates, by two years. The company has reached breakeven along with many of its underlying portfolio companies, which means profits should explode in the years ahead."

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