Welcome to 2021

Where are we at?

You probably don't need us to tell you that predicting the market in the current climate has become something of a guessing game for the entire profession.

Nothing has changed on the geo-political scene with China and the USA engaged in trade warfare and political brinkmanship over the South China Sea. The Chinese economic strategy has been brought into sharper focus for Australia due to their dislike of Australia's role in investigating the COVID-19 origins. Australia/China trade relations are under some pressure and damage is being done to some key sectors in our economy.

Worldwide, the pandemic is still not under control with Europe and Britain in particular fighting hard to avoid social and economic disaster.

What short, medium and long-term impacts this will have is unknown, and probably at this stage, unknowable.

And then there is the pandemic at home! Notwithstanding the tragedy of human lives lost, businesses destroyed along with all sorts of collateral damage, through timely and ongoing intervention, the Australian Government has, at least in the writer's opinion, dealt with the problems as well as it could; but not without an economic cost. And therein lies part of the issue with the current market.

To all appearances, the market has recovered well from the initial downturn, against many professional pundit's expectations. The problem is the amount of money the government is pumping into the system to keep the economy going, and the unknown long-term impact of this strategy.

What are we doing?

Over the last 12 months, we have been actively reviewing the performance of many companies, Exchange Traded Funds, Listed Companies and Listed Trusts to ascertain their strategies to not only survive but to thrive in this new world.

You will notice that we are currently in the process repositioning your portfolio, to bring it back to your original strategy.

What are some of the issues in assessing company performance?

A Case Study

Over the last 12 months, we have witnessed a fundamental change as our traditional method of valuing stocks went out the window.

Afterpay for example has recently exceeded a market cap of $38 billion and overtook Telstra in the ASX200 despite generating a lower level of income and is yet to make a profit. Its current PE ratio is 1,808.94 whereas the market average is 22.74 and the sector average is 33.64.

This is 79.55 times the average for companies listed on the ASX.

Its debt-to-equity ratio is currently 49.7%

No dividends have been paid to-date and Afterpay is yet to post a profit.

Whereas

Redcape Hotel Group just announced its results for the 6 months ended 31st December 2020.

1H21 Highlights

- Statutory net profit after tax up 45.9% to $25.4m
- Distributable earnings up 24.6% to $32.9m
- Gearing/borrowings reduced to 32.8% and Interest Cover Ratio now stands at 5.73x as of 31 December 2020. This means they could meet their interest obligations if that obligation increased by more than 5 times its existing level.
- Directors Net Asset Value per security of $1.22 as at 31 December 2020, up from $1.09 at 30 June 2020
- Distribution of 3.66 cents per security, representing a yield of **7.9% on Net Asset Value**
- FY21 distributable earnings guidance of 9.70 cents per share

Outlook

The business has continued to trade positively into the second half. The Group is forecast to deliver distributable earnings of 9.70 cents per share for FY21. Quarterly Distributions for 2H21 are expected to be consistent with 1H21 of 1.83 cps, reflecting a payout ratio of 75%.

Redcape remains committed to delivering sustainable distributions through growing earnings and execution of its growth strategy. With the four recent acquisitions completing during 2H21, management is focused on onboarding these venues to the Redcape platform and increasing market share.

Question

Why do we continue to hold Redcape Hotel Group as it is currently trading well below its Net Asset Value of $1.22 per share, it is currently trading at $0.96 to $0.97 cents per share?

Redcape as opposed to Afterpay is making a significant profit.

When you buy any listed share on the stock market, you are buying a share in that business and the very first thing you would want to ascertain is that business making a profit or is this just sentiment that it might make a profit sometime in the future. That is very big difference.

Redcape was impacted by the first lockdown in NSW and Queensland and had to shut its doors for the duration of that lockdown. It was also required to enforce social distancing and despite all these changes, still managed to increase its profits by 45.9%.

We will continue to monitor the market on your behalf and to make appropriate assessments and decisions for you.

We believe the current re-balancing of your portfolios will be key to improving portfolio performance while still leaving sufficient flexibility to respond to unexpected market shifts and/or downturns.

As always, if you have any questions or concerns, please call either William or Wayne directly for more information.

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