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Value and listed infrastructure looking attractive in 2021

The nascent market rotation from growth to value signals an emerging trend which may see valuations adjust significantly in 2021, according to investment managers at Maple-Brown Abbott.

Dougal Maple-Brown, head of Australian equities, said the market is at the beginning of a new cycle with value investing awakening from its slumber.

“There was a significant market shift in favour of value in the last quarter of 2020 with a number of growth stocks tracking sideways or underperforming, while value stocks outperformed,” he said.

“A couple of factors drove this, such as the news of a successful COVID-19 vaccine and its speedy rollout in many countries, as well as the US election result, both of which helped push long bond yields higher.

“As value managers, this is good news and we expect to see valuations continue to adjust.

“Although the price-earnings ratios of the most expensive stocks in the Australian market have already started to come down from their absolute peaks, they remain extremely high so there is still a lot of scope for these stocks to de-rate.

“At the same time, we are seeing good pockets of value despite the overall market still trading on the expensive side.

“We are currently overweight the banking sector for the first time in many years. The banks had a volatile time during 2020 but, as COVID-19 situation improves, bad debt expenses are likely to be written back so we could see earnings upgrades and even dividend upgrades. We’re also overweight energy sector as prices are still fairly depressed,” Dougal said.

Geoff Bazzan, head of Asia Pacific equities, agrees that markets are beginning to shift towards value.

“Last year was a remarkable year for Asian markets, finishing with a strong rally in the second half that saw returns well above that seen elsewhere in global equities. This contrasts sharply with the first part of the year when the pandemic first hit.

“We also saw some very encouraging signs of the market rotation in Asia, and we continue to position our portfolio to focus on those parts of the market where we feel the recovery in earnings is underappreciated.



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“In particular, we believe there are a number of overlooked companies offering strong valuation support, robust cashflow, and attractive dividend yield – something we think will be a feature of Asian markets for many years to come.”

Geoff said that despite the rotation, markets remain significantly distorted between those stocks that are considered safe or are beneficiaries of COVID-19, and those that continue to suffer or where earnings remain depressed.

“As a result, we believe that there is still a fair way to go in the market rotation. One feature of the market in recent years is that there has been an all-time high in the concentration of the top five stocks. With economies recovering and earnings improving, it’s much more likely we’ll see a broader participation of stocks performing in the market.

“Overall, the environment at the start of 2021 is encouraging. Favourable valuation dispersions will be tested this year as investors begin to focus on recovering earnings, and we have seen some vulnerabilities exposed in some of the very expensive companies.

“We believe the appetite for Asian equities will only grow over time as people increasingly recognise the significant opportunities that exist in this dynamic region,” he said.

Andrew Maple-Brown, managing director, global listed infrastructure, said there are also good opportunities for investors looking to diversify into listed infrastructure assets.

“During the past year, global listed infrastructure underperformed the broader global equities market; however this underperformance was, in many cases, overdone.

“While the COVID-19 outbreak had a clear and negative effect on specific subsectors – in particular airports – the majority of businesses didn’t see a significant impact on their activity. For instance, regulated utilities experienced very little change, while tollroads took an initial hit but have shown signs of a quick recovery once COVID restrictions are lifted.

“We did see the beginning of a recovery in global listed infrastructure following the news of a vaccine, and the possibility of international travel picking up, but performance has remained subdued. Our view is that this provides a good opportunity for investors as we enter 2021.

“The market environment is currently supportive of global listed infrastructure and we believe the outlook for returns are very positive.

“There are attractive valuations in listed infrastructure companies compared to global equities, especially considering that bond yields have reduced through the time period, which should have seen an upward rating of the longer-dated infrastructure assets.



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“As a result, our focus is on infrastructure companies that have revenue resilience and/or strong balance sheets and liquidity to wait out disruption.

“In particular, we currently like assets such as North American regulated utilities and selected listed European transportation infrastructure. We also favour companies with strong organic capital expenditure opportunities, as this capex typically earns the most attractive rates of return,” Andrew said.

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About Maple-Brown Abbott

As one of Australia’s first boutique investment managers, Maple-Brown Abbott Limited (MBA) has been managing investment portfolios for investors for nearly 40 years.

MBA is privately owned, with approximately 60 staff based in Sydney and one in Brisbane and, as at 31 December 2020, had A\$10.1 billion in assets under management.

MBA initially formed as a boutique investment manager specialising in Australian equities. Over time, the business has evolved and is now a global, multi-boutique business focussing on Australian equities, Asian equities and global listed infrastructure securities, with some of these businesses jointly owned with founders and other key staff within the firm.

In addition to a range of Australian institutional, high-net worth and retail clients, both the Asian equities and Global Listed Infrastructure teams manage investments for a number of blue-chip international clients, and MBA now has clients in over 20 countries. We are regulated by authorities in Australia, Europe and the United States, and are also a signatory to the United Nations Principles for Responsible Investment.

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