Buy telecoms, silver and healthcare

MoneyWeek's writers outline their top tips for 2021, ranging from Latin America's Amazon to a Canadian oil play

Richard Beddard

The trouble with providing a tip for 2021 is that I have no idea what the defining events of the year will be, just as I had no idea what would characterise 2020.

Bottom-up investors, those who study businesses rather than themes and trends, must necessarily take a longer-term perspective because it takes longer than a year for corporate strategies to play out and for traders to take notice. I give my investments ten years at least, but one that might deliver more quickly is **D4t4 (Aim: D4T4)**.

If you squint, the name looks a bit like DAtA, which is what D4T4 is all about. The company owns Celebrus, software that captures data from digital interactions with customers so that a company's systems can interact in real time – to make a sale or intercept a fraud, for example. The software is patented. According to D4t4 it is uniquely flexible and at the vanguard of customer-data capture. Most of the companies that currently use it are involved in finance, but it may attract a much wider customer base.

D4t4 has the potential to be a substantially bigger business if e-commerce develops in the way the company expects, but there are many ways promising technologies fail to grow out of their niches. D4t4 is not just a jam-tomorrow stock, however; it is a highly profitable firm today. Revenue will fall this year because customers increasingly choose to buy the software as a service, paying an annual fee instead of a larger one-off licence fee.

In exchange for lower income immediately, D4t4 is winning recurring revenue and the company should begin growing total sales again as new recurring revenues build up.

Churn, the company says, is almost non-existent, but customers often extend their usage once they have seen what the software can do. A share price of 250p values the enterprise at about 17 times last year's adjusted profit and 27 times forecast profit for the year to 31 March 2021.

Jonathan Compton

I'm a huge fan of those fallen heroes where the mere mention of their names causes apoplexy. Three outstanding examples were the tech giants Microsoft, Apple and Amazon. Following the 2000 telecoms, media and technology crash, each was as popular as nuclear winter. Since 2005, their share prices have increased by ten, 30 and 60 times respectively.

But telecom companies never recovered. Many trade below asset value, yet have decent-enough balance sheets and can pay solid dividends *ad infinitum*. Most importantly, there are catalysts for a rerating. Globally, the whole sector is cheap and nudging up profit forecasts. Two of the cheapest are in the UK.

First – apoplexy alert – is **BT Group (LSE: BT.A)**, whose price is only pennies higher than when it listed in 1984. It is finally getting broadband right, is bolting on multiple other services and looks on track for 5G. The pension deficit and high capital expenditure are all in the price. Meanwhile, for the first time ever, the regulator is turning friendly. Trading at less than a third of its net asset value, BT's 2021 price/earnings (p/e) ratio is just eight, while it yields 5%.

Vodafone Group (LSE: VOD) is an even easier story. The problem has been its high debt of around £28bn. Recently it announced that it would list its telecom mast business (the largest in Europe) in Frankfurt next year. The expected valuation is €20bn. Problem solved. Investors also ignore its major businesses in countries as diverse as India, Germany, Italy or Kenya. Yes, I have found its service and pricing appalling, but it's really about business customers. Here it is performing well.

"Yes, I have found Vodafone's service and pricing appalling, but it's really about business customers – and here it is doing well"

The expression "bargain" is much-abused in markets, but both these stocks are screamingly cheap and hence unloved. And come the hangover after the current global debt splurge, they'll still be around.

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Giordano's latest trading update was encouraging

Stephen Connolly

Talk of the demise of technology stocks is overblown – there's much more profit to come. Even if economic recovery can sustain bombed-out, "old-economy" stocks beyond the opportunistic rallies we're seeing, many tech stocks will generate better long-term earnings growth, and this makes investors money. Given this, and believing a tip for the year should offer some excitement, I've

turned to Latin America's Amazon, eBay and PayPal all rolled into one: **MercadoLibre (Nasdaq: MELI)**. Shares in this $80bn ecommerce giant, which is based in Argentina, are listed in the US and easy to trade for those who like some risk.

The company is expanding rapidly in any case, but the pandemic has accelerated growth, and the recent figures were the best yet. It's performing well, from the merchandising of goods such as electronics and clothing to the processing of payments via its fast-expanding MercadoPago payments business. It offers credit, advertising, shipping and logistics too.

People turned to the internet to overcome pandemic lockdowns. Not only will they continue to use the internet, but they will also use it more, and for a broader range of products and services. This is a global phenomenon, but Latin America is at an earlier stage of digital transformation and therefore has more to leverage from it. E-commerce hasn't yet hit 10% of the economy, much less than in the US or China. And while there's no doubt the region presents unique challenges, over half of MercadoLibre's sales stem from fast-recovering Brazil.

Research suggests the group has nearly 30% of Latin American e-commerce overall. There are competitors, but its sizeable position seems all the stronger given that Amazon comprises a mere 4%.

Just as in the UK, how people shop and pay is changing fundamentally. With 100 million people using the platform out of 650 million in the region, MercadoLibre has an enviable base upon which to generate substantial growth as these unstoppable forces change how we live and behave.

Dominic Frisby

When I look at what oil has done for the world, the progress it has made possible, the lives it has saved, the living standards it has improved, I'm amazed at how loathed it is. The media hates it and investors shun it.

Energy has become the smallest sector in America's benchmark S&P 500 index. ExxonMobil has just got kicked out of the Dow Jones index. Environmental and Social Governance (ESG) investors reject it. In this new age of green tech, there are real questions about oil's long-term demand potential. We won't even need it in 15 years' time, say some.

Futures went negative in March. Negative! It cost more to store oil than the oil was worth. But now oil sits at $45. In the face of all this bearishness, it is in an uptrend. ExxonMobil announced a record write down of its assets on 30 November and the share price rose. It's just what you want to see: a sector that no longer responds to bad news. Small-cap energy stocks are starting to outperform the large caps, another bullish indicator.

Forget Shell and BP. You need a management that believes in its product, not one that apologises for it. Look for a mid-cap producer whose cost of production is at the margin. Canadian company **Meg Energy (Toronto: MEG)**, operating in the sands of Alberta, fits the bill. Its cost of production is $45. Say the oil price goes from $50 to $55. A company that produces oil at $30 increases profits by 20%. A company that produces oil at $45 doubles them.

We may be travelling less because of Covid-19 (although we are driving more), but goods still have to travel. The green Elysium of clean energy we are heading for is going to need lots of oil to build its infrastructure in the first place. Stimulus to rebuild economies after Covid-19 translates into greater oil demand. If the oil price goes back towards $100, those at-the-margin companies are your potential five and ten-baggers.

Cris Sholto Heaton

Now there's a decent chance of the Covid-19 crisis subsiding in the first half of next year, investors have an opportunity to look for beaten-down stocks that will benefit in the recovery.

My suggestion is one I've owned for a while: Asian clothing retailer **Giordano International (Hong Kong: 709)**. Its share price has fallen from HK$5 in mid-2018 to HK$1.22 owing to the unrest in Hong Kong and a tougher economic environment in other markets even before the pandemic.

Giordano had a decent balance sheet going into the crisis. Total equity was HK$2.55bn against total liabilities of HK$1.77bn at end June 2020, while cash net of bank loans was HK$989m. Assuming the entire retail environment does not change, it looks as though it should emerge in reasonable shape. The latest trading update is encouraging, with the year-on-year decline in sales narrowing steadily as Asian economies reopen.

This is not a growth business. It has been outstripped by rivals such as Uniqlo and Zara over the past decade. But it made profits of HK$0.3 per share in 2017 and 2018, and HK$0.15 per share amid the disruption in 2019. This became a loss of HK$0.11 per share in the first half of this year, but a return to anything like normality might put it on a price-to-earnings (p/e) ratio of around five, which seems cheap.

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"The green Elysium of clean energy we are heading for will need lots of oil to build its infrastructure in the first place"

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Last year I suggested CapitaLand Commercial Trust, a Singapore-listed office real estate investment trust (Reit). In October, this merged with CapitaLand Mall Trust, a retail Reit, to form CapitaLand Integrated Commercial Trust.

An investor who held all the way through would be looking at a loss of 8% (including dividends). I think fears about the long-term effect of Covid-19 on prime office and retail property are overdone and continue to like the combined Reit.

Max King

The thrills and spills of 2020 didn't stop it from being a good year for investors. I expect 2021 to be at least as good, but with much less volatility. It shouldn't be difficult to pick a good trust, but Big Tech is unlikely to lead the market upwards.

My recommendation, healthcare, has done well, but still looks far too cheap. Although the **Worldwide Healthcare Trust (LSE: WWH)** returned 32% last year and is up by 15% year-to-date, the S&P Healthcare index trades on a 24% discount to the S&P 500 based on the forward multiple of earnings.

This discount, says Sven Borho, WWH's manager, is comparable to the lows seen in 1993 and 2009 when the Democrats had swept into the White House and Congress committed to healthcare reform. Borho calls the 2020 election outcome of gridlock the "Goldilocks scenario" as it implies continuation of the status quo. Healthcare is far from the top priority of the new administration.

Yet "we are in a golden era of innovation", he says. Emerging economies are driving secular growth in demand and "the benefit of new drugs is so clear that it's easy for the Food and Drug Administration to approve them". Opportunities in emerging markets, especially China, have expanded dramatically and there is plenty of innovation in medical equipment and services.

In its 25 years, WWH has returned two-and-a-half times its benchmark index, yet there is no sign of its performance slowing down, let alone reversing. WWH offers great all-round exposure, as do its rivals, the **BB Healthcare Trust (LSE: BBH)** and the **Polar Capital Global Healthcare Trust (LSE: PCGH)**. The **Biotech Growth Trust (LSE: BIOG)** is more focused.

John Stepek

I won't be sorry to see the back of 2020. That's not just down to the performance of my tips from last year, but it hasn't helped. Put bluntly, I had an absolute shocker – my high-street tip – Marks & Spencer (M&S) – is down by around 37%, while my oil tip BP is down even more – around 43%. I'll take the excuse of coronavirus for BP, which I'd happily continue to hold, but there's no real excuse for perennial dud M&S, which issued a profit warning well before Covid-19 emptied the high street. For perspective, Next – a far better company, much better set up for retail's "new normal" – is now down just 3% over the same period. If you do hold M&S then a) I'm sorry and b) consider switching to **Next (LSE: NXT)**.

So how about the year ahead? My base case is that the recovery will surprise most people with its strength. As a result, the companies and assets that have benefited most from a low-interest-rate, stagnant-growth environment, will lose out, while the laggards of recent years will make a comeback. So value stocks will benefit at the expense of growth stocks, while inflationary assets such as commodities will do well.

What might be a good way to play this scenario? Well I've tipped a lot of commodity funds in recent issues, and on the value side I've tended to focus on the banks, so how about something a bit different – fund management group **Man Group (LSE: EMG)**. Man Group is the world's largest listed hedge-fund manager. It's fallen out of favour along with the rest of the sector in recent years, due mainly to competition from passive funds. If investors are putting their money into passive funds, it means active managers aren't growing the pots on which their percentage-based fees are charged.

This trend won't necessarily change, but it does appear to be stabilising, for Man Group at least. And if nothing else, it's hard to accuse Man Group of being a home for closet tracker funds – it specialises in various alternative strategies and is a high-profile name in the use of various forms of big data that could attract more funds under management as investors grow more excited about the use of artificial intelligence in asset management. Most importantly, the company looks cheap, which means it should benefit from the turn towards value, and it offers a well-covered dividend yield of more than 5%. *(Full disclosure – I own Man Group and Next in my own portfolio.)*

David Stevenson

I'm sure my colleagues are brimming with bullish enthusiasm for 2021 – which I largely share – but over the longer term I'm concerned we could be in for a period when strong returns become much harder to generate.

I've been looking for ways to achieve strong long-term returns in what could be a challenging environment. Structured products have had a bad press in the past, but have undergone great change; new-generation providers offer some really interesting options. In January I will be investing in a product called the **Long Growth and Kick Out**, from Tempo.

This plan uses an equal-weight version of the FTSE 100, developed by FTSE Russell (far more interesting than the nonsensical market-cap version, materially outperforming it through Covid-19).

It will deliver a positive return even if the index is up to 20% lower in a decade and will more than double my investment with a maximum return of 150% (plus my original capital) if the index rises by just 10% – 1% per year. It also offers a fixed return of 70% at the fifth anniversary (equivalent to 14% per year) if the index is just 5% higher (having gained 1% per year, in other words).

The plan includes protection from market downside, unless the index falls by 55%, at maturity. That said, there are, as ever, risks: you have a counter party in the shape of French bank Societe Generale, one of the 30 global systemically important banks.

This is also not an ideal product if you are very bullish and expecting bumper returns over the next five to ten years. In that case stick with mainstream equity funds. But for maximising longer-term returns after a post-Covid-19 recovery bounce, if markets are more muted, this product seems promising.

Mike Tubbs

For 2018 I recommended Vertex, for 2019 Abcam and for 2020 MorphoSys. Vertex is up by 48% compared with a 16% fall in the FTSE 100. Abcam is up by 33% versus the FTSE's 4% slide, but MorphoSys is down by 26%, while

"The Worldwide Healthcare Trust has returned two-and-a-half times its benchmark index in the past 25 years"

the FTSE has only fallen by 14%; many clinical trials were slowed down by Covid-19.

I am keeping my MorphoSys shares because of its well-stocked pipeline (28 antibody drugs all partnered with big pharmas, six in phase three, the final stage of clinical trials), and cash of €987m. Continuing the biotech theme, I am recommending the **Biotech Growth Trust (LSE: BIOG)** for 2021. At 1,514p it sells at a small premium of 1.9% and is up by 56% this year.

My main recommendation, however, is **SDI Group (Aim: SDI)**, which focuses on both niche digital-imaging and sensors and controls. Revenue is split evenly between these two areas. SDI more than doubled its turnover from 2017 to 2020 through a combination of organic and acquisition growth – a "buy and build" strategy. The company's results for the year to end April 2020 showed sales up by 41% to £24.5m, operating profit climbing by 60% to £3.5m and earnings per share (EPS) of 2.66p.

SDI's business is global with the UK accounting for only 42% of sales. The trading update of 22 October confirmed that the company would meet its pre-virus expectations for the current financial year. Contracts related to the virus helped achieve this positive outcome.

On 3 December SDI acquired, for £5.8m, Monmouth Scientific, which specialises in controlled clean-air environments for biomedical and scientific applications. SDI's interim results on 9 December showed sales up by 23.4% to £14.1m. Operating profit climbed by 56% and EPS rose by 48% to 2.02p. If 2020/2021 EPS increase to 4.5p, the 2021 p/e ratio would be 23.1, given a share price of 104p.

Andrew van Sickle

Silver is schizophrenic: it is both an industrial and a monetary metal (these uses make up around 50% of demand each) and the case for one tends to conflict with the other. For instance, in turbulent and inflationary times, silver would be sought after, but its use in industry would tend to decline amid economic uncertainty, undermining the overall investment case. It is very rare for silver's two contradictory characteristics to be pointing in the same, bullish direction, but 2021 is such a time: we are in for an inflationary economic rebound.

Endless central-bank money printing (their balance sheets have soared by $6trn globally this year), pent-up demand among consumers, and government spending sprees all point to a big jump in the amount of money moving around economies.

As demand rises and supply fails to keep up (if anything, there is now less supply as the pandemic has reduced some industries' production capacity), the inevitable result is inflation. The M2 measure of US money supply was already rising at an unprecedented 20% annual rate in the first seven months of 2020.

The industrial case, meanwhile, is based not only on the sharp economic rebound due next year, but also on the structural growth of the sectors that use it. The metal's antibacterial properties have made it useful in medicine, while silver is a key component in the rapidly expanding solar industry, where it is used in solar panels. Solar investments comprise 18% of overall industrial demand.

It is also central to the 5G-mobile communications networks equipment being rolled out worldwide. Electric vehicles and semiconductors are two further growth areas. Remember, however, that the market is small and volatile, so don't sell the family silver to buy the **WisdomTree Physical Silver ETF (LSE: PHSP)**.

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Mexico's president "AMLO" has presided over two years of chaos

James McKeigue

My top tips for 2020 did very well, although admittedly not for the reasons I expected. I tipped two Ecuadorian copper and gold miners in anticipation of the country's historic move into mining – instead they both benefited from the pandemic boosting metal prices. Either way one is up 100% and the other 50%. As Napoleon Bonaparte said, the best generals were the lucky ones, so let's see if my luck holds in 2021.

For the record I am still bullish on Ecuadorian miners, but let's move northwards to Mexico. Latin America's second-largest economy has had a rough few years. Hit first by falling oil prices, then by Donald Trump's protectionist rhetoric, the final blow came in the form of its own populist president – Andrés López Manuel Obrador. Since coming to power in 2018 "AMLO" has presided over two years of chaos.

In 2019 he cancelled the country's largest private-sector investment project – a new airport that was going to be designed by Sir Norman Foster – and the economy grew by just 0.1%. When the pandemic hit in 2020 his strategy of first downplaying the virus, followed by the region's smallest post-virus stimulus package, meant that Mexico suffered the largest contraction of any major Latin American economy in 2020.

But it is poised to bounce back. For starters, it has bought a huge number of vaccines, with its pre-orders alone enough to immunise its entire population. Unlike other countries in the region it also has the medical infrastructure to distribute the vaccine. Moreover, Mexico's economy is particularly suited to the post-pandemic world. Tourism accounts for 8.5% of GDP and almost 6% of jobs, so the return of passenger planes will provide a big fillip.

It is also the factory of Latin America, accounting for half of all the region's manufactured exports. Demand for those goods will rise as economic activity in the developed world, especially the US, recovers in 2021. But this isn't just a short-term rebound story. Mexico has great demographics and an excellent location.

It will benefit from long-term "reshoring" as US firms replace Chinese factories with facilities closer to home. The **HSBC MSCI Mexico Capped UCITS ETF (LSE: HMEX)** tracks the country's main stock index. It is still 10% down on 2020, creating a buying opportunity before the rebound in 2021.

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