The 12 hottest stock tips from this year's Sohn experts

Nov 17, 2023 – 7.39pm

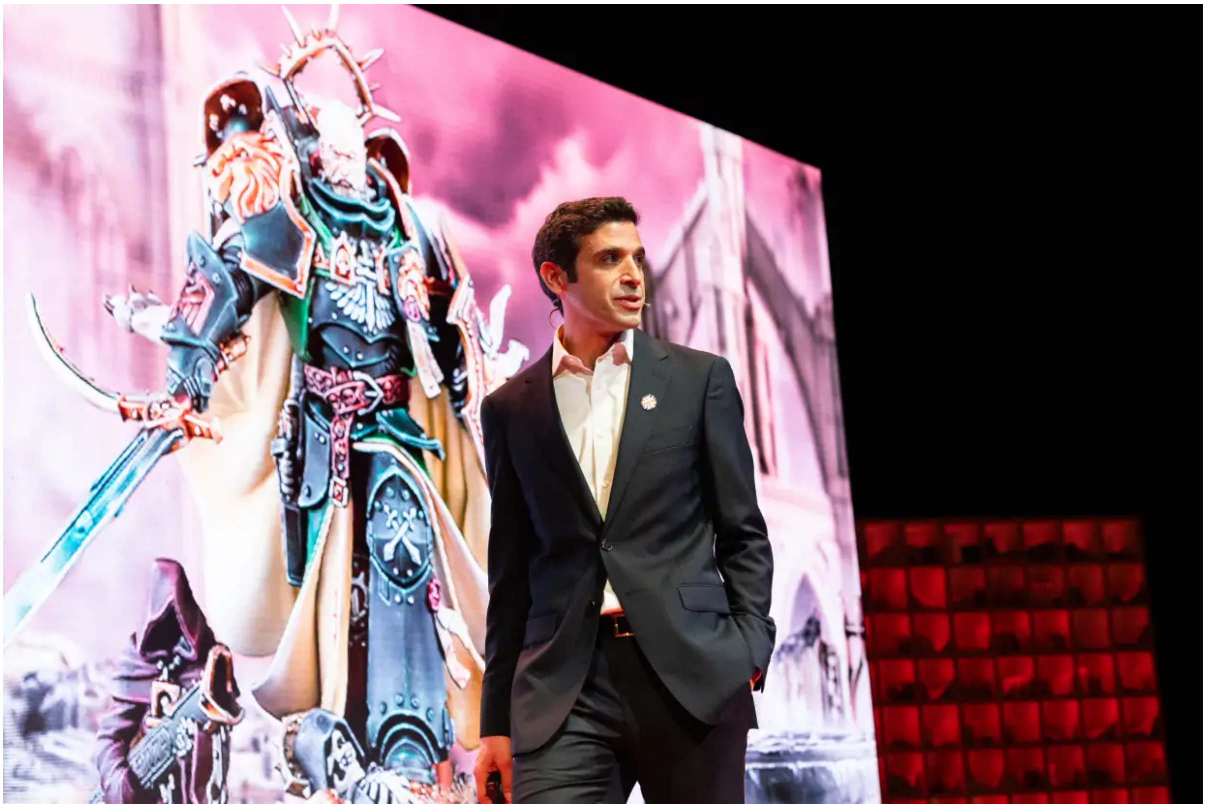
It might be time to look beyond big name, overpriced Wall Street stocks that could struggle to deliver growth. That was the message from top fund managers, company founders and super funds at the Sohn Hearts & Minds charity event at the Sydney Opera House on Friday. Here are 12 picks from the experts.

1) Miniature games

Stock tip Games Workshop Group LON: GAW

Sharif el Khazen, Metronome Capital

El Khazen chose miniature wargames producer Games Workshop Group as his pick, calling it the "Hermes of plastic". El Khazen, known for his big bets on luxury and leisure businesses [https://www.afr.com/link/follow-20180101-p5eiqp], says the UK-based group's well-known Warhammer brand has further to penetrate in the US. "Customer engagement is really strong. Warhammer is their main hobby," he says.



Sharif el Khazen has picked Warhammer. **Renee Nowytarger**

He adds the Warhammer brand enjoys very high barriers to entry in a sustainable moat, given its 40-year history with customers. Besides, the group holds a "quasi-monopolistic" position in a market "it basically created", according to Khazen.

Looking forward, el Khazen is confident of potential opportunities in film and television. "Last December for example, Amazon Studios and Games Workshop announced the creation of a Warhammer cinematic universe," he says.

2) Would you like fries with that?

Stock tip Lamb Weston NYSE: LW

Angela Aldrich, Bayberry Capital Partners

Aldrich – a "Tiger grandcub" – has picked US frozen food processor Lamb Weston to play the market's appetite for french fries. Partly, the thesis is "fries are delicious, they're every generation's favourite food".

But more importantly, Aldrich has identified a series of drivers which she predicts mean the group's "fall from grace" (trading at 15 times last year's earnings after weaker margins and concerns about weight-loss drugs) should be short-lived. In particular, she's singled out some changing trends.

Angela Aldrich has tipped specialty French fries. **Jaclyn Licht**

First, the growth of so-called specialty fries, which were developed to stop sogginess in delivery foods. There's also supply constraints in the market which she expects will benefit the number one player, which will also have the ability to pass on inflationary pressures.

"North America is entering a supply deficit and processing lines are slowing down on average because of the mix of speciality fries," she said, adding approvals take time because the industry is a "friendly oligopoly".

In addition, this year's potato crops have been better, which means the high cost of freight will fall. These factors should deliver 50 per cent EBITDA upside from here in the next few years, Aldrich predicts.

3) A strong regional bank

Stock tip Webster Bank NYSE: WBS

Ravi Chopra, Azora

Chopra specialises in the banking system and made money shorting regional US lenders as the Silicon Valley Bank collapse triggered a crisis.

While the global financial crisis of 2008 was all about credit risk, he says “this cycle is around interest rate risk coupled with liquidity risk”.

The fallout from the crisis is that regional banks will be hit with more regulation and have to hold more capital. The bank runs may have eased, but that will be replaced by “a multi-year journey of bank walks”.

“There’s still that $2 trillion low-cost deposits that have to leave the banking system,” he warns.

Even so, he likes Webster Bank, a $US7 billion Connecticut-based lender. “Webster didn’t make the same mistakes as these banks. They didn’t buy low rate, long duration fixed rate assets. They actually have the best in class capital and profitability.”

He says Webster is in a strong position because it is a health savings account provider, which allows Americans to contribute funds tax-free to offset high medical expense costs. Since its deposits are highly transactional and therefore less likely to suffer from a bank run.

“We believe that this is an opportune time for Webster to monetise the health savings account bank either through a JV or an outright sale business.”

4) Online money transfers

Stock tip LON: WISE

Kieran Moore, Munro Partners

It’s the second time the money transfer technology stock has been picked at the conference: it was pitched in 2021 by Builder’s Union’s Markus Bihler.

Wise operates in 170 countries and 40 currencies globally with more than 700 engineers focused on the technology solution. Moore says Wise has one key similarity with other successful growth investments companies including Amazon and Tesla: it started with a huge problem. In its case, that was the challenge of transferring funds cross-border.

Now, over 90 per cent of its transactions are processed in 24 hours. About two-thirds of Wise customers join because someone they know has used the product globally – another similarity with successful growth companies including Amazon Prime, Canva and Netflix.

The company also benefits in a rising interest rate environment because it can earn more on its deposits. Moore says there is almost 50 per cent upside in the share price.

5) Sleep apnea

Stock tip ResMed ASX: RMD

Chris Kourtis, Ellerston Capital

Kourtis is bullish on ResMed's key sleep apnea market. "The market is incredibly underpenetrated and most people go undiagnosed," he says.

Kourtis says the stock has been "smashed" in the last few months, due to market concerns around weight-loss drugs like Ozempic reducing the need for sleep apnea remedies.

But Kourtis says the cost of the drugs are prohibitive, and the resulting weight loss is unsustainable in the long term. He likened the rise of weight loss drug stocks to the hype surrounding pharmaceutical company Moderna during the pandemic.

"Weight loss drugs are going to take-off, but ResMed's runway even given the take-up is pretty long."

6) A retailer for the TikTok generation

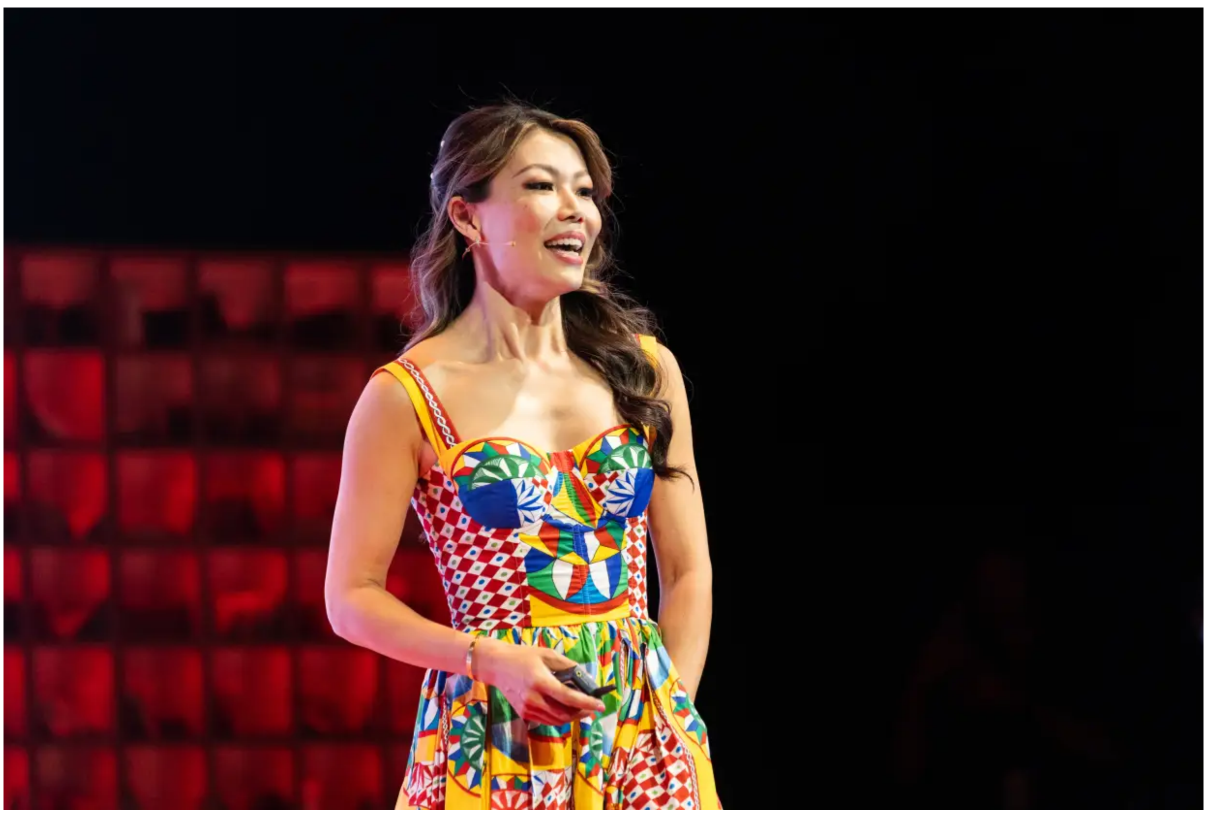
Stock tip Miniso Group HKG: 9896

Jun Bei Liu, Tribeca

Sohn favourite Liu never fails to entertain. At last year's event, she decked herself out in luxury brands to pitch China Tourism Group Duty Free. In the past, she's also pitched A2 Milk.

Miniso Group is a way to benefit from the fast-growing TikTok generation that lives by the creed "what's cute today is not what's cute tomorrow".

"It is a market leader, in a very fragmented market, has a very proven concept as it is. It is a very, very powerful supply chain," she says.



Jun Bei Liu likes Miniso because of its proven concept. **Renee Nowytarger**

Liu says the retailer's secret is its capital structure in which it partners with a local capital provider which finances the operations of the store in exchange for a one-third revenue share. The partner gets access to management expertise and the supply chain.

"The payback for the capital partner is just under one and a half years," she tells attendees. At a multiple of earnings of 20 times, she says on conservative estimates "it's going to double over the next five years".

7) Life insurance

Stock tip AIA Insurance HKG: 1299

Ashish Swarup, Aikya Investment Management

Swarup says Hong Kong-based life insurance company AIA's shares have never been this cheap, partly due to sentiment swinging against Hong Kong. And he predicts the shares could appreciate 50 per cent in the next 12 months, or longer term, could deliver a 15 per cent internal rate of return over the next decade.

The Pinnacle-backed emerging markets specialist says the company delivers investors exposure to both population growth and the ageing population in Asia. Within 10 years, the population will be 2.6 billion – seven to eight times the United States.

"Not only are these people getting richer, they are getting older ... as you get older, you need a different type of financial planning," he said. Swarup said AIA agents in India and China were more profitable than their competitors, creating a "virtuous cycle" that is hard for others to break into.

8) A bank for la dolce vita

Stock tip UniCredit BIT: UCG

Martin Hughes, Toscafund

It's about la dolce vita (coffee, cars, fashion and food) as well as going back to his strengths, Hughes says, noting many bank analysts don't know what to look for in the sector. UniCredit has many strong attributes: pricing power (that's easier in a higher interest rate environment), and six quarters in a row that it beat analysts' expectations by 20 per cent.

Buybacks are another important part of the thesis: UniCredit will return about 50 per cent of its market capitalisation to shareholders in the next two years in dividends and buybacks.

Hughes says that while Europe isn't healthy as a continent, it's possible to zone in on more regionally focused banks and go where the economy is healthier. Toscafund has more European banks in the portfolio.

9) Uranium mining

Stock tip NexGen Energy ASX: NXG

Jeremy Bond, Terra Capital

Bond says uranium play NexGen is set to become one of the world's "top 10" mining stocks.

Bond, who runs Australia's longest-running, open-ended, global resources fund, is bullish on uranium stocks in general, saying a global supply shortfall amid growing demand will support growth.

"Utilities need pounds now and the pounds aren't there. There's a huge tension in the uranium price," he said. "If supply gets very short the price goes up a lot."

"We do think [uranium] prices will pass the all-time highs back in early to mid 2000s," he told the conference.

Speaking on the stock specifically, Bond says NexGen's Rook project was among largest, highest grade in the world. He also expects it to be among the lowest cost once in production – "because it's not in production, it's also completely exposed to the uranium spot price," he added.

10) A 'very boring stock'

Stock tip Swire Pacfic HKG: 0019

Tom Naughton, Prusik

The UK-based fund manager says it's a very boring stock, in a very boring sector based in a country that investors hate. "We think the opportunity for making money is extremely exciting," says the ultra marathon runner.

The fund manager says he expects a three times return on the company, based on the fact it is undervalued and overlooked by investors. (He notes that Swire has many attributes that tend to attract Berkshire Hathaway. Other catalysts for a re-rating may be share buybacks and corporate activity.)

And with a 7 per cent yield, investors are paid to wait. Swire's biggest holding is in real estate, but it also has a stake in airline Cathay Pacific ("being in Australia you know how powerful airlines are from a pricing perspective") and a partnership with Coca Cola. On Prusik's numbers, Swire is worth $US40 billion ($6.2 billion) but trading at a value of $US10 billion.

11) Cancer diagnostics

Stock tip Telix Pharmaceuticals ASX: TLX

Rikki Bannan, IFM

The cancer diagnostics and treatment company is significantly undervalued given the suite of products in the pipeline, Bannan says. He's a small cap portfolio manager at the industry super fund-owned firm and focuses on consumer and healthcare stocks. IFM manages around $44 billion in equities with Telix's shares trading at around $9.

The fund manager said if the products were properly valued by the market, particularly in the renal cancer diagnostics sector, the shares should be worth as much as $16.

So far this year the stock has jumped 28.5 per cent as the company expands from prostate cancer into other forms of cancer.

The stock is up 24 times since listing in 2017 which is when IFM first bought the shares.

12) Printing and cameras

Stock tip Canon TYO: 7751 (Short)

Ricky Sandler, Eminence Capital

Sandler is shorting Japanese multinational Canon because of an expected decline in the printing industry. “We think printing business is 20 per cent below pre-COVID levels … Canon has yet to feel that 20 per cent drop.”

Sandler also cited a decline in camera sales as another reason to bet against the stock.

For his long pick, Sandler chose specialty materials company Ashland, saying it was mis-priced by the market, saying he expects a post-pandemic restocking boom.

“We are right at the bottom of the destocking cycle … We think as the destocking comes back you will see a re-rating. We see 55 per cent upside.”

RELATED

‘I know it sounds crazy’: Cathie Wood’s next big idea
https://www.afr.com/chanticleer/i-know-it-sounds-crazy-cathie-wood-s-next-big-idea-20231116-p5ekmf

RELATED

Investors brace for wild market as rates stay higher for longer
https://www.afr.com/markets/equity-markets/investors-brace-for-wild-market-as-rates-stay-higher-for-longer-20231117-p5ekvu