

THE CHAMPION STOCKS

The “must have” stocks in a portfolio

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Given the current backdrop of political and economic uncertainty accompanied by elevated share market volatility, we have been asked to identify our Champion Stocks (excluding resources and small caps) for the next three to five years.

These Champion Stocks all have a long term positive thematic, which should drive superior earnings growth and shareholder value over the coming years, notwithstanding inevitable disruptions in the economic and investment environment as well as some corporate stumbles from time to time.

Therefore, we are not particularly concerned about the current year's investment arithmetic or the analyst's twelve month buy-hold-sell rating.

And, of course, the balance sheet ratios must remain strong in order to provide financial support to the positive thematic driver.

After examining the stocks under our research coverage, our Champion Stocks are as follows:

- **APA Group (APA):** Australia's largest owner and operator of gas pipelines, which supply around 50% of the nation's gas usage.

A favourable outlook for gas consumption driven by environmental policies designed to favour lower-emission fuels such as natural gas.

- **Transurban Group (TCL):** Australia's largest builder, owner and operator of urban toll road networks.

The group's current pipeline of growth projects is \$11 billion (TCL share is \$8 billion) and further huge development opportunities are expected over the next few decades supported by population and economic growth.

- **Challenger (CGF):** A financial group comprising a Life Company, which specialises in retirement income products and annuities and accounts for most of the group's earnings, and a funds management business.

As baby boomers continue to move into retirement, it is inevitable that annuities will become a major and rapidly growing product.

- **Lendlease Group (LLC):** An international property and infrastructure group with operations in Australia, Asia, Europe, and the Americas. Its core lines of business are developing, constructing, funding, owning and co-investing in property and infrastructure assets.

The international markets offer substantial growth opportunities, especially in the field of urban regeneration—the group's urbanisation pipeline end value is currently around A\$35 billion around the world.

- **Goodman Group (GMG):** One of the world's largest integrated industrial property groups with operations centred around development, management and ownership throughout Australia, New Zealand, Asia, Europe, United Kingdom, North America, and Brazil.

The long term outlook for industrial and logistics properties is favourable given the continuing growth in ecommerce (or on-line retail sales) and the growing middle class in developing countries.

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- **Link Administration Holdings (LNK):** The largest outsourced administration services provider for the growing superannuation funds industry in Australia and a leading provider of shareholder management and share registry services to companies.

The group is well placed to benefit from further administration outsourcing and industry consolidation given the significant scale and strategic benefits.

- **CSL (CSL):** A leading global company in the development, manufacture, and distribution of plasma therapies as well as non-plasma biotherapeutic products.

The global growth in plasma volumes is expected to be around a solid 8% per annum for the foreseeable future and, in addition, the group is planning to launch new products from its very extensive Research and Development portfolio.

- **Sonic Healthcare (SHL):** The world's third largest pathology provider with significant operations in the USA, United Kingdom, Germany, Switzerland, Belgium, Australia and New Zealand.

Against the backdrop of continuing growth in the demand for pathology services over the longer term, the group has further international expansion opportunities in both existing and new geographical markets.

- **Tatts Group (TTS):** A provider of lotteries and wagering products and services as well as gaming machine monitoring services but the defensive lotteries business currently accounts for 62% of group earnings.

The growth in lottery sales is very resilient and somewhat insulated from economic cycles and, in broad terms, the group has long-term and exclusive lottery licenses in most states. In this regard, around 75% of the lotteries earnings is generated from licenses that run for at least 35 years.

- **Brambles (BXB):** A global logistics company operating in more than 60 countries, which provides reusable pallets, crates and containers for shared use by multiple participants throughout a supply chain under a model known as “pooling”.

The group primarily serves defensive growth sectors such as fast-moving consumer goods (dry food, grocery, and health and personal care), fresh produce and beverages. Further expansion into emerging markets should generate additional earnings growth.

Note: refer to our latest company research and contact your adviser for more information.

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