James Yeo

Top Stocks 2021

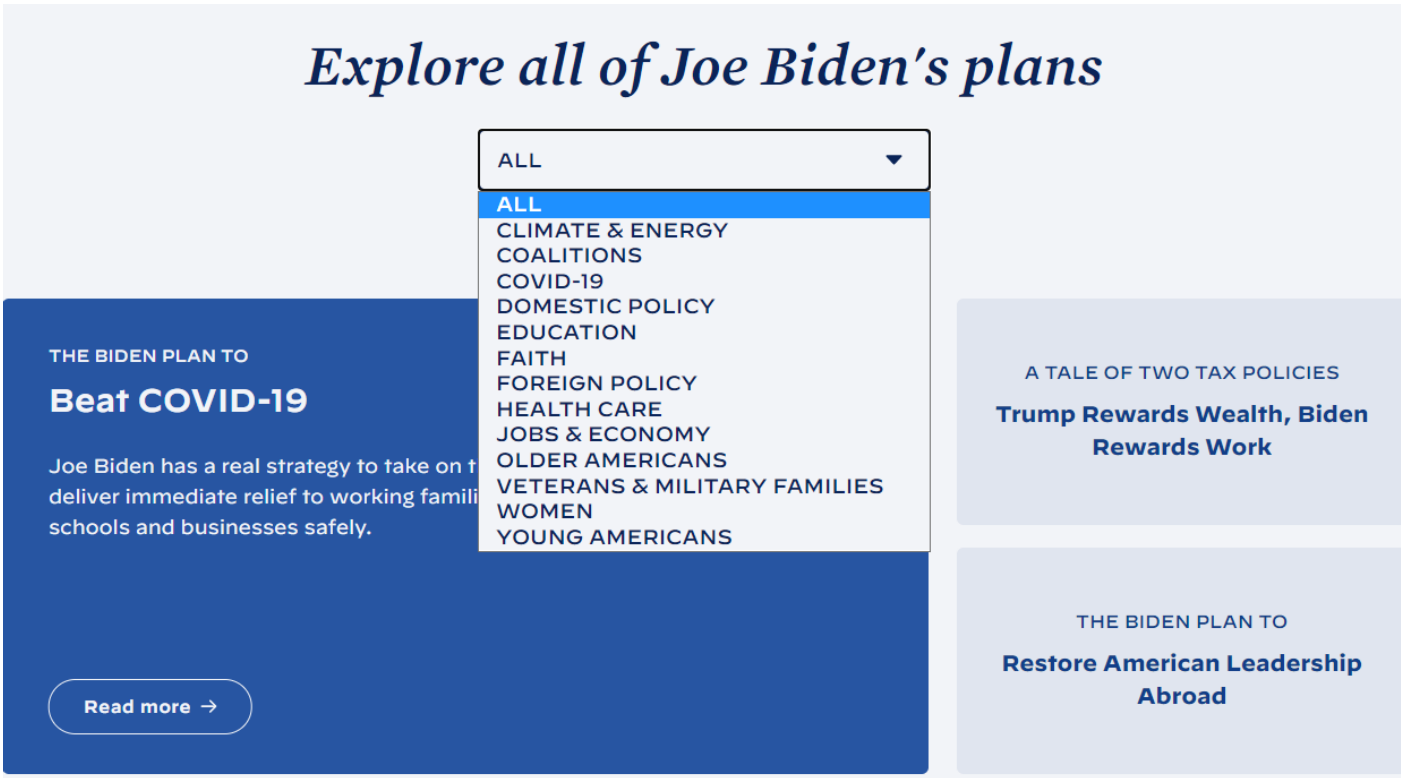
To Benefit from Biden's Presidency

Introduction – Build Back Better

The inauguration of Joe Biden as the 46th president of the United States took place on January 20, 2021, marking the commencement of the four-year term of Joe Biden as president and Kamala Harris as vice president.

The inauguration took place amidst extraordinary political, public health, economic, and national security crises, including the **ongoing COVID-19 pandemic**; former President Donald Trump's attempts to overturn the 2020 United States presidential election.

But more importantly, with the Presidency set in stone, its time to examine Biden's campaign pledges and upcoming reforms to stimulate the economy. In turn, it will benefit the industries and companies within.



Check out all their plans here.

In this regard, when we explore Biden's vision for America, we are sanguine to see how well-through through these plans are.

Among them all, we see **5 sectors** that investors would leverage on especially in Biden's new presidency. On top of that, we have selected **2 companies for each sector (total 10)** that could potentially reward investors handsomely going forward.

Check out our content page below for the whole list of stocks!

Last but not least, we also have input several follow-up events post-inauguration of President Biden. These takes a deeper look at the plans/promises which are already executed in quick time!

Without further ado, here's the Top 10 companies we've cherry picked to ride on Biden's presidency!

Content Page

Sector 1: Clean Energy

The Biden administration has pledged to undo setbacks in international cooperation on climate change like Trump's retraction from Paris climate deal. This will do definitive changes in the sector to boost activity.

One key change is the mistake of the Trump administration's belief that action on climate change cuts jobs and economic activity.

Instead, Joe Biden has proved Donald Trump wrongly by pivoting towards the creation of jobs that focus on "clean energy" sectors. We quote from Biden's clean energy plan:

"Federal government procurement system – which spends $500 billion every year – to drive towards 100% clean energy and zero-emissions vehicles."

" …develop renewables on federal lands and waters with the goal of doubling offshore wind by 2030."

In summary, Joe Biden has unveiled an aggressive **$2 Trillion grand plan** for climate action led spending. *(That's Trillion with a 'T' and its "aggressive" cause he bids to spend this amount in the short 4-years of his term)*

This includes spending and incentive-based push to **Solar and other renewables, electric vehicles manufacturing, and Nuclear power**.

The plan covers about 5 major sectors in itself (if not more) such as energy, manufacturing, construction and healthcare.

1. NextEra Energy

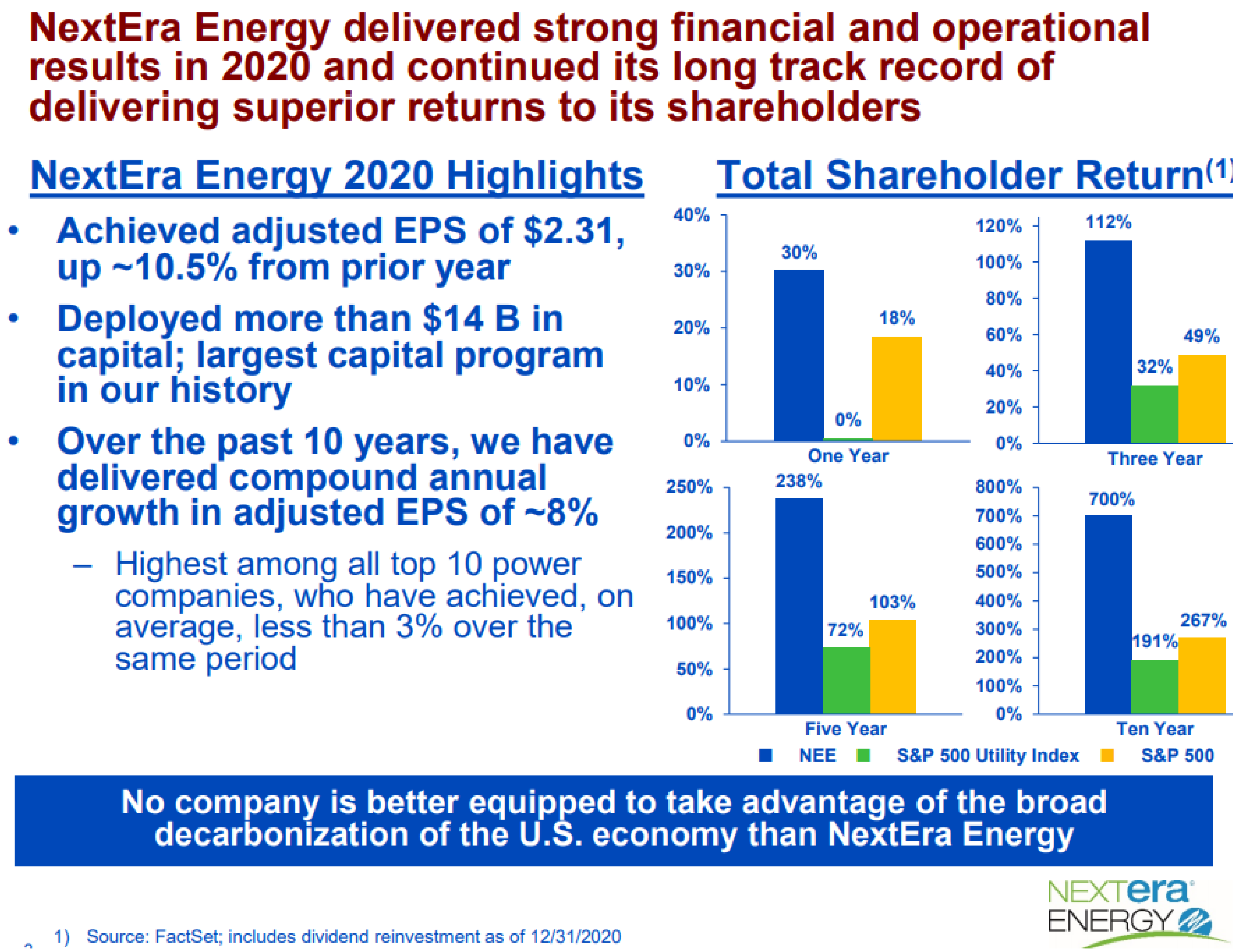
- Market Value: $163.8 billion (@ $83.6 per share)
- Dividend Yield: 1.67%

NextEra Energy is the largest American electric utility holding company and is a leader in the battle against climate change. Its share price has actually returned **700**% in the span of the past years too.

For a quick background, NextEra Energy's regulated utility, **Florida Power & Light**, distributes power to roughly **5 million** customers in Florida. Florida Power & Light contributes over 60% of the group's operating earnings.

Its other subsidiary, Gulf Power, also operates in Florida. The renewable energy segment generates and sells power throughout the United States and Canada.

Their consolidated generation capacity (including natural gas, nuclear, wind, and solar assets) sums up over 51 gigawatts.



NextEra is better known as the **world's largest** producer of renewable energy. It features on multiple lists like "Fortune 500" and "Top 25 in the world for innovation" by Fortune Magazine.

Sustainable Long-Term Agreements with Regulators

State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital it invests to build, operate, and maintain their distribution networks.

This ensures future earnings visibility for NextEra Energy as it has secured some of the country's most desirable wind and solar generation sites, locking in **20+ years** purchase power agreements (PPAs) with escalation clauses.

Moreover, the company has recently divested most of its old fossil-fuel generation fleet, further strengthening the company's direction towards clean energy.

Moreover, it should also be stressed upon that NextEra's stable financial performance in 2020 amid an economic slump demonstrates the resilience of its business model.

The recurring cashflow from utility activities and resumption of overall economic growth put its revenue in a good spot to grow between 12% and 14%.

Over the past 10 years, NextEra Energy has delivered compound annual growth in adjusted EPS of ~8%, and net profit margins have averaged around 15 – 20%.

Tapping on the Renewable Boost

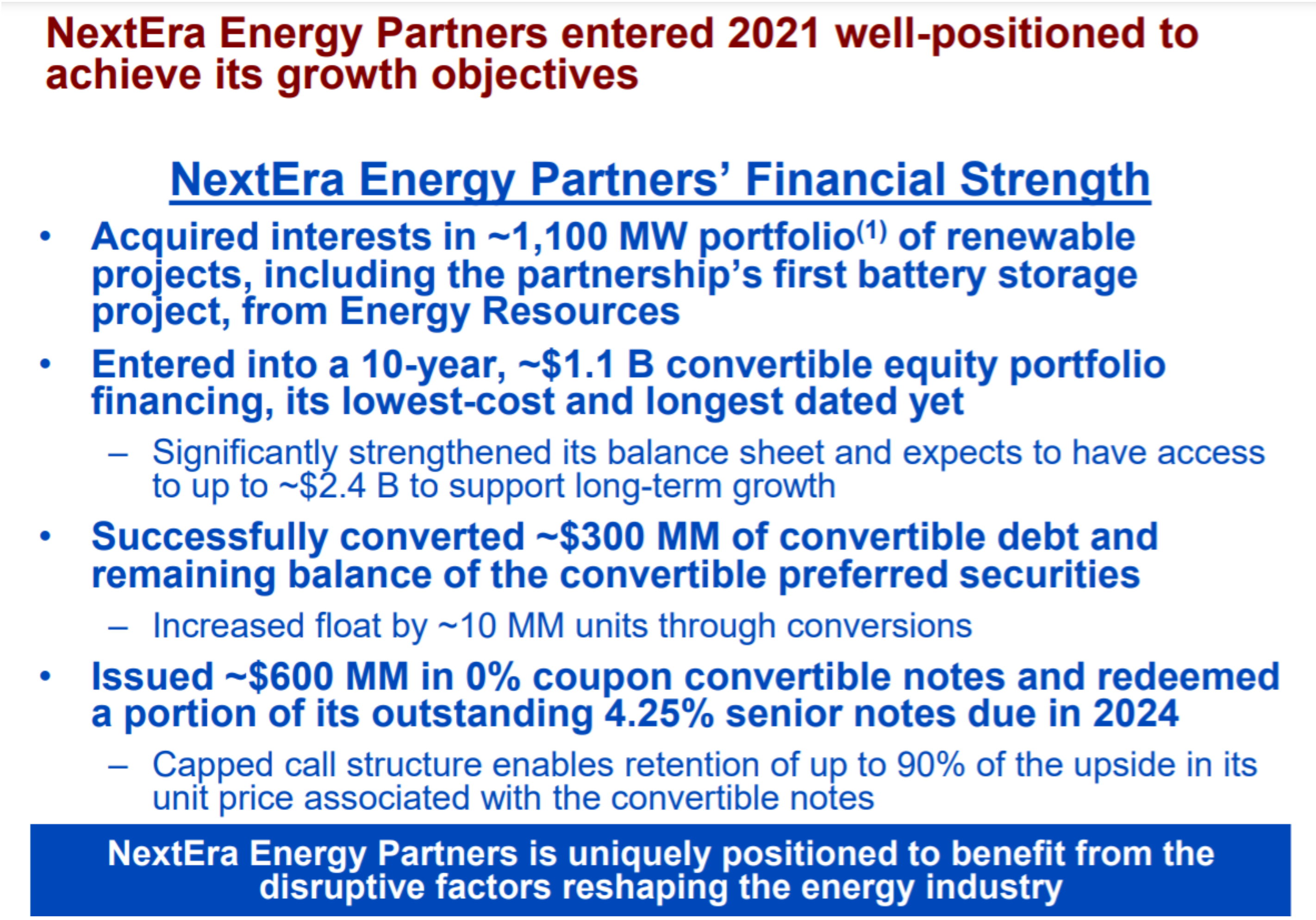
Biden new focus on renewable energy is directly going to accelerate cheaper credit and ensure greater share of renewables in long-term PPAs compared to coal/oil fired power.

Under Biden's climate plan, it states that **fossil fuels still comprise nearly 80% of global energy use**. This means that there are still a lot more upside as the whole U.S. shift to renewable energy.

Today, we are also on the cusp of breakthroughs in technologies, such as batteries that can more efficiently store energy for use at moments of peak demand, more efficient controls and sensors for advanced manufacturing, more effective and thinner insulation for buildings.

Some of Biden's Executive Actions (that will benefit NextEra Energy) include:

- **Requiring aggressive methane pollution limits** for new and existing oil and gas operations.
- Using the **Federal government procurement system – which spends $500 billion every year** – to drive towards 100% clean energy and zero-emissions vehicles.
- Ensuring that **all U.S. government installations, buildings, and facilities** are more efficient and climate-ready, harnessing the purchasing power and supply chains to drive innovation.
- Committing that **every federal infrastructure investment** should reduce climate pollution, and require any federal permitting decision to consider the effects of greenhouse gas emissions and climate change.



Sourced from NextEra Energy's latest 4Q results

Last but not least, NextEra Energy is also not resting on its laurels with an acquisition of a 1st battery storage project.

In a nutshell, NextEra Energy is poised to benefit from this shift in Biden's policy and one of the few utilities that has both great growth and a steadily growing dividend payout.

2. Canadian Solar

- Market Value: $3.44 billion (@ $57.88 per share)
- Dividend Yield: none

Canadian Solar Inc. is a publicly traded company (NASDAQ: CSIQ) that manufactures solar PV modules and runs large scale solar projects. The company also engages in designing, developing and manufacturing solar ingots, wafers, cells, modules and other solar power products.

It operates through two business segments - MSS segment and Energy segment.

The MSS (Module and systems solutions) **segment** involves the design, development, manufacturing, and sale of solar power products, including standard solar modules and specialty solar products.

Its **Energy segment** consists of solar power project development and sale and EPC (engineering, procurement and construction) and development services. Most of the revenue is earned from the MSS segment. Geographically, it derives majority revenue from Asia and also has a presence in the Americas and Europe and other regions.

Diversified Global Reach

Canadian Solar has a solid foothold in nearly every major solar market. It operates over multiple continents with favourable PV sales, EPC construction of plants and other synergies.

Unlike some major solar manufacturers like First Solar (FSLR), which are more focused on specific markets, Canadian Solar is clearly taking a more diversified approach as can be seen below.

01/13/21	Canadian Solar Subsidiary Recurrent Energy Completes Sale and Breaks Ground on the Slate Project, Expected to Be One of the Largest PV + Battery Storage Projects in the U.S.
01/07/21	Canadian Solar Subsidiary Recurrent Energy Completes Sale of 144 MWac Pflugerville Solar Project in Travis County, Texas to Duke Energy Renewables
01/05/21	Canadian Solar Sells Two Solar Projects to BluEarth Renewables, Supplying Low-Cost Clean Energy to the Government of Alberta
12/22/20	Canadian Solar Completes the Sale of a 290 MWp Greenfield Solar Portfolio in Italy
12/16/20	Canadian Solar Completes the Sale of 19 MWp Operational Project in Japan
11/23/20	Canadian Solar Signs a Total of 862 MWp in Solar PPA with BTG and Auction with Furnas in Brazil
11/19/20	Canadian Solar Reports Third Quarter 2020 Results
11/12/20	Canadian Solar Continues Its Success in Japan's FIT Auctions

Sourced from Canadian Solar's News

Recently, Canadian Solar won bids to build both Furnas projects in Brazil totaling 692 MWp with 15-year PPAs. Similarly, 2 projects are won in Japan with 20-year PPAs.

Furthermore, its subsidiary has also completed a sale of what's to be one of the largest PV + Battery Storage projects in U.S. The project will provide low-cost solar power and grid reliability support to California.

As a testament of its huge distribution/global network, Canadian Solar has successfully delivered over **46 GW** of premium-quality, solar photovoltaic modules to customers in over **150** countries over the past 19 years too.

On top of the above, its competitive edge actually lies in its intellectual property – R&D capabilities. It holds the new world record of poly cell **efficiency 23.81**% certified by Fraunhofer ISFH. It has 515 experienced researchers in R & D department and over 1,500 authorized patents worldwide until the end of March 2020.

Unfortunately, the financials haven't been great recently due to the high raw material costs (Polysilicon, Glass) and operational costs due to the COVID-19 pandemic. Post-pandemic, the return to normalcy will potentially help in the rebound of the numbers going forward.

Biden's Huge Support on Clean Energy

Biden will make a $2 trillion accelerated investment, with a plan to deploy those resources over his first term, setting us on an irreversible course to meet the ambitious climate progress that science demands.

In addition, the U.S. government will move ambitiously to generate clean, American-made electricity to achieve a carbon pollution-free power sector by 2035.

If we were to zoom into the details of Biden's plans, there is one particular paragraph that stands out:

"Reform and extend the tax incentives we know generate energy efficiency and clean energy jobs; develop innovative financing mechanisms that leverage private sector dollars to maximize investment in the clean energy revolution; and establish a technology-neutral Energy Efficiency and Clean Electricity Standard (EECES) for utilities and grid operators.

*Together, these steps will unleash a clean energy revolution in America, create good paying union jobs that cannot be outsourced, and **spur the installation of millions of solar panels – including utility-scale, rooftop, and community solar systems** – and tens of thousands of wind turbines – including thousands of turbines off our coasts – in Biden's first term."*

To sum up, Canadian Solar probably has more room to run given the multiple tailwinds: 1) supportive macro outlook for solar installation growth, 2) growing and stabilizing project development business and 3) increased energy storage installations.

Sector 2 -Infrastructure Spending

Although Biden's focus on climate change/clean energy has taken the spotlight, the slogan ***Build Back Better*** also refers to his vision of "*investing in a modern, sustainable infrastructure and sustainable engines of growth — from roads and bridges, to energy grids and schools, to universal broadband."*

In fact, according to his infrastructure plan, he has proposed to work on rail electrification, disaster resilient infrastructure (US had record high hurricanes this year), schools and public infrastructure redevelopment for resiliency and net-zero carbon goals.

A key highlight from the plan is as per below:

"*Almost 20% of our roads are in poor condition, and there is a backlog of hundreds of billions of dollars of investment…*

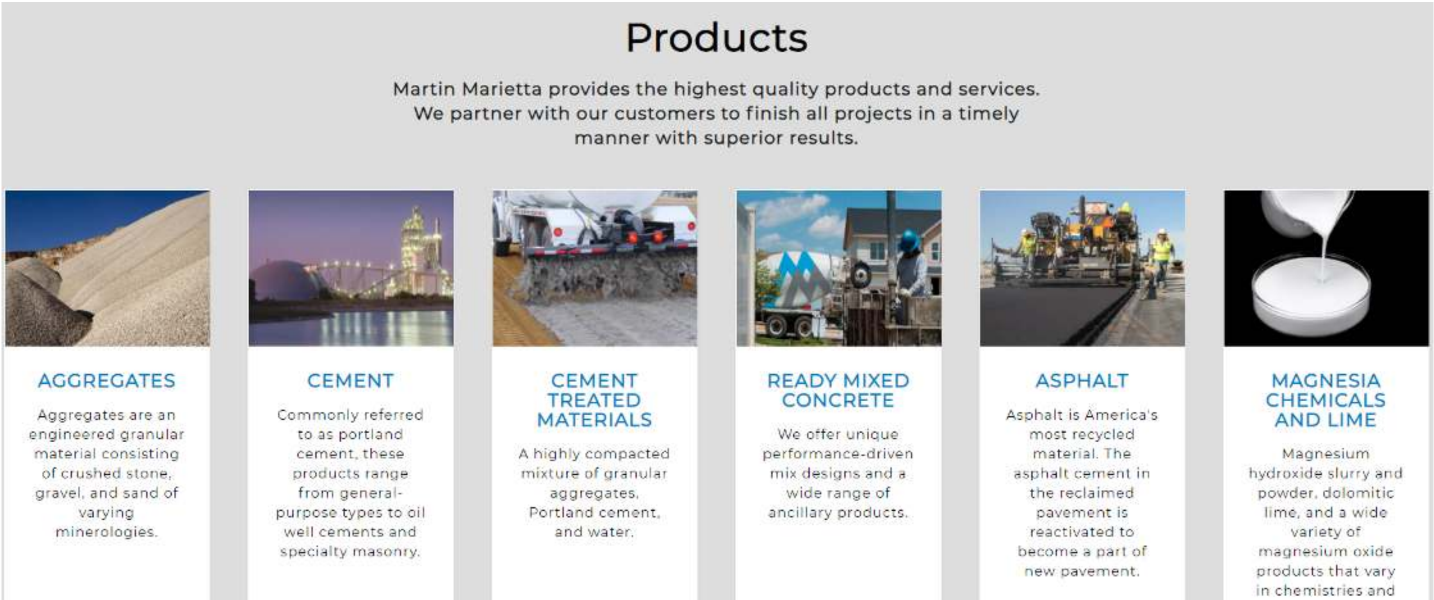
Biden will propose to immediately spend $50 billion over the first year of his Administration to kickstart the process of repairing our existing roads, highways, and bridges."

All in all, Biden intends to rebuild the middle class by calling for a transformational investment: **$1.3 trillion over ten years**, to equip the American middle class to compete and win in the global economy, to move the U.S. to net-zero greenhouse gas emissions, and to **ensure that cities, towns, and rural areas all across U.S.** share in that growth.

3. Martina Marietta Materials

- Market Value: $18.5 billion (@ $297.6per share)
- Dividend Yield: 0.77%

Martin Marietta Materials (NYSE: MLM) is one of the United States' largest producer of construction aggregates (crushed stone, sand, and gravel). In 2019, Martin Marietta sold **191 million tons** of aggregates.



Martin Marietta's most important markets include Colorado, Florida, Georgia, Indiana, Iowa, Maryland, Nebraska, North Carolina, South Carolina, and Texas. The company also produces cement in Texas and uses its aggregates in its asphalt and ready-mixed concrete businesses. Martin's specialty product business produces magnesia-based chemical products and dolomitic lime.

Its financials are in top-notch quality as seen above. The blue bar (revenue) and green bar (net profits) have been growing upwards at a steady pace. Its net profit margin has also increased from a mere 4.1% to 15.2% as of FY2020 – a hallmark of economics of scale economic moat.

The company boasts a solid financial position with just 0.4x net debt to equity and is free cash flow positive since FY2011.

“Aggregate” Supplier to Half of US

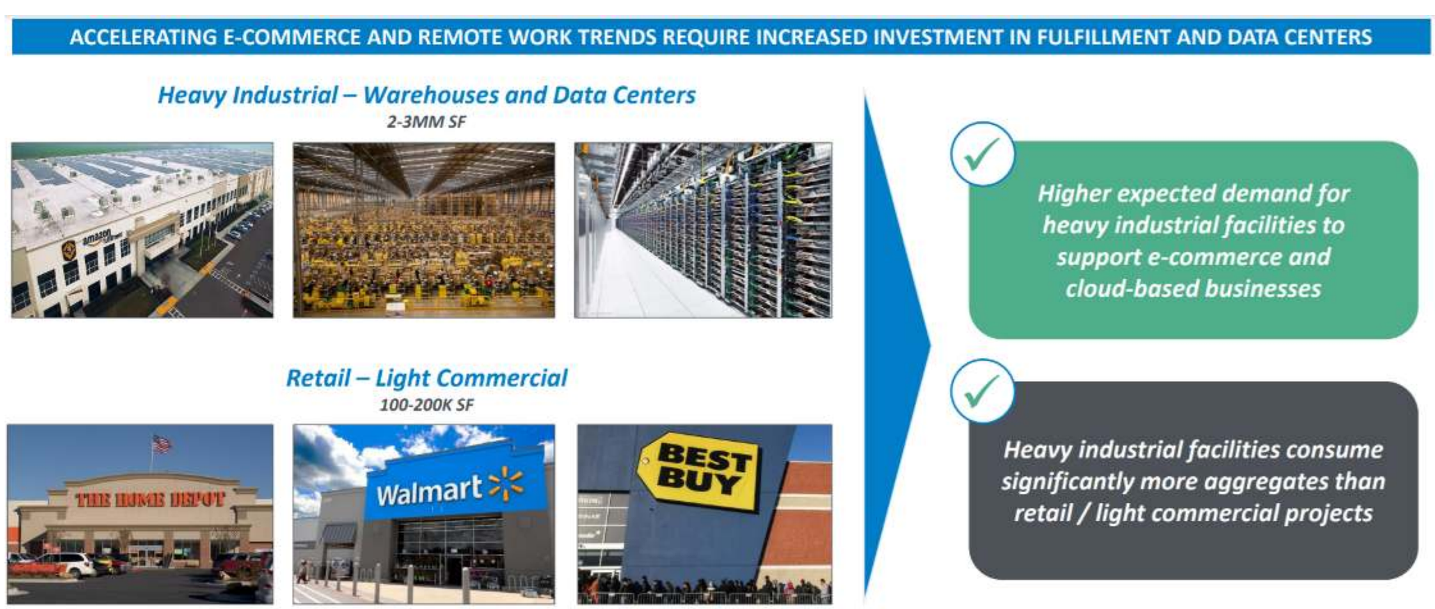
MLM’s business model is boring unlike all the ‘SAAS’ stocks in U.S. In fact, that’s the reason why it can continue to expand its business capacity and reach to supply the specified materials.

Given its long history that dates back to 1961, MLM leverages on long-term relationships and huge distribution network (over 400 facilities in U.S.) to supply the construction materials to its customers.

To sum up, we take a page from its FY2020 presentation's summary – it has just recorded an all-time high of EBITDA of $1.4 Billion and is a solid long-term dividend growth play.

Build Back Better (pun-intended) Play

As mentioned previously, Biden's infrastructure push for America's ageing roads, bridges and schools would result in a huge demand for construction materials.



This is notwithstanding the extra demand coming from the heavy industrial facilities to support E-commerce and Cloud-based businesses in the long term.

Long story short, the company remains well-positioned to capitalize on emerging demand in 2021 and beyond.

4. Caterpillar

- Market Value: $104.85 billion (@ $193 per share)
- Dividend Yield: 2.13%

Caterpillar (NYSE: CAT) is an **iconic** manufacturer of heavy equipment, power solutions, and locomotives. It is currently the world's **largest** manufacturer of heavy equipment with approximately 16% of global market share in 2019.

The company is divided into 4 reportable segments: construction industries, resource industries, energy & transportation, and Caterpillar Financial Services.

Its products are available through a dealer network that covers the globe with over 2,000 branches maintained by 165 dealers.

CAT derives the bulk of its revenue from its energy & transportation segment which includes manufacturing and distribution of power systems for rail, marine and standalone requirements.

Creating a Brand out of Earthmovers

With over 2 million pieces of equipment in operation and over a million of those operating with telematics, the firm has a client base that provides considerable recurring revenue.

2020 was a challenging year for Caterpillar due to pandemic-led slowdown in construction activity. However, the company managed to maintain healthy free cash flow to buy back shares and increase dividends.

Furthermore, Caterpillar's balance sheet remains in a healthy state with 1.8x net debt/equity ratio for an asset-heavy company. Its interest coverage ratio also stands at a palatable 8.8x as of Dec 2020.

SHOW ALL % GROWTH	Trend	Full Year Dec 2020	Full Year Dec 2019	Full Year Dec 2018	Full Year Dec 2017	Full Year Dec 2016	Full Year Dec 2015	Full Year Dec 2014	Full Year Dec 2013	Full Year Dec 2012	Full Year Dec 2011
Interest Coverage (Profit Before Interest and Tax/Interest Expense)		8.800	19.317	20.080	8.617	1.118	6.569	11.491	11.834	18.490	18.184

In particular, CAT has generated positive FCFs in the past decade and the same goes for FY2020 too!

SHOW ALL % GROWTH	Trend	Full Year Dec 2020	Full Year Dec 2019	Full Year Dec 2018	Full Year Dec 2017	Full Year Dec 2016	Full Year Dec 2015	Full Year Dec 2014	Full Year Dec 2013	Full Year Dec 2012	Full Year Dec 2011
Free Cash Flow (Net Cash From Operations - Capital Expenditure)		4,212,000	4,243,000	3,642,000	3,366,000	2,680,000	3,414,000	4,678,000	5,745,000	165,000	3,086,000

Rebound in construction activity

As mentioned, 2020 shutdown impacted the world's economy – human to human interaction came to a standstill not to mention construction activity.

However, with global economy starting to recover to normalcy again, the orders will come trickling in for CAT again.

Long story short, CAT has a lot more to gain since it is more or less a recovery/cyclical stock and can benefit greatly from Biden's infrastructure spending in the near term.

Sector 3 -Geo-political Easing

"In addition to a deadly pandemic and a weakened economy, President-elect Joseph R. Biden Jr. will inherit one more challenge when he takes office in January: a toxic relationship with the world's second-largest economy" – says Ana Swanson of the Ney York Times.

Dialing back the history for a while…

During Trump's term, he focused greatly on reducing America's $345.6 billion trade deficit with China, but it **actually grew** during his tenure. The "trade-war" that he often called out has failed to prove against its promise.

On the other hand, although Biden has called Xi Jinping a "thug" and maintained **hawkish** stance on China's trade and human rights violations, Biden intends to gun for a "global" and "multilateral" approach to combat these tensions.

"I *will use tariffs when they are needed, but the difference between me and Trump is that I will have a strategy -- a plan -- to use those tariffs to win, not just to fake toughness.*" – Biden, in statement to United Steelworkers in May 2020.

Although nothing is cast in stone yet, the duo-party tension will definitely simmer down given Joe Biden's softer stance and rational plans to tackle China going forward.

Hence, geo-political tensions are expected to ease on the economic front, returning to rules-based, free-market trade relations. Businesses would be able to plan ahead with much certainty under Joe Biden (as opposed to the wild swings under Donald Trump).

5. Alibaba

- Market Value: $718.81billion (@ $265.67 per share)
- Dividend Yield: none

Alibaba (NYSE: BABA) is the world's largest online and mobile commerce company. It operates China's most-visited online marketplaces, including Taobao (consumer-to-consumer) and Tmall (business-to-consumer).

Alibaba's China marketplaces accounted for 68% of revenue in fiscal 2019, with **Taobao** generating revenue through advertising and other merchant data services and **Tmall** deriving revenue from commission fees.

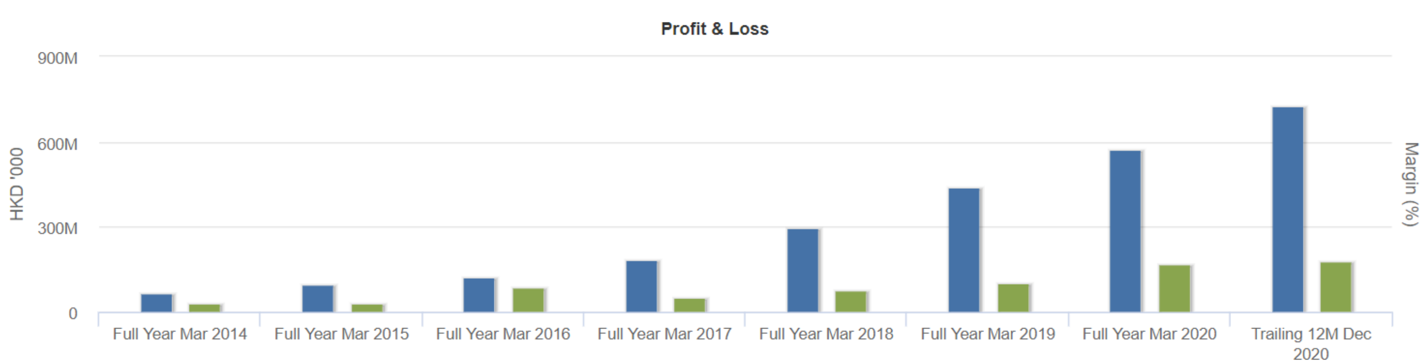
Additional revenue sources include international retail/wholesale marketplaces , **cloud computing**, digital media and entertainment platforms, *Cainiao* logistics services, and innovation initiatives/others.

Data is the New Oil

Alibaba's competitive advantages are aplenty and it probably starts off with Jack Me's vision/mission of 'making it easy to do business anywhere'.

Alibaba is a **big data-centric conglomerate**, with transaction data from its marketplaces, financial services, and logistics businesses allowing it to move into cloud computing, media/entertainment, and online-to-offline services.

This whole eco-system leads to a well-entrenched competitive advantage and gives clear visibility into forward revenue and earnings growth.



A quick glance at the above chart shows a clear sign of its economic moat. Alibaba has grown its revenue and net profits by double-digits over the past years.

Revenue is up >10x from FY2014 to Dec 2020 ttm while profits are up 6.1x during the same period. It also commands a mouth-watering 24% net margins (came down from 40+% due to its huge size) and average 16% return on equity.

Alibaba also continue to churn out positive FCFs in the past decade despite hefty investments in its logistics network, cloud infrastructure and more.

All things equal, when you compare Alibaba to e-commerce juggernaut Amazon, Alibaba trades at a 25 times forward earnings, less than half of Amazon's 78x P/E ratio. And Alibaba's home ground is China – a country with 1.3 billion population, 4x the size of U.S.

Alibaba to spread wings abroad

A Biden presidency is expected to allow more space for foreign companies in U.S. or try to hamper their growth elsewhere too.

According to this article, Alibaba isn't just a sleeping giant in its own home turf. Instead, it is also aggressively trying to expand internationally, especially in U.S.

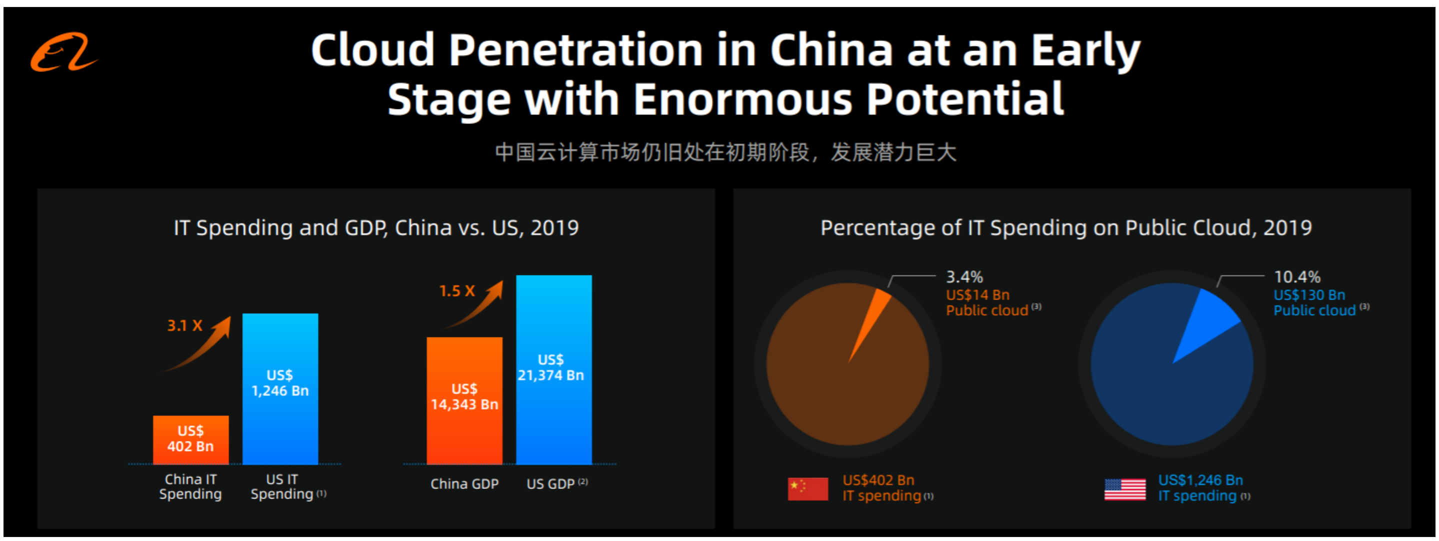
Alibaba has cemented its position in the West by rolling out measures to help international merchants list and grow products on its Tmall.

Tony Ren, founder of Ascential-owned data analysis company Yimian, forecasts Alibaba's U.S. business to grow at a CAGR of 8.5% between this year and 2025. The slower U.S. growth rate can be attributed to the fact that Alibaba has local leaders to contend with. here, such as Amazon and Walmart.

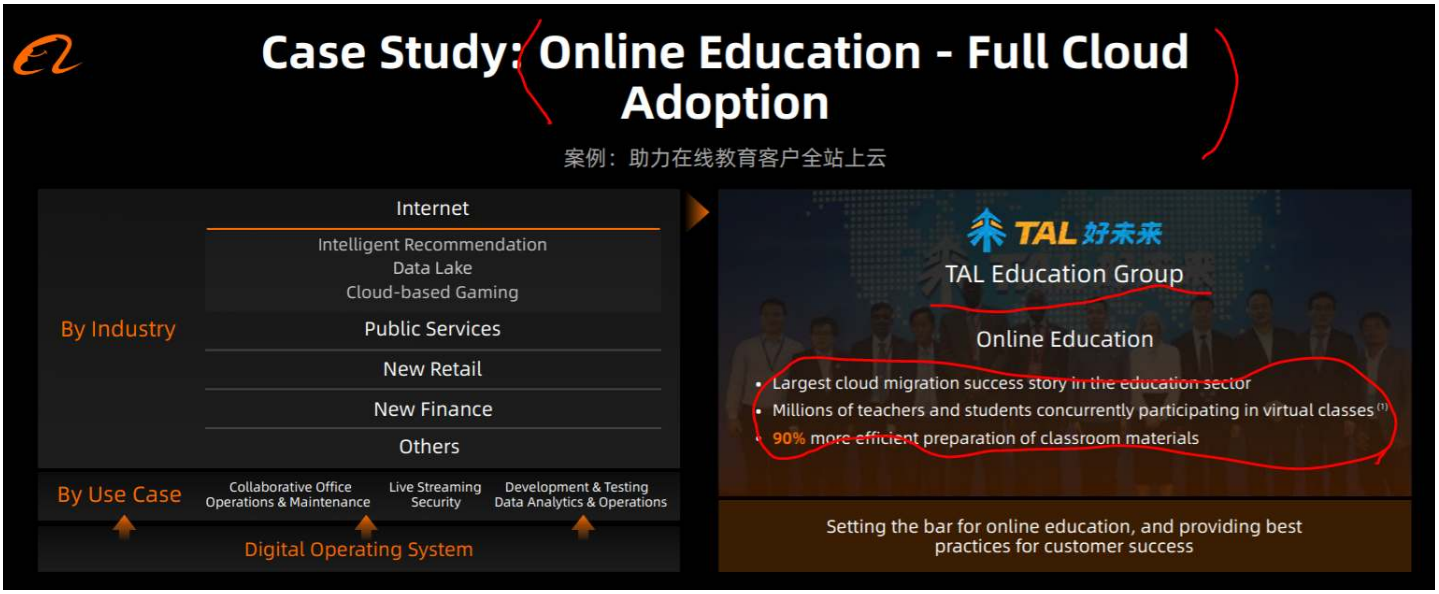
There is also a lower level of awareness among merchants and consumers for Alibaba, compared to its domestic Asian markets.

But all that is set to change if the tensions between the 2 countries loosen up and Alibaba gets more certainty to go into hyper-growth mode in U.S.

One other thing that stands out is its Alibaba cloud. According to its Investor Day 2020 presentation, China's cloud market penetration is still lower than US and now playing catch-up.

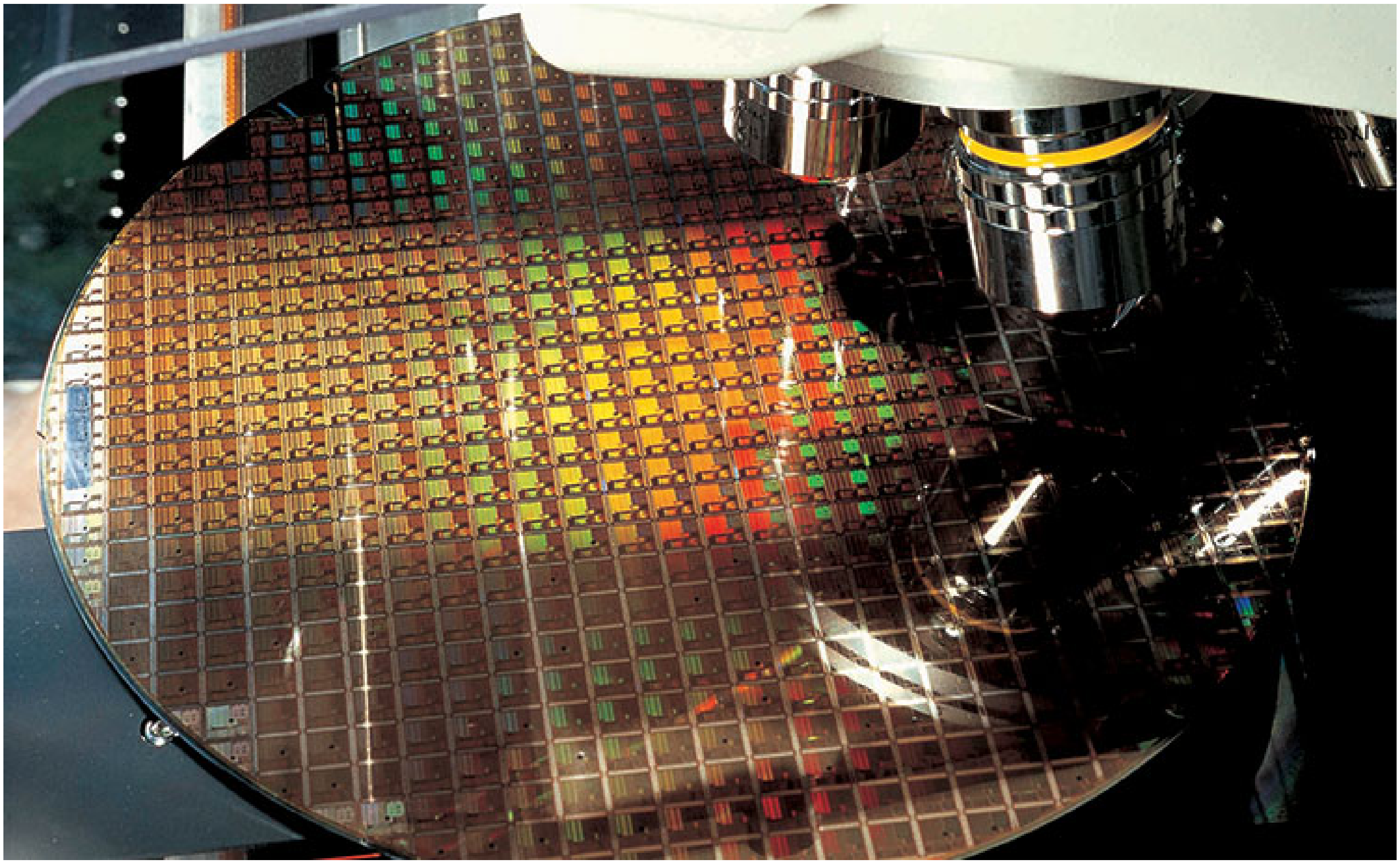


In fact, if you just glance through the slides here, Alibaba Cloud is poised to ride the digital revolution and become a key profit-generating engine for Alibaba. They have already 3 million+ customers and below is a case study of how TAL Education pivoted during the Covid-19 lockdown:



Long story short, Alibaba has a long runway of growth by tapping on various verticals (i.e. Alibaba Cloud) and expand internationally beyond domestic China.

6. Taiwan Semiconductor Manufacturing Corporation (TSMC ADR)



- Market Value: $580.35 billion (@ $127.8 per share)
- Dividend Yield: 1.69%

Taiwan Semiconductor Manufacturing is the world's **largest dedicated** chip foundry, with over 50% market share in 2018 (according to IC Insights).

TSMC was founded in 1987 as a joint venture of Philips, the government of Taiwan, and private investors. It went public as an ADR in the U.S. in 1997. The Company is headquartered in Hsinchu, **Taiwan**.

TSMC is the **first** foundry to provide **5-nanometer** production capabilities, the most advanced semiconductor process technology available in the world.

With global operations spanning Asia, Europe, and North America, TSMC serves as a committed corporate citizen around the world. TSMC deployed 272 distinct process technologies, and manufactured 10,761 products for 499 customers in 2019 by providing a broad range of advanced, specialty and advanced packaging technology services.

The World's Chipmaker

Taiwan Semiconductor Manufacturing Corporation has now become the leading semiconductor manufacturing contractor in the world controlling more than 50% of the almost $70 billion third-party fabrication market as of January 2020, according to TrendForce, as the outsourcing trend continues.

The company expects continued strong demand for **5G** will enable 5nm chips to go from 8% of sales in the quarter 20% of sales next year. Therefore, TSMC's edge lies in superior technology and partnering with world leaders like Apple.

Furthermore, the shift to the fabless business model has created tailwinds for TSMC. The foundry leader has an illustrious customer base, including **Apple and Nvidia**, that looks to apply cutting-edge process technologies to its semiconductor designs.

To add on, governments including those in Germany and Japan have asked Taiwanese officials to request TSMC to step up its chip output - a difficult proposition given the complexities in setting up the production equipment needed to print the millions, if not billions of electrical circuits on a small piece of silicon.

The current order glut is making TSMC and other Taiwan-based chip firms consider a second round of **price hikes that could go as high as 15%**. This hike, should it go through, will follow an earlier price increase that took place in the second half of last year and ranged in between 10% to 15%.

TSMC to also benefit from political stability

As a world's necessary supplier of semiconductor chips, TSMC will benefit when there's political stability and regular, healthy trading between nations.

During the height of the Trade War (Trump's administration), both countries are trying to get the upper hand by imposing taxes or restricting imports etc. This posed an issue to TSMC as its customers do not dare to commit to huge orders in lieu of the political instability.

Now that Biden is in charge, TSMC is likely to deepen its partnerships with many U.S. companies and also work alongside China as well (or to be an important middle party).

Long story short, TSMC has went from a contract manufacturer (a price-taker) to a high tech supplier where it can potentially command superior margins of 38.6% in the last FY (see below).

TSMC also excels in its financial performance too:

- Revenue, earnings and Free Cash Flow growth over past decade
- Pristine balance sheet with 0.23x debt to equity and 1.75x current ratio
- Return on Equity > 20% (way above Warren Buffett's recommended ratio of 15%)

Riding on the mega trends (self-driving, IoT, 5G), urgent demand from automotive customers and deep domain knowledge, TSMC has lots of room for growth in the long term.

Sector 4 – Affordable Healthcare

The Affordable Care Act is a big deal because over 100 million people would not have to worry that an insurance company will deny coverage or charge higher premiums just because they have a pre-existing condition – whether cancer or diabetes or heart disease or a mental health challenge.

However, this Affordable Care Act has been relentlessly attacked by President Trump during his term.

Joe Biden is set bent to reverse that course of action amid his deep belief that every American has a right to the peace of mind that comes with knowing they have access to affordable, quality health care.

Some of the key highlights of his plan include:

- Proposes adding a "Medicare-like" public option that would serve as an option for consumers to receive health insurance. Americans would also be able to **choose** their own private insurance and would now only spend a lower income rate to obtain it.
- The total cost estimated to be **$750 billion** over the next 10 years, which would mostly be paid for by repealing President Donald Trump's tax cuts for the wealthy and returning the top tax rate to 39.6 percent.

Joe Biden believes that every American – regardless of gender, race, income, sexual orientation, or zip code – should have access to affordable and quality health care.

Long story short, Biden's doubling down on essential healthcare via the Affordable Care Act will spur growth in healthcare-related stocks. You can read more on the source i.e. Biden's healthcare plan here.

7. Intuitive Surgical

- Market Value: $89.61 billion (@ $762.25 per share)
- Dividend Yield: none

Intuitive Surgical (NASDAQ:ISRG) develops, produces, and markets a robotic system called *'Da Vinci'* for assisting minimally invasive surgery.

It also provides the instrumentation, disposable accessories, and warranty services for the system. The company has placed more than 5,500 such systems in hospitals worldwide - 3,500 installations in the United States alone.

Its important to understand about their proprietary *'Da Vinci'* surgical system because it is the primer for advanced robotic surgeries. Basically, the system is controlled by a surgeon from a console and commonly used for keyhole surgeries such as prostatectomies and cardiac valve repair etc.

Here's a video on how the *Da Vinci* system works. There's another one for the Ion system.

The videos specifically show how robotic surgeries are great for minimally invasive operations, and the patient benefits greatly through quick recovery.

Such is the power of robotic surgeries… and this would mean that it has high barriers to entry since surgeons would need to spend lots of time/effort to just master the *Da Vinci* and *Ion* systems.

High Switching Costs

ISRG benefits from high switching costs because the systems are complex machines that require incredible skills mastery of doctors.

Once the systems are installed, it is unlikely for hospitals to switch to another system as it would take up lots of time and costs involved (why change it when its working).

In addition, the competitive edge is further extended with ISRG signing long-term contracts that bind the customers into using systems longer. During the period, the company consistently develop more compatible upgrades to the systems.

Milking the Moat

ISRG economic moat is clear but there's one important thing investors should know - *Da Vinci* and *ION* systems are **not** what drives the profit margins. The disposable accessories and tools are the ones that provide recurring income.

This robust business model has generated a spectacular financial performance for ISRG.

Revenue, net profits and free cash flow are all growing steadily year after year. Net profit margins are also on pretty constant – averaging around 25% over the past decade. Lastly, it boasts of a net-cash pristine balance sheet too.

As mentioned previously, Joe Biden has pledged to **revert** back to the Affordable healthcare Act and **invest** in hard-working Americans' health, not protecting the most privileged Americans' wealth.

The number of 'un-covered' Americans are now back to pre-"Obamacare" levels totaling about 49 million (Reuters report: Trump Effect).

Simply bringing in the numbers that mean that a lot more surgical procedures will be done. In turn, demand of robotics surgeries will increase and benefit ISRG performance in the long run.

8. United Health Group

- Market Value: $307.9 billion (@ $324.5 per share)
- Dividend Yield: 1.54%

UnitedHealth Group (NYSE: UNH) is the largest private health insurance provider in the United States, offering medical benefits to nearly **50 million** members across its U.S. and international businesses.

As a leader in employer-sponsored, self-directed, and government-backed insurance plans, UnitedHealth has obtained massive scale in managed care.

Along with its insurance assets, UnitedHealth's continued investments in its ***Optum*** franchises have created a healthcare services colossus that spans everything from medical and pharmaceutical benefits to providing outpatient care and analytics to both affiliated and third-party customers.

For insurers, competitive advantages usually lie in size. Buffett has built an empire out GEICO and the reason is simple: size helps create low-cost products and more customers -> virtuous cycle.

UNH has got this on its side with next competitor like Cigna being just a quarter of its size.

Great Financials at reasonable valuation

The revenue and profit growth has been growing at a healthy clip hand-in-hand. This is largely due to the stable net profit margins of 6%, which also has increased in recent years due to their *Optum* product offering.

SHOW ALL % GROWTH	Trend	Full Year Dec 2020	Full Year Dec 2019	Full Year Dec 2018	Full Year Dec 2017	Full Year Dec 2016	Full Year Dec 2015	Full Year Dec 2014	Full Year Dec 2013	Full Year Dec 2012	Full Year Dec 2011
Return On Equity (ROE) [%] (Net Earnings/(Shareholders' Equity - Other Share Capital))		22.543	24.019	23.186	22.099	18.334	17.183	17.314	17.497	17.724	18.175

SHOW ALL % GROWTH	Trend	Full Year Dec 2020	Full Year Dec 2019	Full Year Dec 2018	Full Year Dec 2017	Full Year Dec 2016	Full Year Dec 2015	Full Year Dec 2014	Full Year Dec 2013	Full Year Dec 2012	Full Year Dec 2011
Free Cash Flow (Net Cash From Operations - Capital Expenditure)		20,123,000	16,392,000	13,650,000	11,573,000	8,090,000	8,184,000	6,526,000	5,684,000	6,085,000	5,901,000
Period-on-Period % Growth		*+22.76%*	*+20.09%*	*+17.95%*	*+43.05%*	*-1.15%*	*+25.41%*	*+14.81%*	*-6.59%*	*+3.12%*	*n.a.*

Albeit the low margins, the company is able to generate an increasing ROE over the years from 17+% to 22.5% as of Dec 2020. That's not all, UNH is generating copious of free cash flow, up 340% from $5.9 mil in FY2011 to $20.1 mil in FY2020.

Optum in Focus

Although its core business is about health insurance, the Optum segment represents the key growth driver for UHN.

So what is this 'Optum'?

As the information technology and services arm of UnitedHealth Group, ***Optum*** offers a wide breadth of services such as

- population health management
- pharmacy benefit management
- analytics
- consulting and other services to care providers, health plans, government entities and life sciences companies

This is done through its 3 divisions namely *OptumRx, OptumInsight* and *OptumHealth* businesses:

- **OptumHealth**: operates health savings accounts.
- **OptumInsight**: a payment processor for healthcare providers.
- **OptumRx**: a mail-order pharmacy.

For instance, the compelling edge of OptumRx is highlighted during its 3Q2020 conference call:

"[*OptumRx] integrated specialty solution brings a total approach to managing complex conditions across both the medical and pharmacy benefits where we are able to generate up to **$37,000 in annual savings per patient** by employing clinically appropriate care at more convenient, lower-cost sites."*.

You can also check out this article to find out why Optum is UNH's 'secret weapon' and growth driver in future. Some of the important excerpts from the article include:

Revenue for OptumInsight, the advisory consulting branch for technology and analytics, grew 19 percent or by $2.1 billion dollars last year.

"We have the largest healthcare consultancy in the industry," Murphy (CEO of OptumInsight) said. "We have 1,000 consultants within the advisory practice on both strategy and tactics."

Because it is a separate business from UnitedHealth Group and UnitedHealthcare, Optum is not under the same restrictive regulations faced by insurers.

*This means it can have a **higher profit margin** than the 15 to 20 percent that's regulated. **Insurers are mandated to spend 80 to 85 percent on medical costs**. If they make more than that, they must give the profits back to members.*

Healthcare Insurance Penetration to accelerate

Under Joe Biden, the Affordable Care Act will bring upon the revival of universal, cheaper healthcare for Americans. Biden proposed to include choice based private healthcare to cover all Americans eventually too.

Hence, the benefit to UNH is crystal clear – health insurance demand will kick into full force and UNH will ride on this mega tailwind with its massive network scale and close ties with the government.

Sector 5 - Low I/R environment + Taxes

Central banks are set to spend 2021 maintaining their ultra-easy monetary policies even with the global economy expected to accelerate away from last year's coronavirus-inflicted recession.

Chair Jerome Powell said that although he can see the "light at the end of the tunnel" thanks to vaccines being effected at speedy rates, he stressed that there would be no hasty withdrawal of the ongoing quantitative easing.

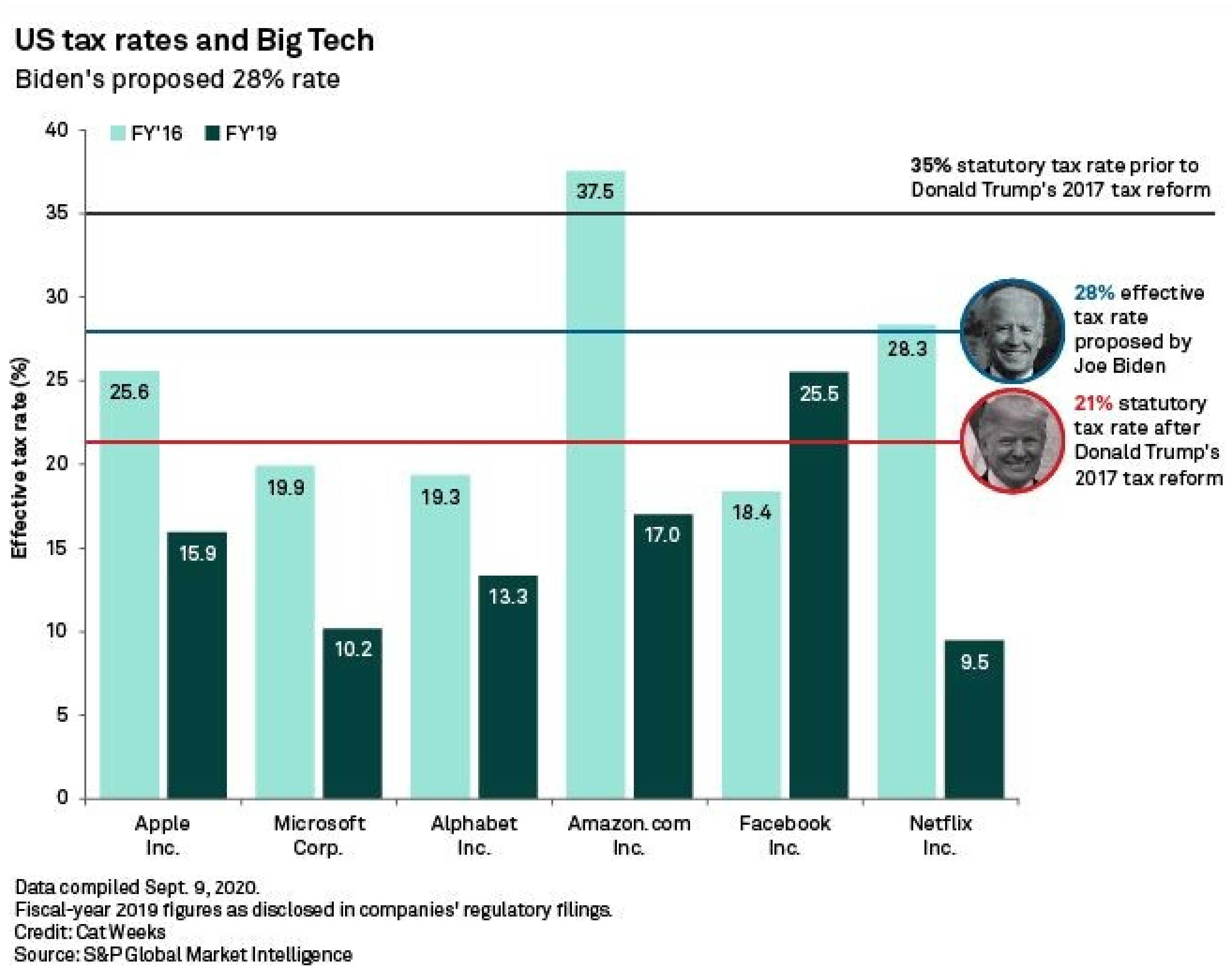
In fact, the US Fed has signaled they'll hold **interest rates near zero** through at least 2023, and promised to keep buying bonds at a monthly pace of at least $120 billion until "substantial further progress" had been made toward the targets for maximum employment and 2% inflation.

According to Bloomberg, *"This is a dovish-minded endeavor intended to avoid a repeat of the 2013 taper tantrum. The economy is poised for a robust recovery in 2021, but Bloomberg Economics does not expect quantitative easing to be scaled back until 2022, leaving interest rate lift off closer to 2025."*

On the flip side, Biden has also proposed to raise corporate taxes from 21% to 28% as part of a repeal of the 2017 Trump tax cuts. In addition, he also aims to set a minimum tax of 15% on companies' book income, or profits reported to shareholders, and to raise taxes on foreign earnings of U.S. companies located overseas — two policies that directly impact the U.S tech sector.

Specifically, Biden has criticized Amazon.com Inc. and other large tech firms for not paying higher taxes, claiming his proposals would hold these companies more accountable by ***tightening current loopholes***.

See below to on how the change in taxes will affect the big tech giants greatly below:



By and large, these 2 government policies of keeping I/R low and raising corp. taxes would be detrimental to the Tech giants but beneficial to REITs.

This is because a REIT doesn't pay taxes due to the legislation where it needs to pay out at least 90% of its taxable income to investors as dividends. Furthermore, REITs essentially function by buying properties on debt; and the low interest rate environment serves as another added bonus in this case.

All in all, we think that the government policies may divert greater flow of capital into REITs given their status as a safe haven or a nice hedge to the growth tech stocks. Here are 2 of our US-based REIT picks…

9. Realty Income Corp.

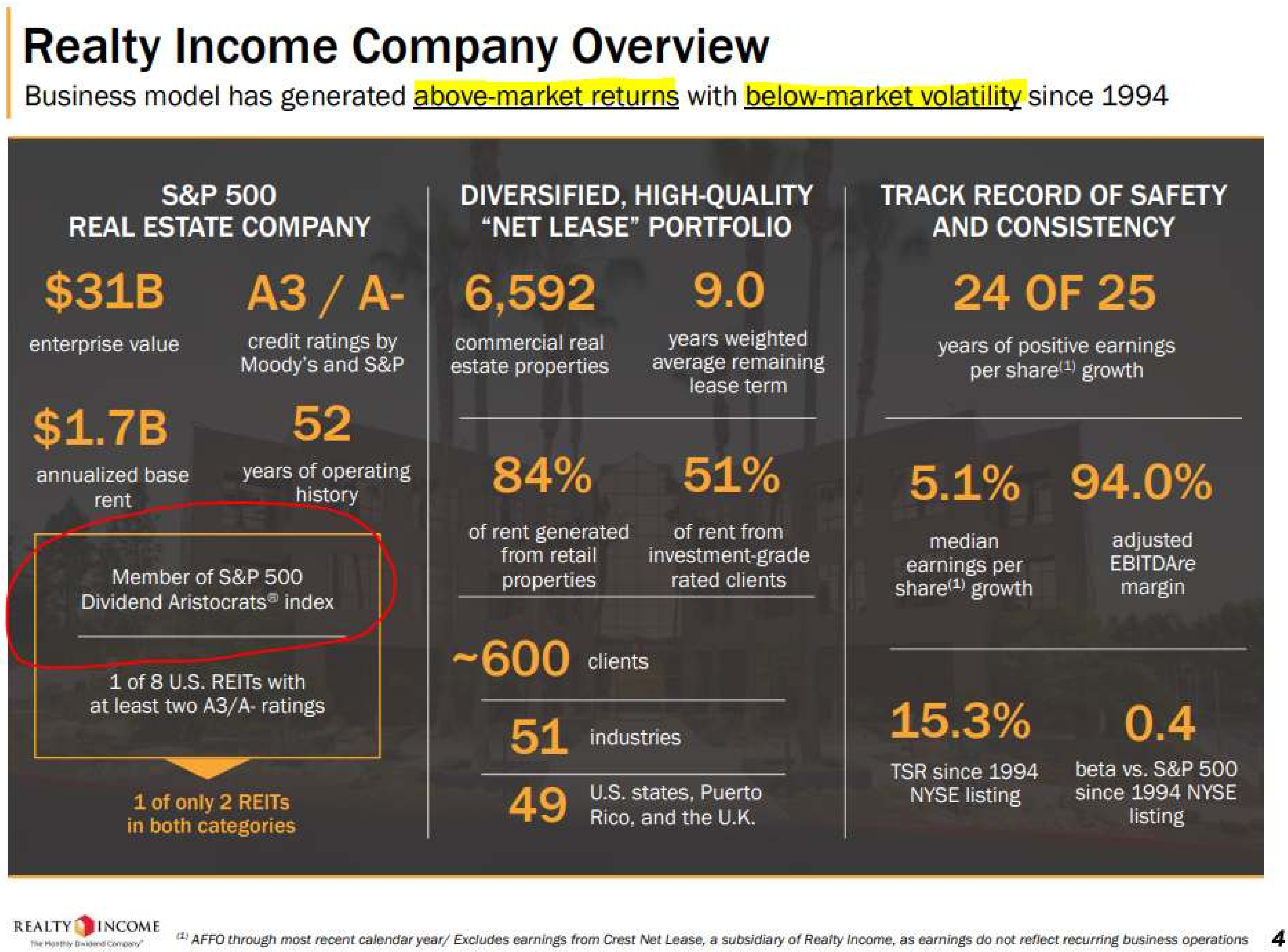
- Market Value: $22.84 billion (@ $61.18 per share)
- Dividend Yield: 4.6%

Realty Income (NYSE: O) owns roughly 6,500 properties, most of which are freestanding, single-tenant, triple-net-leased retail properties. For those uninitiated, "**Net lease**" means that the tenants are responsible for paying most/all of the operating costs of the properties they occupy.

Located in 49 states and Puerto Rico, the properties are leased to 250 tenants from 47 industries. Recent acquisitions have added industrial, office, manufacturing, and distribution properties, which make up roughly 18% of revenue.

Realty Income specializes in retail properties with most of its portfolio comprising of pharmacies, dollar stores, convenience stores, big-box retailers etc. which is relatively COVID-proof.

Dividend Powerhouse



If there's one thing to like about Realty Income, it is about its dividend consistency.

Realty Income has been paying dependable monthly dividends throughout its 52-year operating history. And they have been added to the S&P High Yield Dividend Aristocrats® index in 2015.

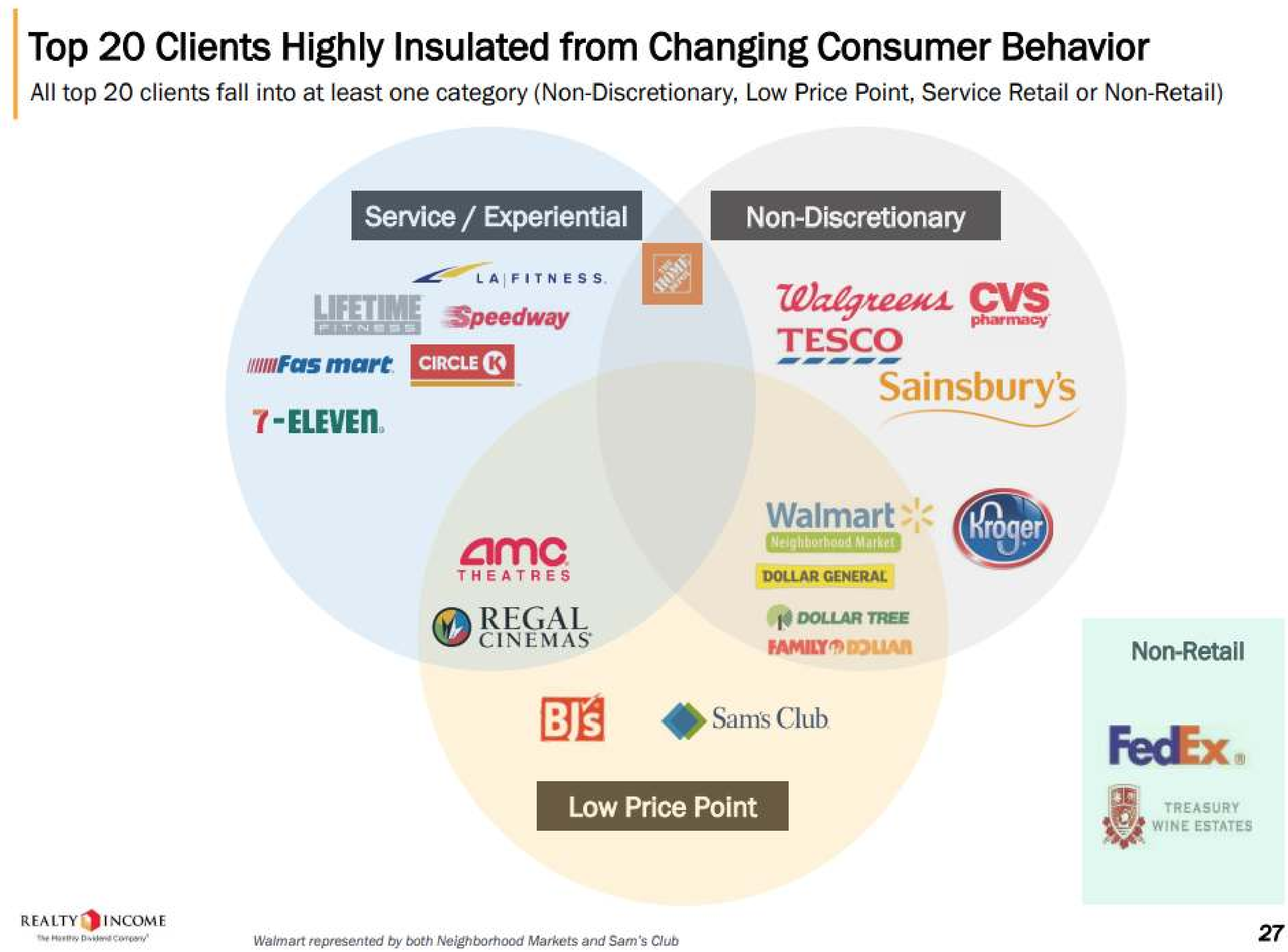
This is because they just paid their **604th consecutive monthly dividend** and **raised** their dividend 104 times since 1994. A very impressive streak given the Covid-19 lockdown!

Diversified, Steady Future Growth

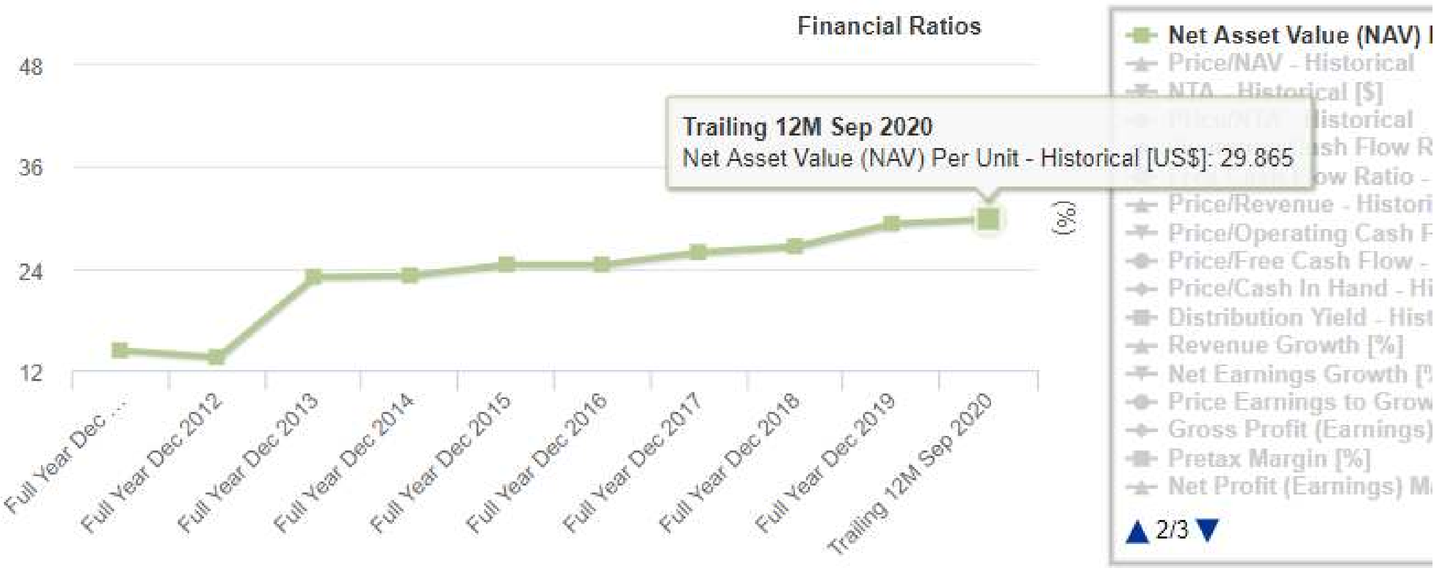
The REIT’s competitive edge hails from the advantage of being one of the largest net-lease REITs around in US. Meanwhile, the average lease term for the REIT's portfolio is a good 9 years period.

That means any weak economic patches, like the one facing the United States today, aren’t usually too big a deal since they are unlikely to outlive the leases.

Based on its investor presentation, their top 20 clients are also highly insulated from changing consumer behaviour.



To top it off, it has been able to grow its NAV per unit from US$14.3 in Dec 2011 to US$29.8 in Sep 2020 ttm.



The long-term shareholders have also been well rewarded with the share price jumping 600% in the last 20 years (excluding dividends).

Going forward, Realty Income will stand to benefit from the low Interest rates (upon refinancing). The other angle can also be an impetus from the increased infrastructure spending to push real estate prices (NAV) higher.

10. STORE Capital

- Market Value: $8.66 billion (@ $32.97 per share)
- Dividend Yield: 4.37%

STORE Capital Corp is a real estate investment trust involved in the acquisition and management of single tenant operation real estate, or STORE, properties across the U.S. STORE Capital primarily leases facilities at which a company operates its business and generates sales to middle-market and large businesses through long-term agreements.

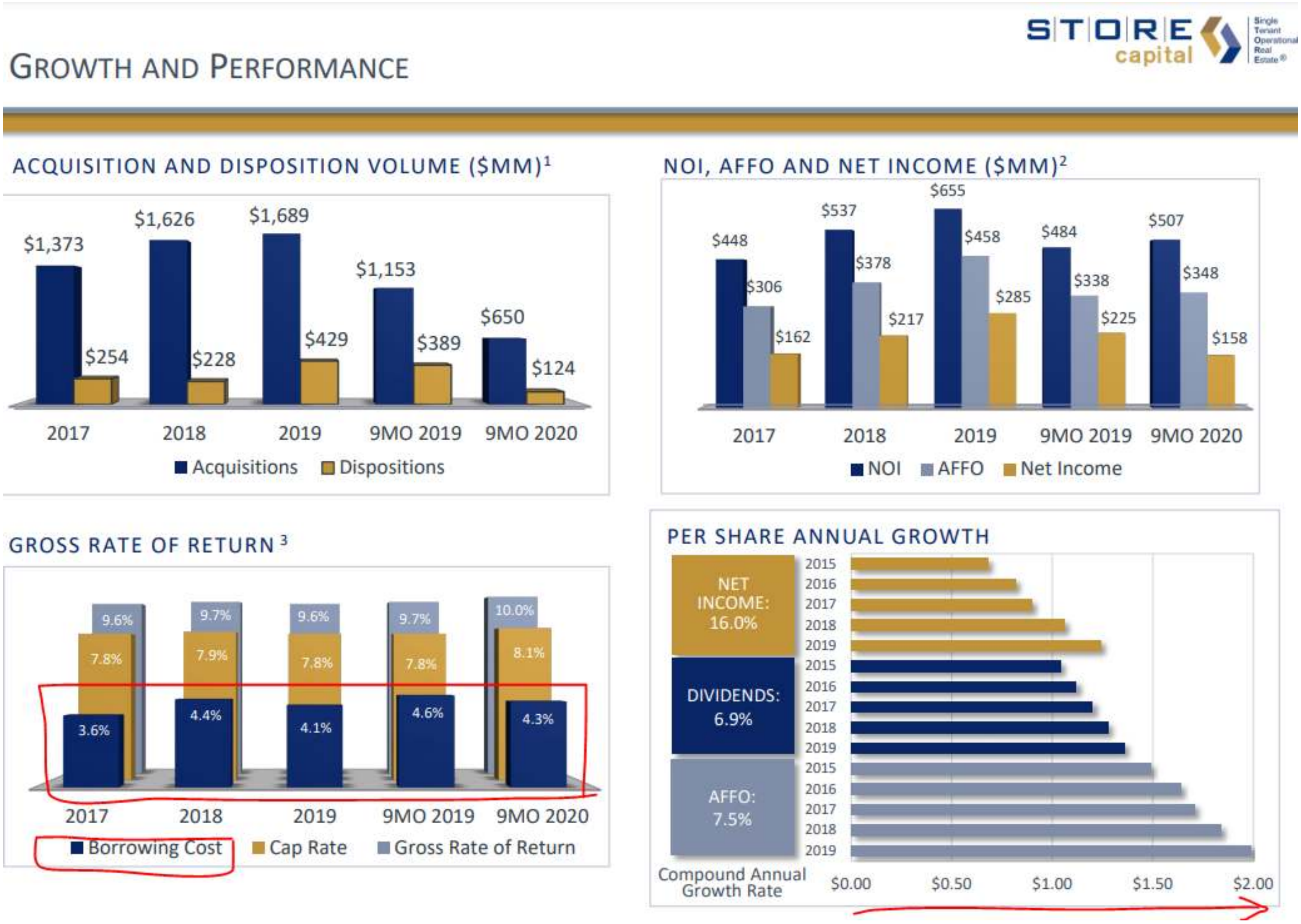
Most of STORE's revenue comes from its service sector customers, which include, notably, restaurants, movie theaters, health clubs, early childhood education centers, and furniture stores.

A sizable percentage of STORE's total real estate portfolio is comprised of the restaurant and industrial locations. Specifically, properties in Texas, Illinois, and Georgia make up a large amount of STORE's investments as well.

Resilience amid COVID-19 crisis

Realty Income (previous pick) and STORE Capital are **both net-lease REITs**, which means they own single-tenant properties, and their tenants are responsible for most of the operating costs of the assets they occupy.

This is probably the best kind of model for REITs given the **low-risk + high-reward** ratio. Its financial performance is also commendable with net income and dividends growing steadily as seen below:



STORE also puts up its Gross Rate of Return v.s. its borrowing costs and it is almost identical year after year – a exemplary sign of capable management.

Given the gap of 4+% borrowing costs and near zero interest rates Fed has promised, there is a good chance that this low borrowing costs can continue or even go lower.

Warren Buffett's only REIT

One important thing that jumps out to me is this - Warren Buffett owns about **9.8%** stake in STORE Capital, and it is his **only 1 REIT investment** in the diverse Berkshire portfolio with household names like Apple, Coca-Cola and Amex.

This investment by Warren Buffett speaks volumes about the enduring moat of STORE and how it can continue to grow over the long run.

It should also be noted that the history of STORE capital is relatively short (to Warren Buffett) as it went public only in 2014 and the pandemic was its first real test.

That said, the company remains optimistic given over 90% of rental are already collected and its portfolio still boasts a stable occupancy rate of 99.6% - a vote of confidence and resilience of its properties.

Last but not least, STORE Capital is relatively smaller in size (compared to Realty Income) and might have more to gain with the REIT advantages in new Biden term.

Conclusion – Final Thoughts

Important changes are coming especially given the vastly different approach when you compare Donald Trump against Joe Biden. A few notable ones include the re-joining of Paris Climate accord, extension of New Strategic Arms Reduction Treaty with Russia and many to come.

In addition, the new cabinet nominees like Anthony Blinken will also serve as a good de-limiter to ease geopolitical tensions with China and other nations (Blinken in past has favored cooperation of China).

Update after Biden's Inauguration

Joe Biden's inauguration address is testament to help keep in check the vision and grand plans for America. One of the remarks from Biden is this,

"Much to repair. Much to restore. Much to heal. Much to build, and much to gain."

Biden was a man of decisive action and delivered upon his promises. As of 5th of February 2021, in about 2 weeks of the Biden presidency, 28 executive orders of national and international importance are already signed.

The Executive Actions

Let's look at few important ones to note:

- Executive Order 13990 Protecting Public Health and the Environment and Restoring Science To Tackle the Climate Crisis
- Executive Order 13995 Ensuring an Equitable Pandemic Response and Recovery
- Executive Order 14002 Economic Relief Related to the COVID-19 Pandemic
- Executive Order 14008 Tackling the Climate Crisis at Home and Abroad
- Executive Order 14009 Strengthening Medicaid and the Affordable Care Act

All of these reiterate the 5 key themes we have highlighted. Policy changes and expenditure plans are underway for green sector, healthcare, infrastructure and a commitment to global cooperation instead of “trade wars”.

In kick-starting the economy back, the executive orders to augment about $1.9 trillion to previous plans is underway as we speak.

Bottom-Line

Biden’s clear plans on clean energy, infrastructure, healthcare etc. are set to tilt benefits towards the companies within these industries.

The list of 10 stocks above serve as a good starting point for investors but it is not an exhaustive list.

One should also do your own due diligence and measure the potential risk-reward ratios.