Quality companies provide attractive income from the sharemarket

5 May 2021 **ASX code: QVE**

It's not an easy time to earn income on one's investments, with interest rates at record lows. The good news is that there are many good quality, well-established listed companies offering attractive and sustainable dividend yields.

QV Equities (ASX: QVE) provides regular income and long-term capital growth through the prudent investment in a diversified collection of good quality companies outside the ASX top 20. The Fund is currently providing an attractive grossed up yield including franking credits of 6.2% (based on the 30 April 2021 month-end share price).

Attractive dividends on offer from some quality companies

We are living through a period of extraordinarily low interest rates, compounded by central banks and governments attempting to counteract the effects of the COVID-19 pandemic through huge stimulus. While this played an important role in avoiding substantial economic distress, it has also contributed to some speculative bubbles which are becoming apparent. It has also made it extremely challenging for many investors to earn income.

Many comparatively unproven companies have recently been valued far more highly than well-established, good quality and highly profitable companies. Unprofitable 'buy now pay later' company ***Afterpay***'s market-cap touched A$35 billion at one point recently, which was the same as the combined market capitalisations of ***Aurizon***, ***Brambles***, ***Metcash***, ***Orica***, and ***Shopping Centres Australasia*** combined – companies which together generate enormous annual cashflows and earnings.

Many good quality companies were left behind in this mania – companies like ***Amcor*** (one of the world's largest packaging companies), ***Ampol*** (Australia's largest fuel retailer), and ***Tabcorp*** (which owns monopoly-like assets and very long duration licenses). Many of these good quality companies also have a long history of paying attractive dividends – some examples of the yields on some of the stocks in the QVE portfolio are shown below.

Company	Yield Financial Year 2021	Yield Financial Year 2022
Amcor	4.0%	4.0%
Aurizon	7.2%	7.2%
AusNet	5.3%	5.4%
Charter Hall Retail	6.1%	6.5%

Metcash	4.7%	4.7%
Spark Infrastructure	5.7%	5.8%

Source: FactSet broker consensus estimates at 4 May 2021

Amcor

Amcor is one of the largest packaging suppliers with diversified operations around the world. The majority of its sales are to defensive consumer goods companies such as Unilever and Pepsi, which enables the company to produce relatively predictable earnings even in times of economic uncertainty.

Amcor continues to execute well and is on track to achieve its sustainability goal of a fully recyclable or reusable portfolio by 2025. The company has a strong balance sheet, pays a good dividend, and is using its strong cashflows to undertake a share buyback while also looking for bolt-on accretive acquisitions.

The packaging sector is unlikely to be disrupted greatly by technological changes, and by their nature packaging companies tend to be highly cash-generative entities underpinned by long-term contracts, providing a fair degree of certainty in the companies' revenues and earnings.

AusNet

AusNet is a regulated utility which owns and operates infrastructure assets used for electricity and gas distribution and transmission in Victoria and South Australia.

AusNet's earnings and cashflows are highly predictable and recurring, given that the majority of the company's revenues are contracted or regulated. Growth in transmissions continues to be driven by increased generation from renewable energy facilities as part of Australia's transition to a lower carbon economy as well as by long-term population growth. AusNet generates a very resilient earnings stream which enables the firm to pay a solid dividend, and the company should be able to retain sufficient earnings to continue to grow its asset base over time.

Crown Resorts

Crown Resorts owns and operates gaming resorts and licenses. The company holds long-term exclusive licenses in the centre of three of Australia's major capital cities, with the gaming licence in Victoria expiring in 2050 and the Western Australian licence expiring in 2060. Crown also holds a casino licence for a second casino in Sydney which expires in 2113.

Crown has strong recurring earnings, underpinned by its long-term gaming licences and the value of its physical assets, and a sound balance sheet. While the issues raised by the recent New South Wales Independent Liquor & Gaming Authority enquiry are yet to be resolved, the quality of Crown's assets, the duration of its licenses, and the prospect of significantly improved governance all underpin the value of the company.

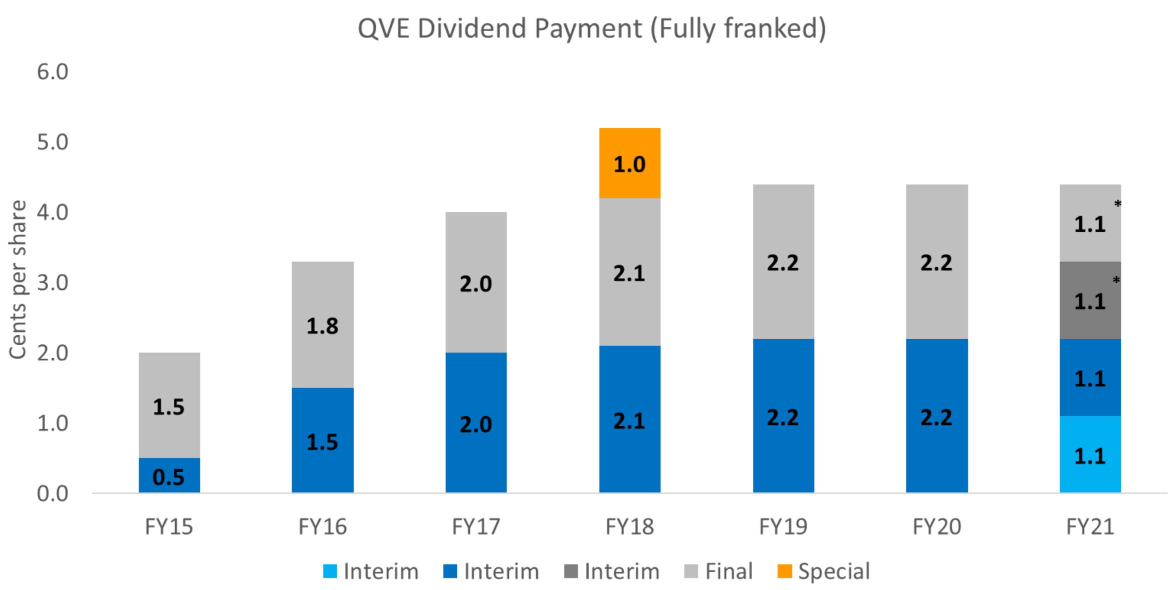
Dividends and capital management

QVE is currently providing an **attractive grossed up yield including franking credits of 6.2%** (based on the 30 April 2021 month-end share price). The Fund has achieved a track record of consistent dividend payments since its launch (Chart 1), and the QVE Board remains very focused on looking to maintain and potentially grow the dividend over time.

QVE pays its dividends quarterly, which is advantageous for investors who need income paid on a very regular basis. The company has announced its intention of paying dividends totalling 4.4 cents per share for the 2021 financial year.

The Board of QVE has also been mindful that the share price has traded at a quite sizeable discount to its net tangible assets (NTA) per share in recent times and has implemented an on-market buyback to enable QVE to buy back its shares at a discount. As well as supporting QVE's share price, the shares are being purchased at a discount to NTA and cancelled, which also results in the NTA per share increasing for remaining shareholders.

Chart 1: QVE Dividend Payment History



*Sources: QVE annual reports/*ASX announcements of 8 July 2020, 28 October 2020, 21 April 2021. Final dividend for financial year 2021 is projected at the date of this publication*

Why invest in QVE?

Many investors own holdings in the largest and best-known companies in Australia such as Woolworths, Telstra and Commonwealth Bank of Australia, so owning QVE shares will help investors diversify their portfolios through exposure to a portfolio of a diversified range of quality companies in less researched sectors such as the Utilities, Packaging and Gaming sectors. All of these are well-established businesses and most are leaders in their sectors and are run by proven management teams.

QVE offers investors the opportunity to earn regular income and long-term capital growth from the sharemarket, with the shares currently yielding an attractive grossed up yield including franking credits of 6.2% (based on the 30 April 2021 month-end share price).

Investment manager IML has a long record of managing money in the ex-20 segment, and remains focused on identifying quality investment opportunities that pay sustainable and growing dividends with attractive franking credits while also occasionally using ASX options to supplement this income. The cash holding is being used to buy back shares at a discount to net tangible assets which increases the NTA per share for remaining shareholders while also always seeking to take advantage of attractive opportunities presented by market volatility.

There are now emerging signs that the sharemarket is increasingly valuing companies on the basis of their fundamentals, and that this is beginning to play out for the majority of the companies held in QVE's portfolio. In this environment, the market should progressively look more favourably on many of the companies held in the portfolio, with corresponding increases in their share prices.

We believe the companies held in QVE's portfolio are well-positioned to perform well as the fundamentals of these companies and their ability to deliver sustainable earnings and dividends remains strong looking out over the next 3 to 5 years.

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