How to cash in as risk returns

The Australian
January 13, 2024 Saturday
Australian Edition

Section: WEALTH; Pg. 31

Length: 659 words

Byline: STOCKHEAD

Body

Here are three beneficiaries of a new lower-rates environment Cash is king, right?

According to Davide Bosio, director of corporate finance and West Australian state manager at Shaw and Partners, it's certainly had a good run in the sun. Inflation, recessions and stifled economic growth have dominated investment fundamentals, but given the swift increase of interest rates last year, Bosio reckons investors have been able to take advantage of cash as a genuine, no-risk investment class paying more than 5 per cent in some instances.

But now there's a whiff of lower rates in the air, we may see investors adjust their asset allocation into higher risk/return sectors.

Beneficiaries? Bosio likes real estate investment trust funds (REITs) and listed investment companies (LICs) that may have a funding cost (debt profile) that will improve in an environment where rates decline.

And because he's dedicated gold bull, Bosio says the gold sector looks perfectly positioned for strength.

Here are his three picks for the great unwind: ***Ramelius*** ***Resources***: "Strong balance sheet, new projects being developed to drive production and acquisitive team/management who have executed a consistent strategy to acquire targets whereby they can leverage discovery success and production ounces." WAM Capital: WAM is a listed investment company with a focus on small to medium-sized businesses and a large, diversified portfolio.

"Weak performance in the current environment has resulted in a lower share price. However, the yield has been historically high and a significant attraction to income-focused investors," Bosio says.

Centuria Capital: An REIT with various listed alternatives including office and industrial companies. For Bosio, Centuria is a quality small-cap property company with a strong track record of acquiring and managing assets.

Broker upgrades Ord Minnett likes the look of Dropsuite. Founded in Singapore in 2011, Dropsuite is a cloud-based software platform offering back-up, archiving and recovery solutions for businesses.

The company specialises in protecting critical data used by Microsoft 365, Google Workspace, QuickBooks and others. Its products are distributed via a network of about 4000 IT reseller partners globally.

At the Inspire Conference 2023 in August, it copped a bit of a hit when Microsoft provided a first look at its 365 Backup and Archive solution. Dropsuite's price fell 22 per cent on the day and has not recovered since.

Ord Minnett was not convinced. "Based on our work and discussions with industry participants, we conclude that fears of any existential risk to DSE's business are overblown. Accordingly, we believe the market's scepticism is providing an opportunity." Ords has initiated a buy rating on the stock with a price target of 33c, against about 28c at present.

Ord Minnett believes DSE operates at the intersection of three mega-trends - the rise of cybercrime, the migration of on-premise hosting to the cloud, and managed service provider industry growth.

It is also impressed with the fact DSE management has built a $150m business on just $43m of outside capital (of which only about $18m has been spent), and delivered positive free cash flow in each of the past six quarters.

Over at Taylor Collison, IPD Groupis on the radar.A distributor of electrical infrastructure products to major construction and renewables projects nationwide, IPD offers a "picks and shovel" exposure to the booming electrical sector without taking on individual project or contract risks common to contractors and other listed players.

This is an industry that's booming, and Taylor Collison reckons there's a strong argument we are still in the early stages of a major infrastructure project upswing.

It's put a 12-month price target of $4.80 on IPD, versus a price of about $4.69 this week. "Their capital allocation record is excellent, and there's a long runway to deploy capital to match the market leader's offering," it says.

Load-Date: January 12, 2024