JM Financial Group

Issue 73: May 2021

Australian Equities Strategy – Investment Newsletter

Performance *(As at 31st May 2021)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Australian Equities Strategy	**+0.79**	**+6.01**	**+22.07**	**+25.00**	**+84.17**	**+9.23**
All Ords Accumulation Index	+1.96	+7.90	+29.96	+34.71	+81.98	+9.04
Outperformance	**-1.17**	**-1.89**	**-7.89**	**-9.71**	**+2.19**	**+0.19**

Although the JMFG Australian Equities Strategy is generally representative of client portfolios, Individual performance may differ from the results above. These differences can arise due to various issues, some of which may relate to initial timing of investments, and cash inflows and outflows. Performance is calculated on a TWRR basis after management fees (post 1 Jan 2017), performance fees (paid or accrued), GST, and excludes the effect of franking credits. Strategy Inception for Performance Data is July 1st, 2014.

***Month in Review** – A review of the share market and overview of the portfolio for May*

The JMFG Australian Equities Strategy rose 0.79% for the month of May, underperforming the S&P/ASX 500 All Ordinaries Accumulation Index which had a strong month, rising 1.96%, resulting in net underperformance against the benchmark of 1.17%. The Strategy underperformed its benchmark by 1.89% for the rolling 3 months and has underperformed the benchmark by 7.89% for the rolling year. The annualised return since inception, over six year ago, is 9.23%, compared to its benchmark return of 9.04% p.a.

Financials was the best-performing sector in the broader market, rising 5.7% for the month. Other strong-performing sectors included Consumer Discretionary +3.5%, HealthCare +3.5%, Consumer Staples +2.5%, Property Trusts +1.7%, and Materials +1.7%. The worst-performing sector was I.T., falling 9.9% for the month, reversing its gains of the prior month. Other weaker-performing sectors included Utilities -6.6%, Energy -1.8%, and Industrials -1.0%.

Larger companies overall outperformed small companies during the month of May. The S&P/ASX 200 Accumulation Index, which returned 2.34% for the month, outpaced the S&P/ASX Small Ordinaries Accumulation Index, which returned a modest 0.27%.

Trading was fairly active during the month of May. New companies added to the portfolio included Lotus Resources, Chalice Mining and Jervois Mining. We also exited St Barbara on continued downgrades to their forecasts and Ansell over concerns regarding their gross margins going forward on increasing input prices. Positions were reduced in Medical Developments, Megaport, and PolyNovo shifting some exposure away from HealthCare and Information Technology.

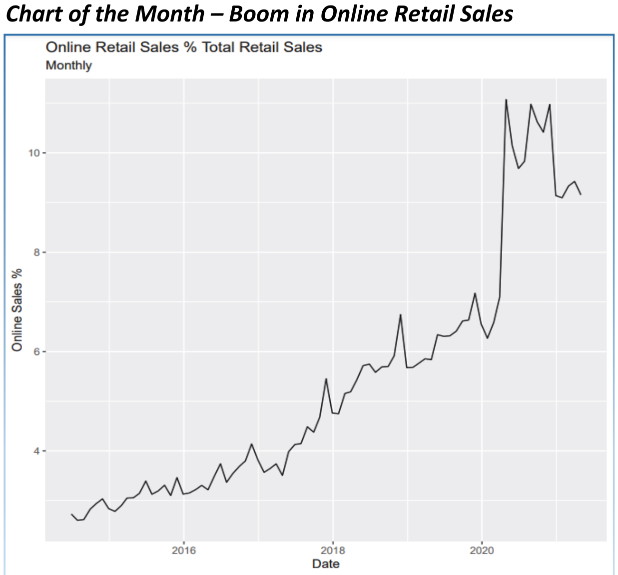
The strongest performers for the portfolio during the month included:

- Alcidion Group +14%, Commonwealth Bank +12%, Northern Star Resources +11%, and Westpac Banking Corporation +8%

The weakest performers for the portfolio during the month included:

- Medical Developments -15%, Appen -14%, Mach7 Technologies -14%, and Betmakers Technology Group -11%

Chart of the Month – Boom in Online Retail Sales



2020 was an outstanding year for online retailers with customers forced into isolation, limiting traditional bricks and mortar shopping. However, many online retailers face difficult year-on-year growth as 2021 sees customers able to return to stores. The graph to the left illustrates this, showing the total online sales as a percentage of total retail sales – 2021 seems to be returning to longer-term trend growth.

During May, online retailer Kogan released a trading update stating that it had increased its inventory in 2020 to support growth, which led to high warehousing costs when consumer demand fell below the levels of 2020. Kogan's share price now sits around 60% below its highest level, achieved in October last year. Several other online retailers are also down significantly from their highs: Temple & Webster Group down 30% from October, Adore Beauty Group down 40%, and MyDeal.com.au down 60% from their respective highs.

There is a clear longer-term trend of Australians shifting, or increasing the number of, their purchases online, it is worth looking into how much of this is persistent rather than transient spending. Businesses with more sustainable models should see continued trend growth.

JMFG Australian Equities Strategy		ASX All Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Alcidion Group (ALC)	Medical Developments (MVP)	Imugene (IMU)	EML Payments (EML)
Commonwealth Bank (CBA)	Appen (APX)	PPK Group (PPK)	American Pacific Borates (ABR)
Northern Star Resources (NST)	Mach7 Technologies (M7T)	Immutep (IMM)	Ecofibre (EOF)

Hits & Misses – *A summation of the top hits and misses for the month of May*

Alcidion Group (ALC) – up 14% for the month. Alcidion continued its strong share price performance following the acquisition of ExtraMed and the announcement of its selection as preferred provider for a significant Department of Defence contract. In early May, the company announced it was closing its share purchase plan early, being more than 10 times oversubscribed. While several directors and substantial shareholders sold down early in the month on liquidation of a joint investment vehicle, share price rose strongly towards month-end.

Imugene (IMU) – up 110% for the month (Not held). Share price rose mid-month on news of a 4-year research agreement with City of Hope Cancer Centre LA, and exclusive licence to combine oncolytic virus and cell therapy technology under long patent and clinical trial plans.

Medical Developments (MVP) – down 15% for the month. The share price drifted down over the month on no news, with general sentiment for the high-priced health care sector becoming bearish as the market shifts its focus toward more cyclical names.

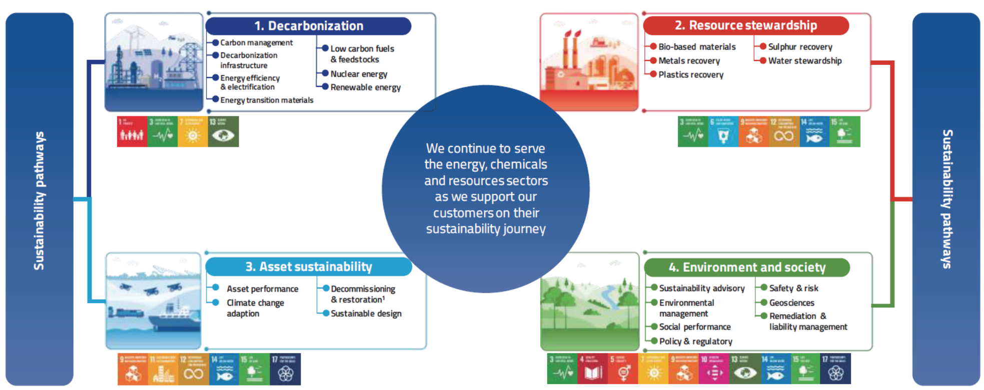
EML Payments (EML) – down 42% for the month (Not held). EML Payments is a payment card technology company that generates revenue through providing reloadable debit card and gift card services to businesses. During the month, EML announced that the Central Bank of Ireland (CBI) had “significant regulatory concerns”. The company also stated that directions to be made from the CBI could materially impact EML’s European operations, a segment which constitutes 27% of its revenue.

Due Diligence – *A closer look at a stock of interest*

Worley Ltd (WOR)

Worley Limited is an Australia-based industrial engineering solutions company providing engineering, design, and project services, ranging from management consulting through to ongoing operations maintenance, to key industry sectors globally, including energy, chemicals, and resources. Worley’s geographical segments are divided into the Americas, Europe, the Middle East, and Africa (EMEA), and Asia-Pacific (APAC) regions. Worley serves, and partners with, multi-national oil and gas supply, mining, and chemical processing companies, as well as regionally and locally focused energy infrastructure organisations, and government owned utilities.

The company features an extraordinary history of mergers, acquisitions and demergers culminating in its current form. 1976-established engineering consultancy Wholohan Grill and Partners acquired the Australian interests of US-based Worley in 1987 and took over the name and continued expanding steadily through further partnerships and acquisitions. In 2002, Worley listed on the ASX and acquired US-based Parsons Corporation’s E&C division which itself had a strong history dating back to the 1940s. The company rebranded the post-merger identity as WorleyParsons and kept expanding its territory and business diversity to become today’s global energy-focused engineering organisation with a market capitalisation over $6bn and revenues exceeding $13bn – and another name change, back to Worley, 2 years ago.



Source: Worley Limited – Investor Day 2 June 2021

Attractive fundamentals, including a Free Cash Flow per Share Yield of 10.1%, low Capital Expenditure to Sales ratio of 0.4%, and 5-year dividend growth of 19.3% are highlights in an overall favourable investment proposition vs global peers, and is even remarkable amongst its ASX 300 Index energy sector peers.

In recent years, the company has been involved in several high-profile clean energy projects, including Australian government ARENA-funded feasibility studies and demonstration plants for Green and Blue Hydrogen using electrolysis or pyrolysis with hydrogen fuel, ammonia, and graphite outputs. On the 2nd of June, the company announced its sustainability transformation strategy – highlighting its broad areas of expertise and commitments into sustainable energy pathways, and its existing growing sales pipelines in this rapidly growing space.

The company is well-placed to participate significantly in leading and developing the design and delivery of various technologies to channel energy transfer and develop new energy materials as the world focuses on decarbonisation of energy production inputs.