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Value stocks at inflection point: Perennial

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By Darren Snyder | In Investment

Perennial Value Management sees Australian equities at an inflection point in terms of favouring value with a host of small to medium-cap companies showing a strong earnings and dividend growth outlook.

Perennial managing director John Murray told a recent media roundtable in Sydney that several triggers are moving in favour of value stocks, most likely leading to a turnaround or rotation out of bond-proxy type stocks.

Murray said one trigger would be a rise in US interest rates as defensive equities are often highly correlated to US bond rates. He added if the Australian dollar falls, offshore investors could leave the local market, and this would be another driver towards buying value.

Other factors that sit in value's favour are improved economic growth, the next leg of fiscal stimulus including more investment in infrastructure, and expensive stocks becoming overcrowded. Murray said the latest reporting season showed several defensive stocks were underperforming, also another trigger for value.

Perennial senior portfolio manager Stephen Bruce said in the large-cap space people have been paying up for where there is some growth. He said investors were recognising some stocks were close to a bottom in earrings, and companies were doing some good things internally, leading to a tide-turn in the value versus growth and defensive trade.

Bruce said out of reporting season the construction and consumer industrials were positive with Harvey Norman well liked on the back of an earnings increase of 20% and its dividend up 50%. Flight Centre was another stock showing potential.

"Even though Flight Centre's earnings were down 5% that was as much a function of volumes and air fares being lower in dollar terms. Tourism bit has been pretty important in the pick-up of the non-mining part of the economy," Bruce said.

In May last year Perennial created the listed investment company Wealth Defender Equities as a one of its initial forays in to the SMSF market. Murray said the LIC was formed because SMSF investors "are not that keen on investing with people like ourselves via managed funds and would rather go through the listed space."

The LIC, which offers dynamic derivatives protection among other attributes, is typically trading between a 10 and 14% discount and has seen recent interest from institutional investors looking for protective portfolio overlays.