

Q&A: Will the market recover post COVID-19 and what are the sectors we should be looking at? Part 2

By Jonathan Jackson. Published at Jun 23, 2020



Last week in our discussion with Bourse Communication founder and Managing Director Rod North, we examined how COVID-19 compared to other great market impacting events such as the 1987 crash the recession we had to have. This week, we look at the sectors that have been most affected and a few stocks to watch.

Jonathan Jackson (JJ): Rod, thanks for your time again. COVID-19 has had enormous impact on industries such as retail and tourism. Tourism has suffered enormously in this country over the last almost 12 months since the bush fires first started. I can't see tourism coming back all that quickly. What changes do you think will have to occur to turn these industries back around?

Rod North (RN): There will have to be behavioural changes. These industries will have to closely monitor consumer behaviour which has changed. Take retail for instance. So many more people are purchasing items online, and getting those delivered. This includes supermarket items. Who really wants to go to a supermarket if you can avoid it. If you know exactly what you want, you can get it delivered. So we will see that sector hit quite dramatically: a lot of shops, I think, will close down as a result of the fact that people have now formed new habits, and online has become a very large part of that.

JJ: Discretionary spending must also be a factor?

RN: Uncertainty exists now with people's income. Households may have been affected by both partners losing their income, or one person having reduced hours.

There are any number of variables and it means that less money will be spent on discretionary items, which includes things like holidays. What the Australian government will have to do now is work out how it can incentivise people to see Australia first, because it's going to be virtually impossible to travel overseas for some time. But you know, how many Australians are yet to see this beautiful country of ours?

I think the government can run a campaign which says, 'well, why don't you see Australia first'. They can help subsidise that and get people back into regional areas and up into parts of Northern WA and Darwin and so forth. There are places in Australia where Australians have never thought of going, but if it was more affordable they may reconsider. That would at least help to power those parts of the economies. Countries like Australia really have to be a bit more insular, and look after their own backyard first. Before COVID-19, it was so easy for us to jump on a plane and fly to Bali or Fiji because they were cheap. Now, we need to look at how, through government support, we can encourage people to travel within our own country.

JJ: In light of that, what do you think will be the industries or businesses that will thrive and survive in a post coronavirus world?

RN: I think companies that have digitised their businesses. The beneficiaries of this will be the healthcare sector, food, online services and any disruptors.

People are coming up with disruptive ways to do business and I think we'll see those businesses really stand out. In the healthcare sector there's still way too much paper, but now there are a number of companies like Global Health, for example, that have the ability to thrive through the way they are digitising industries.

Just on the health sector, we have seen great disruptions. You can now get your flu shot in the driveway, as opposed to getting out of the car, going to a clinic and waiting for half an hour to be seen (irrespective of COVID). You can now be in and out in a minute. So, those businesses that are creating a lot more efficiencies will do well.

We will see retailers that have moved more to online services and reduced their infrastructure and overhead costs, probably grow quite enormously. I think people have chosen to do more things at home, grow their own vegetables, so we're seeing companies like Wesfarmers benefit enormously, because people have been going and buying items from Bunnings, which enable them to do a lot more do it yourself work. I think there'll be more of that.

JJ: Is this the new normal?

RN: People talk about the new normal, but the new normal is going to be a much more grounded, basic sort of existence, where people are valuing things that really matter more than anything else. One of the things I have seen over the course of the last 35 years, particularly when markets have reached the dizzy heights as they did in February this year when the index got to the all-time high, were all the signs of the greed and excess in the market. People were flaunting a lot of that. Well, there's no

time for any of that anymore. And people are getting back to the good sort of home values of family, friends and all the things that matter.

JJ: What are some of the listed companies that we should be looking at post COVID?

RN: What is important is to really focus on the clever and ingenious ways Australian companies are able to lead the world in producing devices. Companies like Hydrix (ASX: HYD), which is a medical devices company is doing wonderful things in that respect. You've got companies like Compumedics (ASX: CMP), that has been a sleep diagnostics company and is now able to provide a device for monitoring people's sleep in the home. Sleep is really like the third pillar of health, we don't really fully understand enough of it, but yet we spend an awful lot of time doing it throughout our entire life. It'll be much better to be able to monitor, very clearly, your sleep patterns. So they're coming up with a very ingenious device which will be a world first and it's now currently getting close to being consumer grade. I think that's a really interesting company.

The other area where Australia kicks a fair few goals, too, is on defence. Companies like XTEK Limited (ASX: XTE), for example, have built a factory in Adelaide, and they're now winning global contracts for their protective breast shield plates, which can be used in the army, the fire brigade and also police forces.

Some of those companies can have some very significant earnings impacts that will drive their share price higher. And this could happen against the backdrop of the fact the market may decline.

Looking at the top 50, top 100 stocks that generally drive the index including the banks and the bigger companies like BHP and Rio, we will have to see how they are positioned. They've been the darlings of the market for a long time, but I don't know whether that will continue. They will still offer a solid investment, but I don't think they're going to deliver the stellar returns of the past. I think there's going to be smaller companies that can grow, like the Kogan.com Limited (ASX: KGN) of the world. Kogan climbed to a billion dollar market cap which is no mean feat, so clearly the management team there have absolutely been on the ball: they have kept reinventing themselves in the current market to suit the market conditions.

That's the real message for a lot of our ASX listed companies. You've got to constantly be looking at yourself, and reinventing the way you do business. We have seen companies, particularly in media, like Fairfax lose their position because they refused to innovate. They had their Kodak moment. Then we saw companies like Realestate.com and Carsales.com create online portals and build companies with market caps of several billion dollars. So that's where the real money is going to be made over the course of the next four or five years in the share market: companies that have cleverly positioned, that can grow their business and grow it internationally, and see their earnings continually move up. At the end of the day, it's earnings, earnings, earnings that drives the share price. It always has been, it always will be. It's not rocket science.

JJ: Just finally Rod, do you think we'll see anything like this pandemic again: something that will transform how we live, how we operate, and how we invest?

RN: It's always on the cards, because Black Swan events like a pandemic can come out of nowhere. I think it's also forced people to really spend some time over the last few months thinking about what's important to them and how they do their business such as considering remote working on a permanent basis. In which case, you've really got to wonder, too, what's going to happen with commercial real estate values, retail strip shops and so forth. There's perhaps less of a need to have people in that type of environment, going forward.

I do feel a bit sorry for companies like WeWork and others that were set up to get multiple users coming in and using those facilities. It's going to be very hard now for people to want to go and work in those sort of environments, because they'll have to be sanitised every five seconds.

On the flipside sanitiser companies could do very well.

JJ: Yes, and all we can do now is watch it all unfold. Certainly times have changed. Rod, thanks for your time, it's been highly enlightening.

RN: Very good, thanks very much. Great to talk to you, Jonathan.

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