

Coronavirus effect: 11 Aussie stocks to watch

4 March 2020

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The covid-19 virus was first declared a public health emergency by the Centre for Disease Control on 30 January. Since then, the ASX has fallen 8.8 per cent.

However, a spike in cases and news the disease had spread to other countries prompted a sell-off on 20 February, during which time the ASX200 fell 10 per cent.

A Morningstar screener shows 11 Australian stocks currently in five-star territory. But a word of warning. This is a snapshot of how these stocks stand at the time of writing: Wednesday at 11am. Given the current market volatility the valuations could jump around.

Name	Morningstar Rating	Moat	Price/Fair Value
Seven West Media SWM	★★★★★	None	0.36
Ardent Leisure ALG	★★★★★	None	0.45
Sky Network Television SKT	★★★★★	None	0.46
Myer Holdings MYR	★★★★★	None	0.49
G8 Education GEM	★★★★★	None	0.50
Z Energy ZEL	★★★★★	None	0.52
Southern Cross Media SXL	★★★★★	None	0.53
Woodside Petroleum WPL	★★★★★	None	0.55
Link Administration LNK	★★★★★	Narrow	0.56
Pact Group PGH	★★★★★	Narrow	0.57
Australian Pharma. Ind. API	★★★★★	None	0.73

Source: Morningstar. Price data as at 3 Mar 2020

Which of the 11 offer the biggest discount to fair value?

Based on current prices, four of the 11 names carry a discount of 50 per cent or more:

- ▶ **Seven West Media** (ASX: SWM) – 64pc discount
- ▶ **Ardent Leisure Group** (ASX: AAD) – 55pc discount
- ▶ **Sky Network Television** (ASX: SKT) – 54pc discount
- ▶ **Myer Holdings** (ASX: MYR) – 51pc discount
- ▶ **G8 Education** (ASX: GEM) – 50pc discount

Which of the 11 carry lower risk?

The Morningstar uncertainty rating demonstrates our assessment of a firm's cash-flow predictability, or valuation risk. From this rating, Morningstar determines appropriate margins of safety: the higher the uncertainty, the wider the margin of safety around the fair value estimate before the recommendations are triggered.

At the time of writing, **Australian Pharmaceutical Industries** (ASX: API), a wholesaler and distributor, which owns the Priceline Pharmacy network, is the only stock with a low uncertainty rating.

Specialist packaging company **Pact Group** (ASX: PBH) and **Link Administration** (ASX: LNK), which provides admin services here and the in the UK, carry medium uncertainty ratings. Pact and Link are also the only two names on the list that carry narrow moat ratings, meaning they have a competitive advantage of about ten years.

Dividend yield

The top five stocks in terms of trailing 12-month dividend yield are:

- ▶ Sky Network Television: 13.6pc
- ▶ **Z Energy** (ASX: ZEL): 11.5pc
- ▶ **Southern Cross Media Group** (ASX: SXL): 10.5pc
- ▶ G8 Education: 6.8pc
- ▶ Australian Pharmaceutical Industries: 6.65pc

On Tuesday, the RBA cut rates to a new low of 0.50 per cent. Only one stock in the financial services sector is in five-star territory: Link Administration.

The big four banks are rated as follows:

- ▶ **Westpac** (ASX: WBC) – 4 stars or 20pc discount
- ▶ **ANZ Bank** (ASX: ANZ) – 4 stars or 17pc discount
- ▶ **National Australia Bank** (ASX: NAB) – 4 stars or 17pc discount
- ▶ **Commonwealth Bank** (ASX: CBA) – 3 stars or fairly valued

At the time of writing there are 54 stocks rated four or five stars.