

Why \$US100 is the key price for iron ore's fortunes

Redpoint's Max Cappetta, a football referee in his spare time, offers his opinions on the major miners and the familial origins of his passion for Formula One racing.

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Max Cappetta is CEO of boutique fund manager Redpoint Investment Management. He is also lead portfolio manager for selected active equity portfolios and chairman of Redpoint's investment committee.

Do you think the Australian sharemarket is due for a correction?

Trading at a multiple of 18 times forward earnings estimates, the S&P/ASX 200 is priced at similar multiples to where it was at the end of 2019 (pre-COVID). Earnings estimates for 2022 are slightly higher than at the end of 2019 and share prices are also slightly higher after a tumultuous two years.

The S&P/ASX 200 rarely traded above 15 times forward earnings between 2006 and 2016. A simple derating of the price-to-earnings multiple points to the potential for a 10 to 15 per cent fall from current market levels.

What are you viewing as the most attractive dividend plays on the ASX?



Redpoint's Max Cappetta believes the big banks remain a worthwhile staple for income investors. **Dominic Lorrimer**

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Looking longer term, we see that diversified financial companies such as Suncorp and Challenger, as well as engineering and construction groups Monadelphous and Downer, plus manufacturer GUD, have attractive longer-term characteristics. Each of these stocks are attractively priced and are expected to grow dividends over the next two years.

Do the big banks still offer value for income investors?

Australian banks remain a good overall proxy for broad economic growth in Australia. Banks are now in a stronger position to grow and innovate within their core businesses, having divested their wealth arms. There is still some recovery in dividend payments to come for the banks, and they remain a worthwhile staple for income-focused investors. We remain unconvinced that they can grow earnings and dividends meaningfully beyond the bounce back we are now seeing to their pre-COVID levels dividend rates.

Do you think it's worth buying into the current weakness in the major miners and iron ore stocks?

The rise in earnings and dividends in 2021 has come disproportionately from the mining sector. It is likely that 2022 will still see higher earnings from this sector relative to what they delivered in 2020.

Revenue for Fortescue Metals grew to almost \$US21 billion in 2021 versus \$US11.5 billion in 2020. This implies an average iron ore price of \$US114 for 2021 versus \$US65 for 2020. If the iron ore price can find support around \$US100 then Fortescue and other iron ore miners will deliver strong cash flow once again in 2022.

The problem with mining companies has always been that, over the long term, they deliver half the dividend income and twice the share price volatility of non-mining stocks.

This is because these operations require large capital investment over years, if not decades, and the companies have limited pricing power for their product. Nor can they change or “improve” what they actually have in the ground.

Investors should focus on those miners with low production costs, those who are diversified across different commodities and those well positioned in the metals of a decarbonised economy.

What do you consider to be your best or worst investment in the sharemarket in your life?

The worst was back in 1999 when I invested in a speculative technology stock called Davnet. It doubled in price and I sold the position to buy a car. The share price subsequently rose a further 5x in the months after I sold, before collapsing back over the

next 18 months. This provided me with lots of lessons regarding the momentum of share prices, market sentiment and reversal.

Which bar or restaurant will you be hitting up first when you're released from lockdowns?

We have a family tradition of eating out once each week. When the lockdowns were eased last year, we were the first in-restaurant diners at Zapparelli Pizza in Lane Cove. We have already booked table one for when this current lockdown ends.



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Any good shows, podcasts or reads you're enjoying?

I have long been a fan of Formula One racing and all the technology and teamwork that goes into that sport. My father is a motor mechanic who learnt his trade in Naples and Rome before coming to Australia. The past few weeks I have enjoyed an amazing triple header of three Formula One races in three consecutive weeks. The best part was watching Aussie Daniel Ricciardo win at Monza in Italy.

It was also nice to message relatives who live in Rome, bragging that an Aussie had won at their Cathedral of Speed.

Any other interests or hobbies you're passionate about?

My two sons and I are all football referees. Having played the game for many years, I now find that I really enjoy the challenge of refereeing – both mentally and physically. In an adult match, referees make about 250 active decisions within the 90-minute playing time, or a decision every 20 seconds.

It's been great to see them developing such confidence and skill with their game and player management. All of us can't wait to get back out there again.

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