

29 quality stocks at great prices

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Market shocks can be cause for anxiety but if you have the capital, such shocks can be an opportunity to pick up the stocks of great companies at discounts.

Investors define “great” in different ways. From our perspective, great companies are those that have carved out solid (and in some cases growing) competitive advantages that will allow them to thrive for years to come--in Morningstar parlance, they’ve built economic moats. Such companies are typically led by adept managers who have a record of allocating capital in ways that add value.

To find such exceptional firms, we looked for the following qualities.

- **Economic moat:** First, they need to boast wide or narrow Morningstar Economic Moat Ratings--and their Morningstar Moat Trend Ratings need to be stable or positive. In other words, these companies have competitive positions that are steady or even improving.

- ▶ **Exemplary stewardship:** Second, they must earn our top Morningstar Stewardship Rating — exemplary or standard. In other words, these companies are led by exceptional corporate managers who have a proven record of making investments and acquisitions supporting the competitive advantages and core businesses of their companies--and they won't pay an arm and a leg to do so. They'll divest underperforming or noncore businesses. They'll find the right balance of investing in the business and returning cash to shareholders via dividends and share repurchases. And they'll assemble a portfolio of attractive operating assets and skilled human capital, and then execute well.
- ▶ **Fair value certainty:** Third, we need to have a high degree of certainty in our fair value estimates for the stocks of these companies, limiting our search to stocks with fair value uncertainties of low or medium. This rating represents the predictability of a company's future cash flows. As such, we have a pretty high degree of confidence in our fair value estimates of companies with low and medium uncertainty ratings. (Long version: The uncertainty rating captures a range of likely potential intrinsic values for a company based on the characteristics of the business underlying the stock, including such things as operating and financial leverage, sales sensitivity to the economy, product concentration, and other factors. If the range of potential intrinsic values is narrow, the company earns a low uncertainty rating. If the range is great, the company earns a high uncertainty rating.)
- ▶ **Discounted:** And lastly, the stocks of these companies must be trading at a decent discount to our fair value estimates--selling at Morningstar Ratings of 4 or 5 stars at the of writing.

We used the [Morningstar Adviser Research Centre Stock Screener](#) to look for these qualities. More than two dozen stocks made the cut.

Two stocks stood out as holding exemplary stewardship ratings - medical instruments & supplies company **Ansell Ltd** (ASX: ANN), and capital markets firm **Macquarie Group** (ASX: MQG).

For wide-moat stocks, the big four banks carry our highest rating for competitive advantage, alongside funeral home operator **InvoCare Ltd** (ASX: IVC), **Auckland International Airport** (NZX: AIA) and supply chain logistics company **Brambles** (ASX: BXB).

Don't think of this as a list of "buys," though. Instead, think of it as a collection of names to investigate further.

"A 5-star rating does not suggest that the stocks won't drop further," he says. "Our aim is not to pick the bottom, but to highlight to investors that they can pick names up at a discount," Johannes Faul, Morningstar director of equity research, explains.

Note: This is a snapshot of how these stocks stand at the time of writing: Tuesday 17 March at 3pm. Given the current market volatility, the valuations could jump around.

5-star Australian stocks

- ▶ Wide or narrow moat
- ▶ Stable or positive moat trend
- ▶ Exemplary or standard stewardship rating
- ▶ Low or medium fair value uncertainty

Name	Morningstar Rating Overall	Economic Moat	Moat Trend	Stock Stewardship Rating	Fair Value Uncertainty	Industry
Ansell Ltd	★★★★★	Narrow	Stable	Exemplary	Low	Medical Instruments & Supplies
Scentre Group	★★★★★	Narrow	Stable	Standard	Medium	REIT - Retail
Vicinity Centres	★★★★★	Narrow	Stable	Standard	Medium	REIT - Retail
Unibail-Rodamco-Westfield	★★★★★	Narrow	Stable	Standard	Medium	REIT - Retail
Bapcor Ltd	★★★★★	Narrow	Stable	Standard	Medium	Specialty Retail
Pact Group Holdings	★★★★★	Narrow	Stable	Standard	Medium	Packaging & Containers
NIB Holdings	★★★★★	Narrow	Stable	Standard	Medium	Insurance - Specialty
Link Administration Holdings	★★★★★	Narrow	Stable	Standard	Medium	Capital Markets
Amcor	★★★★★	Narrow	Stable	Standard	Medium	Packaging & Containers
Computershare	★★★★★	Narrow	Stable	Standard	Medium	Information Technology Services
Adelaide Brighton	★★★★★	Narrow	Stable	Standard	Medium	Building Materials
Sydney Airport	★★★★★	Narrow	Stable	Standard	Medium	Airports & Air Services
Westpac Banking Corp	★★★★★	Wide	Stable	Standard	Medium	Banks - Diversified
National Australia Bank	★★★★★	Wide	Stable	Standard	Medium	Banks - Diversified
Australia and New Zealand Banking Group	★★★★★	Wide	Stable	Standard	Medium	Banks - Diversified

Source: Morningstar

4-star Australian stocks

- ▶ Wide or narrow moat
- ▶ Stable or positive moat trend
- ▶ Exemplary or standard stewardship rating
- ▶ Low or medium fair value uncertainty

Name	Morningstar Rating Overall	Economic Moat	Moat Trend	Stock Stewardship Rating	Fair Value Uncertainty	Industry
Macquarie Group	★★★★	Narrow	Stable	Exemplary	Medium	Capital Markets
Qube Holdings	★★★★	Narrow	Positive	Standard	Medium	Integrated Freight & Logistics
Medibank Private	★★★★	Narrow	Stable	Standard	Medium	Insurance - Diversified
Atlas Arteria	★★★★	Narrow	Stable	Standard	Medium	Infrastructure Operations
BWP Trust	★★★★	Narrow	Stable	Standard	Medium	REIT - Industrial
Stockland Corp	★★★★	Narrow	Stable	Standard	Medium	REIT - Diversified
AGL Energy	★★★★	Narrow	Stable	Standard	Medium	Utilities - Renewable
IRESS	★★★★	Narrow	Stable	Standard	Medium	Software - Application
Bingo Industries	★★★★	Narrow	Stable	Standard	Medium	Waste Management
Steadfast Group	★★★★	Narrow	Stable	Standard	Medium	Insurance Brokers
Brambles	★★★★	Wide	Stable	Standard	Medium	Specialty Business Services
Auckland International Airport	★★★★	Wide	Stable	Standard	Medium	Airports & Air Services
Commonwealth Bank of Australia	★★★★	Wide	Stable	Standard	Medium	Banks - Diversified
InvoCare	★★★★	Wide	Stable	Standard	Medium	Personal Services

Source: Morningstar