Friday 20 December 2019

# Stocks Down Under

***'Never forget that only dead fish swim with the stream'***

*- Malcolm Muggeridge (1903-1990), British journalist and social critic*

## McMillan Shakespeare –

## Strongly Oversold, but fundamentals still solid

**Stocks Down Under rating** ★★★★

**ASX:MMS Share price: A$ 13.06 Market cap: A$ 1BN**

Not long ago – on 11 November to be exact – you could have bought McMillan Shakespeare (ASX:MMS), the Melbourne-based company best known for its work on salary packaging in Australia, for $16.79 a share. Yesterday it was going for 23% less, at $12.90. Blame a 9 December profit warning, where McMillan Shakespeare told the market that underlying NPAT in the year to June 2020 would be somewhere between $83m and $87m. That's not far below the level recorded in FY19 of $88.7m, but investors haven't been in the mood to listen. This could be a good one for the contrarians.

**Company Share Price Chart**


***Source: Tradingview***

## A genuine market leader

At the current share price McMillan Shakespeare remains a billion-dollar company not far out from being a member in good standing of the ASX200. The main reason that McMillan Shakespeare is still a large company is because it is the undisputed No. 1 provider in Australia of 'workplace benefits'. Basically, a great deal of all the back-end paperwork making it possible for hundreds of thousands of employees to get paid and pay tax in Australia is handled by McMillan Shakespeare businesses you've probably never heard of such as Maxxia. RemServ and FleetChoice. McMillan Shakespeare is a particularly important player in Australia in 'novated leasing', a finance arrangement used with salary packaging where an employee gets a car where the car lease and running costs are paid for by the employer through a combination of pre-tax and post-tax salary deductions.

So long as the unemployment in Australia remains low – and in the most recent figures from the ABS it was more or less steady at 5.2% – McMillan Shakespeare can continue to grow quite smartly. Low unemployment is an important reason why McMillan Shakespeare's share price was able to recover from the March 2019 low of $11.86, just before the 3 April cancellation of the proposed merger with competitor Eclipx Group (ASX: ECX). It helped that in August 2019, together with the FY19 result, the company announced an $80m share buyback.

## Business isn't as bad as it seems

So what's gone wrong since early November? Basically, there is not as much novated leasing in Australia at the moment as McMillan Shakespeare had expected. However – and this is important – the business is still growing. As usual with profit warnings, investors are expecting further downgrades. We're less concerned about that because even if novated leasing is a little slow at the moment. For one thing, the Net Promoter Score (NPS) for McMillan Shakespeare across all its business is a very high 52. With NPS – the measure of whether or not the customers would refer you to other customers – anything above 0 is considered 'good', >50 is 'Excellent' and above 70 is considered 'World Class.' For another, we would argue that McMillan Shakespeare has probably been taking market share in novated leasing given that Eclipx Group's weak earnings was the reason the merger was cancelled back in April.

***Currently the 'Excellent' McMillan Shakespeare franchise is available for only 12x FY20 consensus EPS at a share price not far above the $12. That level has provided a lot of technical support in the last twelve months. And we believe 12x is pretty attractive given the 18% average underlying NPAT growth of the last ten years. The dividend yield of 5.4% is nothing to sneeze at either.***

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# Vista Group – A great movie to see again

**Stocks Down Under rating** ★★★★

**ASX:VGL Share price: A$ 3.30 Market cap: A$ 557M**

It's not been a good year for shareholders of Vista Group (ASX: VGL), a New Zealand cinema and movies software company based in Auckland. The stock had actually performed well in the first half of calendar 2019, starting the year at around A$3.50 on ASX (it's listed on both the ASX and the NZX, same code in each case) and getting close to A$6.00 by early August. However, Vista Group has gone down to around A$3.30 currently, as a result of a profit warning on 29 August which coincided with the company's financial results for the six months to June 30. Vista Group, which is a December balance date company, had flagged back in February that it expected something like 20% revenue growth for calendar 2019. In August the company scaled back that expectation to just 10-12%. As usual with these things, the market behaved like it was the end of the world, even though Vista Group had a track record of strong growth up until now. We think December 2019 is a good time to see this movie again.

**Company Share Price Chart**


***Source: Tradingview***

## A broad product offering for cinema's

Vista Group recorded NZ$130m in revenue in calendar 2018 from a number of businesses focused largely on the cinema industry. NPAT in 2018 was NZ$12m. The foundation business, called Vista, is a digital 'total cinema management solution' allowing cinema operators to better manage their businesses and offer a better customer experience to moviegoers. Vista has a massive 40% worldwide market share in cinema. Another business, called Movio, is a data analytics business for exhibitors as well as film distributors and studios. There are many more businesses like Vista and Movio in the Vista Group portfolio, with the company having worked hard in recent years to build out a comprehensive offering for the cinema industry globally.

Around a third of all Vista's revenue is SaaS-based where the business model is Software as a Service. In SaaS, the revenue per user is low but the costs of deployment are even lower and the chances of revenue recurring are high, so the value to the owners of the software can be massive. Which is why everyone in software wants to run their business in a SaaS model and why Vista Group intends to push hard in this space. Vista Group is well placed to grow revenues and earnings into the foreseeable future because cinemas, while challenged in some markets by increasingly sophisticated in-home entertainment, have proved surprisingly robust over the years in terms of movie-going. Also, operators are open to any tools that are out there to help improve their businesses.

## Slight weaknesses in two businesses

What went wrong in mid-2019 for Vista Group was basically a slight decline in revenue for movieXchange and for Vista China. MovieXchange is a platform that enables movie media, tickets and showtimes to be made available through channels other than the cinema's own. Vista China is Vista's Chinese business, 47.5% owned by the parent.

In each case the revenue reduction in the June 2019 half was relatively trivial – movieXchange lost a ticketing partner and Vista China was paying less to the parent company for localization of the relevant software. However, Vista Group seems to have opted for caution and flag potentially lower growth for the full year based on slight weaknesses in these businesses.

## Strong potential in the Chinese market

If you look at the 83-slide Investor Day presentation deck for Vista Group from 18 November you'll see that the outlook for the company is fairly solid, with data showing the world's cinema industry in reasonably good shape and Vista Group well placed to grow with it. If the company gets the Chinese business to work – and market share is only 16% at the moment – it will do very nicely because the Chinese cinema exhibition industry is growing admissions strongly in a market that is still noticeably under screened.

***Vista Group stock isn't for the fainthearted – it's P/E on calendar 2019 consensus is around 41, dropping to 26 by 2021. However, this is a SaaS company and these kinds of companies have tended to trade at high multiples for long periods of time. If you agree with Vista Group that the imminent death of movie-going has been greatly exaggerated, Vista Group is a potentially valuable play on that theme that can now be picked up around a multi-year technical support level of ~$3.25.***

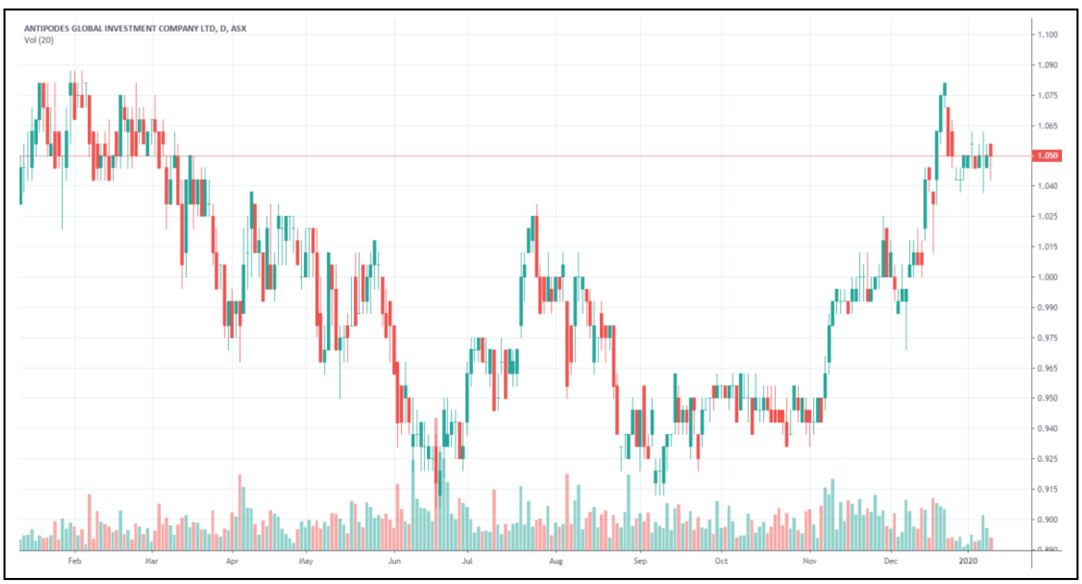
# Antipodes Global Investment Company – Discount to NTA closing

**Stocks Down Under rating**

**ASX:APL Share price: A$ 1.04 Market cap: A$ 571M**

Antipodes Global Investment Company (ASX: APL) hasn't exactly shot the lights out since this LIC (Listed Investment Company) went on the boards in October 2016. A member of the Sydney-based Antipodes Partners stable started by Jacob Mitchell in 2015 after he left Platinum Capital, APL started life at $1.10 in late 2016 but you can now get it for just $1.03. The current post-tax NTA is $1.15. What's interesting to us is that the long slide from the January 2018 level of around $1.30 seems to be over. Since 9 December the company has been buying back stock more heavily in an effort to reduce a noticeable discount to NTA. APL is currently long two stocks in particular that will likely benefit from an end to the US-China Trade War - the e-commerce powerhouse Alibaba (NYSE: BABA) and the Chinese insurer Ping An (SHA: 601318). Jacob and his colleagues also like Facebook (Nasdaq: FB) and Microsoft (Nasdaq MSFT), probably the two strongest US tech stocks available at reasonable prices at the moment. Jacob may finally have his mojo back on this one.

**Company Share Price Chart**




***Source: Tradingview***

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