2020 Has Been Traumatic for Many—But Studious Investors Can Use It to Secure Attractive Returns

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Despite a rough year, there are many lessons to be learned for investors who are willing to study.

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2020 has been a seismic year for the entire world. Several industry dynamics have been redefined and previously reliable axioms put to the test. Businesses have had to deal with unprecedented circumstances, including—for some—the sudden and complete loss of sales.

At a macro level, digital transformation has accelerated, and fluctuations in demand have encouraged some supply chains to morph from "just in time" to "just in case." Business leaders now have to scenario plan for shutdowns, not just mere slowdowns.

But are changes temporary or permanent? Are some industries and revenue streams not as defensive and secure as first thought? Which sectors will win and lose?

To answer these questions, it is necessary to distinguish lasting changes from temporary disturbances, and then identify opportunities created as a result.

In travel and leisure, the complexity and risk of traveling or mixing has led to a large fall in activity. However, GCC (Gulf Cooperation Council) citizens, accustomed to summer trips abroad, scratched the leisure itch by exploring domestic options. The Saudi Tourism Authority was quick to leverage the opportunity with its 'Saudi Summer' campaign, showcasing destinations across the Red Sea coast. Scores of people started discovering the shores of Umluj, the mountains of Abha and the historical spice route where T.E. Lawrence once lived in Yanbu. In Dubai, popular restaurants experienced footfall rarely seen in the slow month of August.

In the long run, the discovery of domestic travel and local leisure options should catalyze these sectors and drive investment returns. However, the activity resurgence has been limited to certain venues, so investors should be able to identify well-run and attractive assets.

In real estate, the work-from-home trend has caused much anxiety for commercial property. Excitement around this trend is fading, as team dynamics are getting challenged, as burnout increases because people are unable to unwind and as corporate cultures weaken. Not all workers have the luxury of space (or quiet) to work from home.

Real estate prices have—unsurprisingly—declined during 2020, and challenging times lie ahead, but there are some buying opportunities. In the UAE's residential sector, volumes are surging in the villa sub segment. Sales are strong, albeit at lower prices. Nakheel in the UAE sold over 500 homes between March and September and sold out its luxury family villas at Al Furjan. The lockdown has shifted demand patterns, a trend that can inform ongoing developments.

In the wider consumer-facing sector, be it retail, health care or education, operators received a rude awakening. Boards that regarded digital transformation as peripheral or didn't appreciate the urgency of disruption, were forced to accept a new normal—the need to be digitally enabled. For investors, digitization is now essential due diligence, not an upside lever post-investment.

Communications is an industry that enabled work, education and socializing to continue in 2020. Information communication technology (ICT) infrastructure played an integral role for basic needs, such as accessing classes online or consulting a physician through telemedicine. This means investment in building data centers, improving broadband reach and rolling out 5G will be a priority for regional governments. Regulatory change will continue to be supportive of growth. The UAE demonstrated this in March with its quick easing of bans on some VoIP platforms and allowing access to video calling platform Zoom.

Interestingly, COVID-19 has highlighted the need for these basic services.

In education, schools have been proven as a necessity, not easily replicable by providing education online. They provide children not only academic instruction but also engagement, social development and physical activity. It's not a stretch to say that they are also an effective form of day care for children of all ages and a source of sanity for parents. This supports investment strategies focused on education, especially in a region like the GCC where 70 percent of the population is under 35 years old.

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As COVID-19 accelerated telemedicine, it also elevated health and wellness considerations. The importance of a robust immune system, and a healthy disposition creates demand and opportunities in sectors such as VMS (vitamins, minerals and supplements), sports and fitness, elective health monitoring and spas.

The panic in the early period of the crisis will result in an increased focus on manufacturing and supply chains security for pharmaceutical products and medical supplies. Health care has seen a lot of interest from investors within the MENA region but, until recently, investment has been focused on asset-heavy facilities. There is an opportunity to expand beyond this, into these promising subsectors.

The retail sector saw obvious shifts to online channels and essential categories. Retailers of essentials—even if they were sufficiently online—faced another challenge: acceleration of a D2C (direct-to-consumer) trend which many brands and manufacturers benefitted from. If products are being bought online, logic suggests brand owners, especially if they are of scale, benefit from a pull dynamic to leverage the trend and eliminate middlemen.

From an investors' perspective, if you're buying a retailer, the experiential, touch and feel, service aspects and specific category dynamics are crucial to the investment decision—in addition to omnichannel presence.

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For brand investors (fast-moving consumer goods or other goods), it is an opportunity to assess D2C potential for both margin expansion and to own customer data, which informs future products and production levels. This has been demonstrated by Nike's performance which experienced a sales rebound and a 150 bps increase in gross margin supported by a 12 percent increase driven by its 'Consumer Direct' strategy. Nike broke off its Amazon partnership in 2019, invested heavily in its D2C technology and acquired Zodiac, a predictive analytics group.

As traumatic as 2020 has been, many lessons can be learned. Investors who study it—and make good decisions—will be able to secure attractive returns.