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WHAT ARE STRUCTURAL WINNERS AND HOW HAVE THEY FARED DURING COVID-19?

In our previous newsletters, we have mentioned how holding cyclical companies, mature and stable companies, and structural losers in our investment portfolios could prove to be a huge opportunity cost to us. That then begs the question - what should we be investing in then?

For those who have been following our webinars and newsletters, the answer may be obvious - structural winners, of course!

What are structural winners?

Structural winners or structural growth companies are companies that not only witness fast growth during periods of normalcy but also rapid recovery after periods of economic turbulence.

Just imagine two buildings being constructed. One building is built on concrete and another on sand. When a typhoon hits, the building built on concrete may wobble and shake, but at the end of the day, it still stands upright. Meanwhile, the other built on sand will crumble partially or even entirely. Once the typhoon passes, construction can continue for the building built on concrete as it has remained structurally resilient, but the other building would take longer to recover to its former glory. The project may even be abandoned by their management to cut further losses.

Source: Econintersect

Similarly, in a financial crisis such as the ongoing pandemic, no stocks will be immune[1]. All companies will see a fall in their stock prices, including structural winners. However, structural winners will only be sentimentally weakened, just like the building built on concrete. Other companies, especially structural losers, are fundamentally wounded (and even at risk of becoming insolvent) just like the building on sand. Structural winners will recover significantly faster than the rest, and grow even faster thereafter, which truly sets them apart and makes them prime investment choices.

Who are structural winners and how to identify them?

Who then, are these structural winners? Identifying these winners is no easy feat and requires an in-depth research framework. As elaborated in our 3rd April newsletter, Unicorn will be adopting the H.E.R.O. methodology[2] ("Honourable, Exponential, Resilient and Organisation") to select such companies in the current economic landscape. H.E.R.O. is operationalised into a systematic 4-step investment process and investment framework powered by sustainability ESG principles, with in-depth research, ratings and analysis to identify and invest in global structural growth innovators, especially ferreting out exceptional, under-the-radar, resilient market leaders who are governed by a greater purpose larger than oneself in their pursuit to contribute to the welfare of people and in solving high-value problems for their target customers and the society.

This pandemic has undoubtedly allowed certain companies to stand out amongst the rest.

As "a rising tide lifts all boats" – even average and weak companies do well during good times. Yet, their earnings and stock appreciation prove to be illusionary and unsustainable when the tide goes out. Only winners stay afloat even in poor economic conditions like the Great Financial Crisis and the current pandemic.

Amazon recorded its fastest growth in May[1]
Source: Google Finance. Past performance is not indicative of future performances.

In general, such companies provide services or goods that have a distinct competitive advantage, address the needs of a large and growing consumer group, embrace technological innovation and have a creative management team with a long-term outlook[3].

One such example would be technology-based firms that continue to disrupt the traditional scene. Amazon, an e-commerce giant, has seen extraordinary growth as more customers find that shopping is more convenient online. This growth has been accelerated with the onset of the coronavirus pandemic, with Amazon recording its fastest growth in North American Online Retail in seven years (32% year-on-year) in May[1].

There are many other disruptors just like Amazon. As Wall Street firm, RBC Capital Market, has rightfully pointed out, the pandemic has highlighted and reinforced the importance and convenience of e-commerce, online video streaming and virtual communication. During the circuit breaker period, technology has allowed us to adapt and move forward in our personal and professional lives. The pandemic may be for the short term but the effects on consumer behaviour can potentially be long-lasting[1]. Once the pandemic ends, the growth of such companies may continue at an exponential speed, as they continue to innovate and address market needs.

In times of demand destruction and supply interruption, different industries and businesses are seeing a disproportionate impact on their profits. While the effects of the pandemic have been devastating, it has also provided investors a clearer view of the type of companies to keep in their portfolios. Like Benjamin Graham once said, “in the short-term, the market is a voting machine but in the long-term, it is a weighing machine.” Don’t miss this opportune time to start investing alongside us as we identify companies with high intrinsic value and immense growth potential in the long run, especially when they are selling at attractive prices.

Do speak to your Unicorn consultant if you would like to know more or have further queries.

Note: We will increase the frequency of our communication with you during the current turbulent times. We will continue to communicate monthly with you during usual times.

By: Faith Lim

Sources:

1. CNBC
2. The creator and thought leader of H.E.R.O. is HERO Investment Management, a boutique investment research organisation. © 2018-2020, HERO Investment Management Pte Ltd, KB Kee
3. Livewiremarkets

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