VALUE.ABLE **Roger Montgomery**

DISRUPTIONS

We've been there before

Market volatility throws up opportunities, as it did during the tech wreck and GFC

As I write this in early March, coronavirus is at the top of everyone's concerns. But let me reassure you that we have seen this before.

In the tech wreck of 2000 and during the GFC of 2008 and 2009, many of us here at Montgomery experienced, and invested through, the kind of volatility you have experienced recently.

While a virus was not the black swan event we anticipated would roil markets, we were aware of, and warned investors about, extended index valuations, declining consensus earnings estimates, the poor performances of unicorn IPOs and a bubble in private equity. Stretched market valuations are always vulnerable to unexpected disruptions to growth, and the coronavirus has the market reappraising its expectations.

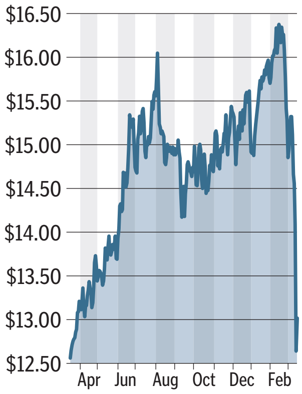
We believe a country worried about its health is much less likely to respond to financial stimulus than a country only worried about its economy. We therefore also believe investors may not respond positively to forthcoming central bank rate cuts and government fiscal stimulus. It could take some time before it is safe to be optimistic again. But the fact remains that we won't be talking about COVID-19 in five years. If you can remember that, then the worse the market gets, the more excited you should become.

It then makes sense to divide the market into two categories of opportunity. There are those companies adversely impacted by the outbreak with share prices that are even more adversely impacted. Then there are those relatively unaffected by a mild outbreak. This column looks at one company in the first category and two in the latter.

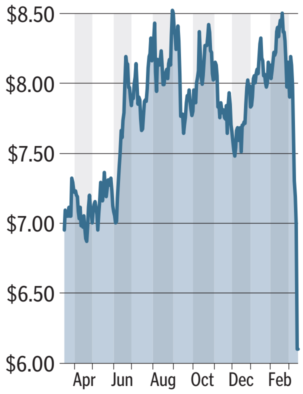
Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, *see rogermontgomery.com.*

Sydney Airport share price

Transurban share price



Atlas Arteria share price



❶ Sydney Airport

ASX code SYD
Price $5.81
52wk ▲ $9.30
52wk ▼ $4.99
Mkt cap $13.72bn
Dividend 39¢
Dividend yield 6.4%
PE ratio 34
HOLD

Sydney Airport is Australia's busiest airport and after a 27% price decline the entity is trading where it was four years ago. The price is also back to where it was in early 2019 when fear of an adverse Productivity Commission finding about the exercise of monopoly power was high. Since then 10-year government bond yields – one of the biggest drivers of valuation – have plunged from 2% to 0.65%. Coronavirus makes near-term forecasting impossible, but the information vacuum also potentially presents an opportunity.

❷ Transurban

ASX code TCL
Price $13.02
52wk ▲ $16.44
52wk ▼ $10.78
Mkt cap $34.57bn
Dividend 61¢
Dividend yield 4.8%
PE ratio 156
BUY

Transurban owns the rights to charge a fee on every commercial and private vehicle that travels on Australia's busiest roads. When Warren Buffett was a child watching the passing traffic from his friend Bob Russell's veranda, he is reported to have said to his friend's mother, Evelyn: "All that traffic, what a shame you aren't making money from all the people going by." With Transurban it doesn't matter whether cars are electric, hybrid, hydrogen or internally combusted, investors are insulated with growth that comes from tariff increases.

❸ Atlas Arteria

ASX code ALX
Price $6.10
52wk ▲ $8.54
52wk ▼ $5.62
Mkt cap $5.36bn
Dividend 30¢
Dividend yield 4.9%
PE ratio -
HOLD

Atlas owns a stake in France's Autoroutes Paris-Rhin-Rhône (APRR), a 2300km network of toll roads in the east of the country that acts as a freight route to Germany, Switzerland and Italy and links Paris and Lyon with the French Alps. Atlas also has ownership in three other toll roads in Europe and the US. Coronavirus may dramatically reduce kilometres travelled – I note some transport in China declined more than 70% during that country's lockdown – but this too will pass and should the share price overreact aggressively investors might be mistaken if they ignore the opportunity.

Prices as at close of ASX business, 13-March-20.