FIRSTLINKS SPECIAL EDITION: HOT STOCKS AND FUNDS FOR 2021

FIRSTLINKS

MORNINGSTAR AUSTRALASIA PTY LTD

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Introduction

Many investors use the new year to review their portfolios, so we reached out to over 20 fund managers and product providers for their best ideas in 2021.

There is always doubt about the future, but 2021 will be especially challenging for investing. Equity markets are at stretched valuations as analysts build in optimism about earnings recovery and stimulus in a post-COVID world. The safety of cash and term deposits offers negative real yields, forcing many conservative investors to take on risk they would otherwise avoid. As they seek an elusive combination of defensive market exposure with reasonable yield, they see others enjoying the growth story by buying companies without profits or dividends. Time will tell who wins.

We allowed nominations for listed companies, funds or sectors to give a broad range of opportunities, and you should read the recommendations in that context as some people mention their own funds.

At the end of the year, we will review these selections to check the best and worst results and calculate an overall weighted return.

Graham Hand, Managing Editor

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Active ETFs, e.g. Magellan Global Fund (Managed Fund) (ASX:MGOC)

Nominated by Shane Miller, PhD, Chief Commercial Officer, Chi-X Australia

The area of greatest optimism in 2021 for Chi-X Australia is the continued growth of the Exchange Traded Fund (ETF) market, within which Active ETFs are set to boom.

In March 2015, Magellan launched the first Active ETF in Australia (now ASX:MGOC) and has since proven to be serial innovators. Their latest development is the one-unit structure that combines the features of a traditional managed fund and an Active ETF. We expect this new structure will result in a wave of fund managers listing Active ETFs on exchange in 2021 and beyond. This is exemplified by the new MFG Core Series launched by Magellan on Chi-X – International (CXA:MCSG), ESG (CXA:MCSE) and Infrastructure (CXA:MCSI). The Series provides investors with access to lower cost global equity funds with active portfolio construction and systematic portfolio management.

While we expect the Australian ETF market to grow Assets Under Management (AUM) by at least 30% per annum, we forecast that, on a relative basis, the growth in Active ETFs will occur at an even higher rate. Hence ETFs will not only be one of the most exciting areas in financial markets in 2021, they will be the new frontier in the competition between active and passive management.

Alphabet (NASDAQ:GOOGL)

Nominated by Kris Webster, Co-Head of Technology, Communications and Media, and Portfolio Manager at Magellan

Alphabet is a collection of global businesses, including eight services that each have more than a billion monthly active users. These services include the household names Google Search, Android, Gmail, Chrome browser and YouTube. These businesses are dominant leaders in large global markets that should experience above-average growth for years to come.

Alphabet is already a huge business. Sales topped US$162 billion in 2019, mainly from Google's greater than 25% share of global media advertising spending outside of China. This advertising revenue pours in from Search, YouTube and Alphabet's digital advertising technologies.

We think investors undervalue the prospects of many of Alphabet's fledgling businesses, especially those that are losing money. Google Cloud is likely to grow revenue from US$9 billion in 2019 as more businesses outsource IT. Waymo, with its self-driving-car software, is another with promise.

Alphabet has risks, of course. Regulators have accused Google of anti-competitive abuses. Privacy regulations and Apple's policy changes could hamper Google's ability to gather data and target ads. YouTube could face steeper penalties for hosting harmful content. Governments could tax Alphabet more. The billions Alphabet spends on the nascent businesses could generate poor returns.

But we back Alphabet to manage these risks while continuing to grow its digital services that billions around the world have come to rely on every day.

Ansell Limited (ASX:ANN)

Nominated by Sean Fenton, Chief Investment Officer, Sage Capital,

Ansell is a stock that is set to continue to perform well across 2021. The business supplies protective equipment and clothing across a broad range of industries. These can be broadly split between healthcare and industrial. With the outbreak of COVID-19 demand for personal protective equipment in the healthcare segment has exploded, particularly for single-use and exam gloves. While the roll-out of vaccines will see this scaled back, the renewed focus on disease prevention and employer's corporate obligations to their employees' health is likely to see a permanent step-up in demand for personal protective equipment.

The industrial side of the business was more heavily impacted by business shutdowns over the last year, particularly across manufacturing and auto production. As these businesses have started to reopen, the demand for protective equipment on the industrial side is also recovering. This trend should continue through 2021 as economic activity around the world normalises. Margins can swing profitability, but with the supply of some key inputs being resolved over the last year and consumers becoming less price sensitive during lockdowns, these pressures appear benign. Input prices are likely to rise, but these should be able to be passed through. Ansell also has a very strong balance sheet after rationalising its operating divisions in recent years, which enables it to undertake earnings accretive buybacks. Ansell's share price has pulled back significantly after its most recent earnings upgrade and with the buy-back set to restart, this provides a good buying opportunity.

Charter Hall Direct Industrial No.4 (Unlisted)

Nominated by Steven Bennett, Direct CEO, Charter Hall Group

2020 was the year that even the most reluctant shopper went on-line, and the industrial & logistics property sector was a big winner. When people order things online, the goods don't just magically appear with the click of a button. They come out of a well-located warehouse and are loaded onto a truck to be delivered straight to the consumer.

Industrial & logistics property is no longer simply a warehouse or manufacturing plant – these days they are purpose built, state of the art facilities, filled with technology and geared for automation. They are in high demand from both tenants and investors and we expect the asset class to continue to outperform over the medium to long-term.

Charter Hall Direct Industrial Fund No.4 (DIF4) is an unlisted property fund investing in a portfolio of quality Australian industrial & logistics properties and aims to provide investors with sustainable and stable, tax-advantaged income and the potential for capital growth. With conservative gearing, strong tenant covenants such as Mainfreight, Inghams and Beacon Lighting, 99% occupancy, a weighted average lease expiry of 11.2 years and average rental rate growth of 2.7% per annum, the Fund provides robust income growth in a low interest rate environment.

Strong investor demand for industrial & logistics investment drove DIF4 to surpass $1 billion portfolio value in Q4, 2020. The fund is well positioned to meet investor demand in 2021.

Charter Hall Direct Long WALE (Unlisted)

Nominated by Steven Bennett, Direct CEO, Charter Hall Group

A health and economic crisis like we have had turns people's attention to security and safety, which is exactly what long WALE assets deliver. WALE is short for weighted average lease expiry. It's an important measure for property funds, as it shows the average duration of leases across a portfolio and the likelihood of future vacancies.

Charter Hall Group has long embraced the long WALE thematic, developing deep relationships with blue chip tenants that are able to commit to long leases. One example is Bunnings, the dominant brand in its sector. They typically lease a building for 15 years with multiple options to extend the lease. This, and their strong covenant, makes them an attractive investment for institutions, syndicators and private investors.

Charter Hall Direct Long WALE Fund (LWF) has been repositioned with a stable tenant mix that provides regular cashflows to underpin investor income distributions. It targets long WALE properties diversified across resilient property sectors and essential services and counts Bunnings and Telstra in its top five tenants. It is 97% occupied, with a WALE of 8.0 years and average rental rate growth of 3.0% per annum and is currently delivering investors a 6.0% p.a. income yield which is paid monthly.

Being diversified, LWF provides flexibility for us as managers to adjust portfolio weightings where we see an opportunity to enhance returns. We expect this fund to be an attractive option for investors seeking income yield in a low interest environment.

Cooper Energy Limited (ASX:COE)

Nominated by Tim Canham and Wik Farwerck, Senior Portfolio Managers, Emerging Companies, First Sentier Investors

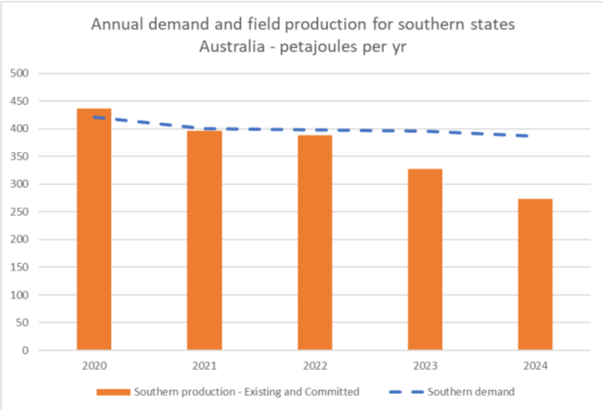
Cooper Energy – Australian East Coast gas play with contracted revenues

After a frustrating year for Cooper Energy, where its operating partner APA Group had issues ramping up its Orbost Gas plant in Gippsland, Victoria. These delays prevented Cooper from generating stable and increasing cashflows from the Sole Gas Field.

However, recent updates from the company give us confidence the worst is behind Cooper, and in 2021 the company is set to resume its growth path. We see a number of catalysts to re-rate the company in 2021, including:

1. Successful modifications to the Orbost Gas Plant that will allow ramp-up toward 50 terajoules per day and the commencement of gas offtake contracts with key customers.
2. Significant lift in earnings from 2020 to 2021 and subsequent removal of any concern around balance sheet gearing (which remains modest).
3. Investors realising that returns are contracted and infrastructure-like in nature, and not as sensitive to daily fluctuations in oil and LNG prices.

4. Lack of new supply into the domestic market has seen prices continue to rise. Estimates suggest that to import Asian LNG would cost A$10.13/GJ including transport costs, some 70% higher than the average domestic price (Source: JP Morgan) Exxon Mobil's desire to exit the domestic gas industry suggests very limited new capital for new projects is forthcoming.
5. The chart provides AEMO estimates of potential deficits in supply and therefore the potential for strong prices and demand.



Source: AEMO Gas Statement of Opportunities 2020. NB: One petajoule is equivalent to approx. 163,000 barrels of oil

Costa Group Holdings Limited (ASX:CGC)

Nominated by Aaron Binsted, Portfolio Manager/Analyst, Lazard Australian Equity Team

Costa, Australia's largest horticulture company, had a year of recovery in 2020 following a challenging 2019 when the company dealt with drought, hail events, crop genetic issues and a late harvest reducing prices. In 2021 Costa should benefit from several earnings tailwinds. Firstly, the lingering impact from the 2019 drought was still felt in 2020 and should add ~10% to CY21 profits. Secondly, two large capex projects in mushrooms and tomatoes will hit the P+L further boosting earnings. Thirdly, and most importantly, Costa's International berry business has reached two key milestones. In China, the company's early success has enabled a doubling in the rate of growth with new plantings increasing 100ha p/a annum from CY22. Costa is a premium supplier in this large and valuable market that is expected to grow in excess of 20% per annum. We believe, the market has not yet appreciated the acceleration of Costa's growth in China. The other key development in the international berry business is Costa's move to increase the licensing of berry IP to generate royalty and marketing income. While still at an early stage, this opens several markets where Costa did not want to own plantations or simply doesn't have the capital today. Costa operates in larger markets with faster growth than the market realises. We think investors will cotton on in 2021.

CoStar Group Inc (NASDAQ:CSGP)

Nominated by Franklin Global Growth Fund team, Franklin Templeton

Finding the right property—commercial or residential—is never easy. Buyers often have very specific requirements for space and location. The process can be time-consuming and involve a long list of players from building owners and brokers to lenders and appraisers. CoStar Group Inc., a US-based property company, aims to simplify and digitise the vast commercial real estate and apartment markets through online marketplaces and an extensive database of properties, transactions and owners.

The estimated US$16 trillion US commercial real estate market has been slow to move online. This is beginning to change, particularly in the United States. For the past three decades, CoStar has been collecting data on real estate inventory, transactions, tenant profiles and leasing information. In addition, it has bought a large number of databases to further enhance its offering. As a result, CoStar's data assets are now a significant competitive advantage, powering both a suite of data and analytics for real estate professionals and CoStar's commercial and residential online marketplaces.

CSL Limited (ASX:CSL)

Nominated by Gemma Dale, nabtrade

Despite being Australia's largest company and having delivered exceptional outperformance relative to the ASX200 over the last two decades, CSL is not very widely held among retail investors on nabtrade. Just 5.5% of investors hold the stock directly. Those who do hold CSL, however, own over $100,000 on average, over 4x the average stock holding, so it is a very high conviction investment.

The lack of allocation to CSL is usually a result of concerns about its relatively small dividend yield (1%), or valuation (CSL is currently trading on a forward PE of about 42x). The attraction for those who hold it is the extraordinary growth of earnings relative to other large companies.

For those who've ever considered buying CSL, now doesn't appear to be a bad time. Having taken a hit on the back of the cessation of its UQ-led Covid19 vaccination trial, at $290 at the time of writing, CSL is up just 18% from its lows in March. This is well below the market's return of nearly 50% from its lows. CSL remains well off its highs of $342 and management maintains that Covid trial was not material to its current valuation, meaning the recent pull back could be a happy buying opportunity. Nabtrade investors seem to think so – it has topped the trading with a 90% buy over three days since the trial was cancelled.

Please note: these comments do not reflect the views of WealthHub Securities Ltd.

Gold ETFs (e.g. ASX:PMGOLD)

Nominated by Jordan Eliseo, The Perth Mint

After a solid pullback to end this year, gold is well placed to deliver further upside in 2021 year. This should see continued demand for ETFs like Perth Mint Gold (ASX:PMGOLD). The product saw inflows of more than 70% in the first 11 months of 2020, with much of this demand driven by SMSF trustees.

There remain multiple tailwinds for gold looking forward. These include negative real returns on cash, the record stockpile of negative yielding bonds, which topped USD $18 trillion in 2020, and fears of rising inflation with central banks expected to provide continued monetary stimulus in 2021.

The need to hedge against froth in equity markets should also support gold, with the market capitalisation of global equity indices topping USD $100 trillion in 2020 for the first time ever.

It is worth remembering that allocations to gold remain very modest, at least by historical standards. Precious metals currently make up a maximum 3% of most Family Office portfolios, and even less amongst institutionally managed funds.

Given this backdrop, it is evident that there is substantially more scope for investors to add to their allocations rather than reduce them, which bodes well for prices over the medium to long-term.

Growth tech sector, (e.g. ASX:NDQ, ASX:HACK, and ASX:RBTZ)

Nominated by David Bassanese, BetaShares

While value sectors like energy and financials are currently enjoying a rare burst of outperformance, to quote former Prime Minister John Howard, I suspect this may prove to be their “five minutes of sunshine” before growth sectors such as technology start trouncing them again.

In the years leading up to the COVID crisis, the global technology sector had crushed all before it. This encompassed not just America’s well-known internet stocks on the NASDAQ exchange, but also Asian and Australian technology companies, and global high-tech sectors such as cybersecurity, robotics and artificial intelligence. All these dynamic growth exposures are easily accessible on the ASX through the BetaShares NASDAQ 100 ETF (ASX: NDQ), BetaShares Global Cybersecurity ETF (ASX: HACK) and BetaShares Global Robotics and Artificial Intelligence ETF (ASX: HACK).

So why the current apparent rotation to value? Value was further crushed during the darkest days of the COVID crisis while technology gained added allure as a ‘defensive’ sector given the stampede toward even more online activity. With the COVID clouds lifting, those sectors most beaten up during the crisis are naturally rebounding the hardest. But in my view, somewhere through next year, the strong structural growth drivers favouring technology should once again start dominating.

Healius Limited (ASX:HLS)

Nominated by Michael Murray, Equity Analyst, Australian Ethical

Healius is a company that has been a relative laggard in share price terms over the past five years compared with the stellar performance of some other ASX-listed healthcare companies. We began accumulating shares in late 2018 with a view that the company's core diagnostic assets were being undervalued by the market. In the past year, the company sold its capital-intensive medical centre business for an attractive price and has benefited from elevated levels of COVID testing in pathology. It recently announced a share buyback and a cost-out plan to lift margins across the business by 2023. Despite a recent lift in the share price, we continue to think the shares are attractively valued within the sector.

Healthcare sector

Nominated by Nandita D'Souza, Head of Investment Specialists, Citi

Overall, we expect markets to continue to perform well into 2021 with expectations of further US stimulus, easy monetary policy and the arrival of COVID-19 vaccines and improved treatments.

Healthcare is a sector we believe will perform well into the new year. The rapid aging of the world's population presents healthcare challenges for society, which has been especially evident over the course of this year with the COVID 19 pandemic. On the back of this turbulent year, we also expect greater government support for diagnostics and testing, vaccine development as well as greater pressure to improve vaccination rates. The COVID-19 pandemic has put a renewed focus on aging and healthcare, and this presents opportunities for providers of innovative health care companies.

Iluka Resources Limited (ASX:ILU)

Nominated by Perpetual Investments

A company we believe is good value is Iluka. Iluka is a mineral sands producer with its main products being zircon, and rutile/synthetic rutile. 2020 was a particularly tough year for Iluka with the downturn in demand for zircon due to COVID-19 but the company is well positioned to leverage the expected recovery in demand in 2021+.

However, in October it spun off its iron ore royalty business (Deterra) in which it still holds a 20% stake (worth about $500 million). We expect that the company will have net cash of just under $300 million by the end of 2021 and we think that the business will generate about $500m EBITDA in 2021 (it did more than $500 million in both 2018 and 2019). Putting this all together, you have a company with a $2.4 billion market cap where if you strip out the cash and the Deterra stake the adjusted market cap/enterprise value is $1.6 billion which will generate pre-tax free cashflow of $400 million which is an eye-watering 25% pre-tax free cashflow yield.

We like commodities with concentrated supply side dynamics as it will generally result in more sensible pricing and when there is a spike in demand the underlying commodity price tends to skyrocket (as we have seen in iron ore recently). The last time there was such a phenomenon for mineral sands was in 2010 and 2011 which saw zircon and rutile prices double.

Over this period the ILU share price increased almost 5-fold and was one of the top three performing stocks in the ASX200 in both 2010 and 2011. Our 25% pre-tax free cashflow yield does not forecast this scenario but in a macro environment of synchronized global growth it is not out of the realms of possibility that we could see mineral sands prices to spike.

Another optional upside comes from its rare earths opportunity. Rare earths are set to experience a significant increase in demand as one of the major uses is in magnets for electric motors used in electric vehicles, wind turbines and other applications that benefit from the push towards renewable energy and decarbonisation.

James Hardie Industries Plc (ASX:JHX)

Nominated by the Australian Equities Growth Team, First Sentier Investors

James Hardie Industries is a leading, global, fibre cement building products manufacturer. The company has a strong brand and its products are well regarded due to their superior performance. The company has operations in North America, Europe and the Asia-Pacific. North America is the vast bulk of the company's business, with 70-75% of Hardie's sales coming from that region.

We like James Hardie for three key reasons:

1. The US housing market is strong and improving. This is a function of both the underlying macroeconomic environment (for example, record low interest rates) and demographic shifts (for example, the COVID-induced preference for suburban settings and detached housing over dense, urban environments).
2. James Hardie is growing faster than the overall market; it is winning market share (US Census Bureau, Company data, FSI estimates).
3. The company's management team is doing an excellent job at lowering production costs. This is driving sustainably better margins and cash flows.

James Hardie is also delivering promising results in both Europe and the Asia-Pacific.

What this means overall is that James Hardie is delivering a very strong return on invested capital (or ROIC) of around 20% (Company data, FSI estimates). More importantly, we see James Hardie's ROIC improving into 2021 and beyond.

Limeade, Inc. (ASX:LME)

Nominated by Deana Mitchell, Equity Analyst, Australian Ethical

Limeade is a mobile-first, software-as-a-service (SaaS) company that operates in the employee experience and well-being market. The company's flagship well-being solution is a cloud-based offering targeted at enterprises to improve employee communications and culture, which we think will be increasingly important given more staff are working outside of the office. We like SaaS revenue models and low customer churn because they tend to deliver a high level of recurring revenue at high incremental gross profit margins. Limeade is attractively priced as it trades at a discount to SaaS peers with comparable growth rates, so we expect it to perform well in 2021.

Macquarie Telecom Group Limited (ASX:MAQ)

Nominated by Roger Montgomery, Chairman and Chief Investment Officer at Montgomery Investment Management

Today we're talking about cloud computing and a small cap opportunity in the space.

The cloud is where computing power, software delivery, video and music streaming now resides. Where once we purchased Microsoft Office physically, today we access it through the cloud. By reducing the production costs and cost of delivery while streamlining access for customers, the economics of businesses that leverage the cloud are transformed.

Technology was once a competitive weapon best leveraged by large established players that could afford the heavy upfront investment and maintenance costs. Today, technology is available with no upfront cost and the user pays. In this new world, scale is a 'disadvantage'.

Macquarie Telecom is a structural growth story, a future defensive earner and an exciting growth stock that can be internally funded.

Macquarie's developing Sydney datacentre, which will expand DC capacity in stages, from 14MW today to 50MW, could meaningfully drive profit growth for many years. Stage one adds 18mw, which could deliver $40 million of EBITDA. This compares to a total EBITDA of $66 million last financial year. Stage 2 could deliver $40 million of EBITDA.

Macquarie's datacentres are 30-year assets, generating high returns and an annuity style income stream. Trading on 13x EBITDA, we estimate intrinsic value of $70.

Money3 Corporation Limited (ASX:MNY)

Nominated by Peter Bell, Director, Bellmont Securities

Money3 is a well-run, profitable and rapidly-growing niche automotive lender that is only just appearing on many investors' radars. As a provider of car loans largely for customers with a less than perfect credit history, the company has managed to grow its loan book at a CAGR of more than 32% over the last 5 years, benefiting as the big banks pulled back from this segment of the market to focus only on the most credit-worthy car buyers.

With a compassionate process for dealing with customer arrears and conservative lending practices that see all loans amortise to zero over the loan term (i.e. there is no residual loan left at the end of the term), the company has kept bad debts at modest levels, including an impressive performance during COVID. With a new financing arrangement from an A+ rated global bank due to come into place mid-next year, the company's cost of funds will fall significantly, leading to a step change in profitability, on top of the organic ~20% pa loan book growth the company expects moving forward, and added accretion from a recent acquisition. Trading on a trailing PE of less than 17 times, and having recently entered the ASX300, the company is a rare example of a high quality, rapidly growing, reasonably priced business, that we think is likely to perform strongly in 2021.

Disclosure: Peter Bell owns shares in MNY personally, as does Bellmont Securities in its client portfolios and managed accounts.

Qualcomm Inc (NASDAQ:QCOM)

Nominated by Alex Pollak, Chief Investment Officer, Loftus Peak Pty Limited

Qualcomm is a market leader in the chips that power 5G phones and related equipment but has had a few bad years on the back of trade and legal issues stemming from its sales practices. For added measure, it was also in dispute for largely the same issues with its most important customer, Apple.

The company has now won these issues in court. Further, it has recently become a beneficiary of the US/China trade war because of the ban on sales of important technology to Huawei, which was its major competitor in the 5G market, especially in cell tower and infrastructure. As a result, Qualcomm is in a strong position to take advantage of the coming 5G roll-out.

As a technology 5G has the capacity to significantly increase data rates, allowing (for example) vehicle to vehicle communication with very low latency - but to do so requires a more expensive, intensive and highly specialised base-station build-out.

The company is currently expanding to take a greater share of the 5G revenue, for example it is now fielding elements of the base station. Many of the applications for 5G have not yet been written, and so this company provides a means of playing the disruptive thematic through infrastructure.

Our discounted cash flow model shows the company to be significantly below our valuation.

Ramsay Health Care Limited (ASX:RHC)

Nominated by Jun Bei Liu, Lead Portfolio Manager, Tribeca Investment Partners

2021 is shaping up to be a good year for Ramsay (ASX:RHC). Its Australian hospitals are set for a standout year as elective surgery in both the public and private systems experience a strong recovery. In addition, a new contract with Medibank should remove an important overhang and provide a solid price boost. While the UK and European operations face a more challenging few months it is only a matter of time before they also enjoy a similar recovery given the positive news on vaccine development and delivery.

Ramsay found itself at the centre of the pandemic from the beginning as cases started to rise in Australia and Europe. While the early months were challenging as elective surgery was put on hold the company stepped up to the challenge, making its hospitals available to the Government and in return receiving good financial support. While the second wave and resultant shutdown in Victoria will weigh on results for this half, we have already seen exciting signs of recovery as surgeries restart in some states. WA in particular has enjoyed a strong recovery. With the dramatic rise in waiting lists, particularly in Victoria, Ramsay domestic hospitals are set for a strong recovery in 2021.

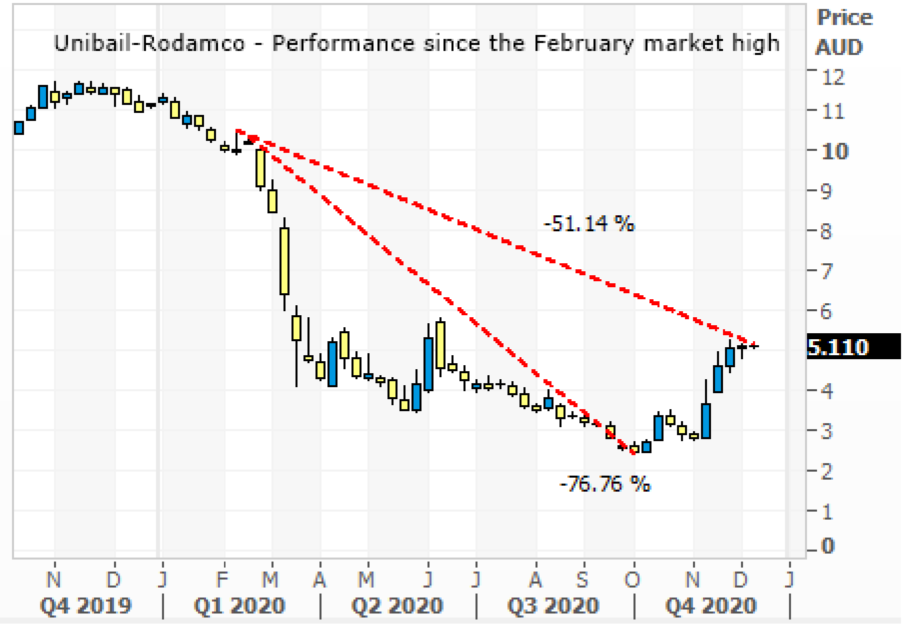
This positive scenario is further enhanced by agreements with the State Governments which will see private hospitals assist with efforts to reduce public waiting lists. This opportunity was confirmed by recent data from NSW public system which reported elective surgery reached a record high in the September quarter thanks to support from private hospitals.

We also expect the imminent announcement of a new three-year contract with Medibank resulting in a decent price boost in 2021 as Medibank accounts for one quarter of all private patients. Finally, the cost challenge created by COVID-19 has clearly peaked in recent months.

The near-term outlook for the group's UK and European operations is clearly less positive given the impact of high COVID-19 case numbers which have hampered the recovery in elective surgery. However, the Government support in these regions should ensure the financial impact is manageable. And once vaccines are rolled-out we are confident these hospitals will also enjoy a rapid recovery given the very large backlogs on patients needing surgery.

Unibail-Rodamco-Westfield (ASX:URW)

Nominated by Marcus Padley



This is not a quality stock on the numbers. Balance sheet uncertainty and an activist shareholder have created some deep uncertainties and the numbers are up in the air. URW has spent 2020 as one of the worst pandemic-affected stocks in the world and as such it now offers some of the most significant upside to a successful vaccine roll-out. Based out of France, one of the worst hit countries, they own a multi-billion-dollar portfolio of commercial property including shopping centres and convention centres effectively closed by the pandemic. They will re-open.

Meanwhile the stock is trading at a 50-70% discount to net asset value. On the current forecasts it has a 5.3% yield. URW are actively sorting the balance sheet issue, the vaccine is on the way, when the world has returned to normal and the shopping centres and convention centres of Europe are full again, maybe, one day, it will be seen as a long-term quality investment once again. It has halved since February. For now it is possibly the top large-cap recovery stock for 2021.

Value shares, e.g. Bayerische Motoren Werke AG (ETR:BMW)

Nominated by Orbis

Despite outperforming recently, in our view Value shares still look extremely cheap relative to the broader stockmarket. This has happened before, for example during the Japan bubble in 1990 and the Tech bubble in 2000. At the time it was hard to know when these bubbles would burst, and therefore Value investors had to wait nervously for the gloss to come off the popular stocks, and for the cheaper alternatives to be appreciated.

But there is something unique about the current environment. Not only is there a wide spread in valuations, but positive COVID-19 vaccine developments suggest that the end of the recession is near. Historically, one of the best times to own Value shares has been in a post-recession recovery period. In short, having a wide spread in valuations is rare, having a good timing signal is also rare, but having both at the same time is a truly unique opportunity.

A good example of this opportunity is BMW. While the pandemic has understandably put a halt to luxury car sales in many markets, you can't put off buying a replacement car forever. With a robust balance sheet and a compelling selection of new electric models in the pipeline, we are excited about BMW's ability to capitalise on the opportunities in both hybrid and electric cars. Its shares are available at around five times our conservative assessment of 'normal' earnings and a 30% discount to the book value of its tangible assets.

Vanguard Australian Shares Index (ASX:VAS)

Nominated by Vanguard

Vanguard has now been offering ETFs for 10 years with its first three ETF products launched being some of its largest and most popular funds.

The Vanguard Australian Shares Index ETF (ASX:VAS) continues to be Australia's largest ETF with over $6 billion in assets under management and is popular with both first time and seasoned investors for its relative simplicity, ease of access, cost and diversification benefits.

VAS provides low-cost, broadly diversified exposure to Australian companies and property trusts listed on the Australian Securities Exchange and as a broad-based ETF that invests in a diversified portfolio of securities, it is less exposed to the performance fluctuations of individual securities. Thus investors of the ETF benefit from the significant diversification and risk reduction benefits that it offers. It also offers potential long-term capital growth along with dividend income and franking credits.

With a management expense ratio of 10 basis points (0.1%), VAS is one of the cheaper ETFs tracking the Australian market and is a solid building block for a well-diversified portfolio.

Zebra Technologies Corp (NASDAQ:ZBRA)

Nominated by Adrian Martuccio, Portfolio Manager, Bell Asset Management

US listed Zebra Technologies may not be a household name but this US$20 billion company is a dominant player in the niche Automatic Identification and Data Capture (AIDC) market, counting 95% of the Fortune 500 companies as customers.

The COVID-19 pandemic has accelerated consumer adoption of e-commerce and digital transformations within businesses. Zebra's suite of solutions including mobile computers, bar code scanners, RFID readers and other peripherals, have been integral in the automation, tracking and delivery of parcels to our front doorsteps.

Their industry leading Research & Development and innovation has helped them stay ahead of the competition and achieve a 50% market share in the AIDC industry. The real-time nature of their systems has also enabled them to expand their addressable market into streamlining patient care in hospitals and even on field player tracking for the NFL.

Through strong governance and management's disciplined capital allocation, Zebra has been able to expand margins by over 4.00% in 5 years with more opportunity in the future. We expect this compelling combination of strong revenue growth and ongoing operational leverage to result in high-teens earnings growth. At a mid-20's price earnings ratio (12 months forward), we think the stock is trading well below its intrinsic value and has good appreciation potential.