

THE AUSTRALIAN

Time to prepare portfolios with COVID-19 vaccine 'insurance'

By **ROGER MONTGOMERY**, WEALTH COLUMNIST

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I mentioned in these [pages](#) recently the crucial role a COVID vaccine will have on market sentiment in the months ahead.

Now as we have a fuller picture of the reporting season on the ASX, I believe the market is facing two great uncertainties.

The reporting season starkly revealed those benefiting and those left behind.

Under the umbrella of historically low interest rates, COVID mitigation measures have hundreds of millions working from home, travelling and exercising locally and outdoors and thereby supplying winning businesses with an accelerated prize.

During reporting season companies including JB Hi-Fi, Pointsbet and Kogan revealed residents with time on their hands, and handouts in their pockets, turned to what they know best — shopping and gambling.

On June 11, JB Hi-Fi's trading update suggested sales for FY20 would amount to \$7.86bn and net profits \$300m to \$305m. So strong were the last 19 days of June that the company reported sales of \$7.9bn and profits of \$332m, indicating less price discounting, favourable mix shift and an acceleration of consumer spending ahead of the end of the tax year.

Whether these growth rates can continue depends on a number of factors. One of course relates to the continuation of government fiscal support.

Federal government support for workers, households and business totals more than \$260bn, or 13 per cent of GDP. And at the time of writing, \$31bn had been withdrawn from superannuation under emergency access provisions.

There is little doubt that the combination of support and stimulus measures has helped the economy by maintaining spending and, therefore, jobs for employees, and dividends for shareholders, many of whom are retired and reliant on dividend income to fund their own spending.

Less certain is whether the level of fiscal support will continue.

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The other uncertainty relates to the development of a vaccine. How should an investor position for a vaccine and for no vaccine simultaneously?

Today's winners may not run as fast as others in the future: so as I see it the risk for investors is having no vaccine "insurance" in their portfolios.

As at August 24, there were 138 vaccine candidates in the preclinical phase and not yet in human trials, 25 vaccines in Phase 1 trials, 15 in Phase 2 and seven in Phase 3.

The Astra Zeneca/Oxford vaccine candidate, called ChAdOx1 nCoV-19, is currently the leading hope for a return to normal, having provoked an immune response in humans (something that hasn't occurred, for example, in sufficient numbers in Sweden's attempt at herd immunity) without triggering serious side-effects.

(This is the vaccine which CSL is expected to distribute under an arrangement with the Morrison government).

If a vaccine is successfully discovered, trialled, developed, approved and distributed, there are a

bunch of companies, whose share prices reflect a continuation of lockdown conditions, that will re-rate very quickly. It may therefore make sense to have some portfolio insurance through these companies, especially if their share prices are currently implying current circumstances to continue into perpetuity.

So, which are some of the vaccine insurance companies?

IDP Education

This company is at the forefront of foreign students returning to universities desperate for revenue (and fending off criticisms of providing funding and talent for Chinese science and military patents). Unlike other vaccine insurance stocks, the company's revenue can bounce even in the absence of a vaccine thanks to students being more willing to quarantine given the likely length of their stay.

Corporate Travel Management

Many questions were raised about this company pre-COVID. The business has been under pressure, but we note 81 per cent of revenue is generated overseas where essential travel has occurred as normal. We also note that the absence of an emergency capital raising has dispelled pre-COVID-19 concerns about the quality of the accounts.

Sydney Airport

Air travel in Australia is down almost 98 per cent. Such restrictions reflect Stage 5 lockdown conditions that seem inconsistent with, for example, Victoria where 25 per cent of construction workers are permitted on site despite Stage 4 lockdowns in force.

There seems to be no reason why passengers from one state with no community transmission couldn't travel to another state or territory experiencing the same absence of community transmission. Even without the development of a vaccine, triple-digit growth in revenue would occur if the number of flights move from 98 per cent down to 75 per cent down.

Roger Montgomery is founder and chief investment officer at www.montinvest.com

ROGER MONTGOMERY, WEALTH COLUMNIST

Roger Montgomery is the founder and Chief Investment Officer of Montgomery Investment Management, which won the Lonsec Emerging Fund Manager of the Year award in 2016. Prior to establishing Montgomery, Roger he... [Read more](#)



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