August 2015

Investment Watch

Stocks to watch – earnings surprise/disappoint candidates

Coming into the FY15 reporting season, the S&P/ASX200 has retreated 5% from its 7 year high in April, but we caution against treating it as an outright buying opportunity. Earnings downgrades have kept a tight lid on performance despite the fall in the AUD doing its part to buoy the market. We look for earnings certainty and stocks that can defend margins through further cost outs.

Revenue growth remains weak and with RBA Governor, Glenn Stevens, suggesting that 'perhaps trend output growth is lower than the 3 per cent or 3.25 per cent we have assumed for many years', we can't help but feel somewhat cautious about the short- to medium-term growth outlook.

A sustained pick-up in earnings remains elusive, yet valuations remain higher than historical averages. We think stocks priced for perfection will be treated harshly if they fail to deliver. Focus for us will be on outlook guidance and clues that the downgrade cycle has finally turned a corner.

The fall in commodity prices and currency movements have resulted in some large differences in forecasts. At a sector level, we think materials and energy are at risk of disappointing while housing-linked retailers and healthcare stocks may surprise.

Themes to watch

- **Upside risk to housing-linked sectors**
- **More pain for mining services**
- **Signs that earnings have turned a corner**
- **Be aware of stocks coming out of escrow**
- **Stripping costs out**

On page 3 we outline our key themes for the upcoming reporting season in more detail.

For more information on reporting season visit our website to read our Equity Strategy report – **'Reporting Season Hotspots'** published on 28 July 2015

	Stock	Comment
Surprise	DMP	Trading update at the 1H result exhibited very strong same-store sales growth. We expect the continuation of strong comps, material margin upside and record store growth will result in DMP beating its 32.5% NPAT growth guidance. **(Full-year result 11 August)**
Surprise	QAN	We think the full year result will reinforce the strong operating conditions and a possibility of a dividend being reintroduced. News flow is a key share price driver of airline stocks and the next 6-12 months is likely to remain positive with monthly operating statistics set to remain favourable. **(Full-year result 20 August)**
Surprise	HSO	We think the sale of the pathology business clears the way for HSO to focus on its core hospitals business, which may provide some upside to guidance at the result. Operationally we think that the cost out program and brownfield expansion may also surprise at the upcoming result. **(Full-year result 26 August)**
Surprise	HVN	Stock has all the tailwinds with it at the moment: Housing strength; budget stimulus for small businesses; and cool weather. We think that recent consensus earnings upgrades and the potential for excess franking credits to be disbursed may again lead to a positive surprise at the FY15 result. **(Full-year result 24 August)**
Disappoint	CAR	The company was unable to secure price rises for FY16 and listings volumes continue to remain weak. We see a material risk of consensus downgrades to FY16 earnings. **(Full-year result 13 August)**
Disappoint	TPI	TPI has direct and indirect exposures to activity levels in the mining industry, which has been weak. It also is a mini-oil and gas producer via its Hydrocarbons business, whose earnings are likely to be impacted (particularly on a lagged basis) by the decline in the oil price. **(Full-year result 21 August)**
Disappoint	WPL	An unchanged payout ratio, combined with significantly lower earnings, is expected to result in a lower dividend from this half onwards (unless oil/LNG prices recover), which will put at risk its 'yield play' tag. **(Interim result 25 August)**

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Visit our website to watch our Chief Economist, Michael Knox discuss his views on Greece and the economy.

Peace in Greece? – Euro Summit provides Greek solution (for now)

Mark Twain remarked that 'the music of Wagner is not as bad as it sounds.' Just so, the deal provided to Greece by the Euro Summit may not be as draconian as it first appears. Unpalatable yes; draconian no. In the period leading up to the July Euro Summit, Greece was looking for around €50 billion in funding. The Euro Summit makes provision for total financing needs of up to €86 billion. Greece may be getting more money than it sought but under special conditions.

The most interesting area concerns privatisations. Greece has to agree to transfer the ownership of important State assets such as ports and electricity transmission networks to 'an independent fund that will monetise the assets through privatisations and other means.' The monetisation of these assets will be one way that a new loan that will be provided by the European Stabilisation Mechanism (ESM) will be repaid.

Privatisations should generate a total of €50 billion in sale proceeds. Of this amount, half will be used for the repayment of the recapitalisation of Greece's banks. One quarter will be used for decreasing the Greek debt to GDP ratio (paying down Greek sovereign debt). The remainder will be used for new public investment. What this means is that three quarters of the privatisation money goes back into the Greek economy and only one quarter goes to the creditors. This is a pretty reasonable deal for Greece.

Greece has to agree to a lot of programs that Australians might call 'micro-economic reform.' These programs include changing regulations on Sunday trading; pharmacy ownerships, milk and bakeries. They also include deregulation of closed professions such as the marine staff engaged in ferry transportation.

Other programs include the modernisation of collective bargaining, industrial action and implementing 'the relevant EU directive and best practice, (on) collective dismissals.'

On the other hand, the Euro Summit takes note of the urgent financing needs of Greece such as the €7 billion on 20 July, plus an additional €5 billion by mid-August. They note that the total envelope of a new ESM program would have to include a buffer of €10 billion to €25 billion for the banking sector to support bank recapitalisation. They note that €10 billion will have to be made immediately available in a segregated account for the ESM.

As a special sweetener, the Euro Summit announced that 'to help support growth in job creation in Greece (in the next three to five years) the Commission will work closely with the Greek authorities to mobilise up to €35 billion (under various EU programs) to fund investment and economic activity.' This is considerable additional support to the Greek economy.

As to the longer term problems of restructuring Greece's debt, the Euro Summit notes that the Euro Group stands ready to consider possible additional measures on Greek debt such as possible longer grace and payment periods aimed at ensuring that gross financing remains at a sustainable level. However, the Euro Summit 'stresses that nominal haircuts on the debt cannot be undertaken.' This last sentence restates the problem that we have been discussing since early this year. Without the forgiveness of a substantial part of Greek's official debt, Greece's sovereign debt to GDP is so high that this debt cannot be sustained in the long term.

The Euro Summit has provided a set of solutions which may well support Greece through the next couple of years. The essential problem of the restructuring of Greek's official debt is still too politically difficult for the Euro Area and its institutions to address. Until this problem is addressed, Greece will be a problem that explodes anew every two or three years.

> 'We peg fair value of the ASX200 at 5,600 points, rising to 5,700 points by December 2015. As we go to print, the market looks only slightly cheap'

Stockmarkets – We expect the Greek shock to be short lived

Markets are navigating a period of flat earnings growth for both US and Australian companies. However both markets are trading at modest Price to Earnings multiple premiums to their long term averages which usually implies that investors are optimistic that earnings will grow. This may be partially true, however the over-riding driver is the ultra-low interest (and bond) rate environment forcing funds into equities to earn a tangible return.

We peg fair value of the US S&P500 at 1,800 points, rising to 1,900 points by December 2015. This suggests the US market is still modestly overvalued trading above both of these levels. We peg fair value of the ASX200 at 5,600 points, rising to 5,700 points by December 2015. As we go to print, the market looks only slightly cheap.

It's quite possible that a prolonged resolution to the Greece compromise or a loss of confidence in China could push both markets lower in the immediate term.

Stocks to watch – earnings surprise/disappoint candidates

From page 1

Themes to watch

Upside risk to housing-linked sectors

A sustained pick-up in discretionary spending and housing investment should underpin earnings in the housing-linked retail and building materials sectors. In our view, these sectors should be supported on relatively higher valuation multiples, reflecting the length of the cyclical upswing that is in train against a lower-for-longer interest rate environment. However, we keep a watchful eye on companies tempering their FY16 and FY17 outlook as we move ever closer to the cyclical peak.

More pain for mining services

The downturn in mining investment and the fall in bulk commodity prices put pressure on the miners to lower costs, but it is difficult for them to adjust the cost base quickly enough with much of the low-hanging fruit already extracted. Ultimately, the mining services sector wears the fallout. In our view, the outlook for resources and mining services will continue to be subdued reflecting the duration of the cyclical downturn.

Signs that earnings have turned a corner

Market EPS has tracked more-or-less sideways over the last three years and downgrades continue to outweigh upgrades. Until we see evidence of a sustained upgrade cycle, we think the market is unlikely to re-rate past its already elevated 15.5x 12-month forward price/earnings (PE) multiple. Our year-end index target for the S&P/ASX 200 is 5700 a modest 2% upside from current (July 28) levels.

Be aware of stocks coming out of escrow

On the back of the weight of recent IPOs, shares tied up in escrow will be released this reporting season, which may put some selling pressure on some of the better performing industrial names. Look out for **Regis Healthcare** (REG), **Mantra Group** (MTR) and **Lovisa** (LOV).

Stripping costs out

In a market starved for growth, cost-out remains a key theme environment absent of top-line growth, we calculate aggregate revenue growth in the Industrials (ex-financials and ex-utilities) sector at a subdued 3.6% in FY15 and 3.5% in FY16, compared to an average annual growth rate of 4.2% over the past 5 years. Margins are tipped by Bloomberg consensus numbers to expand further which in our view appear optimistic given margins have compressed over recent years. Moreover, cost-out programs have seen much of the low-hanging fruit picked. We think this further highlights the risk to downside this reporting season.

Investor sentiment improves resources

We recently attended the Noosa Mining and Exploration Conference which Morgans was again proud to support as major sponsor. The conference featured presentations from the metals, mining and energy sectors.

A key takeaway from the conference was that investor confidence is building with the mood cautiously optimistic.

Respected keynote speakers such as mining veteran Owen Hegarty suggest that it's a matter of 'when' and not 'if' we will see a cyclical uptick in the resources sector.

Subdued commodity prices have seen exploration investment fall and M&A activity is focussing on established operations. With the lack of new projects the feeling is the market will rebound, but the time frame is more difficult to pick. While no-one professed to be able to pick where the oil or metals prices might be in the near term, the general consensus was that prices will be headed higher over the coming years and equities remain cheap.

Our top picks from the conference included **FAR Limited (FAR)**, with follow-up drilling on its SNE-1 oil discovery which was the largest global discovery in 2014. In FY16 FAR will drill at least three wells into the SNE field to further enhance the resource.

Orocobre (ORE) is the only listed lithium producer with its flagship Olaroz project in Argentina. Its ramp up to full nameplate production of 1450 tonnes per month will be complete in the 4QCY15.

For more information on **Noosa Mining Conference** visit our website to read **Noosa Conference Wrap 2015** and **Noosa Mining & Exploration Conference**

Retail – sticking with the niche players

The state of the consumer is always very topical and is often used as a barometer for the state of the broader economy. Consumer sentiment continues to be volatile and remains slightly below the long term average. As such, the consumer remains fragile and value focused which we have witnessed in recent earnings confessions from Flight Centre, Woolworths and Oroton.

The buoyant housing market has been a clear positive for some retailers, as is the small business incentives recently announced in the budget.

The sharp fall in the AUD is also a headwind for retailers. Most are hedged through 2015 after which they will have to lift prices (or lower product quality) or suffer margin pressure. Lifting prices amid fragile consumer confidence will be difficult, hence we believe that margins will be squeezed across the sector.

Lower fuel prices (although these have increased more recently), further interest rate cuts, and a buoyant housing market offer potential stimulus to consumer spending, although these are balanced against poor wage inflation and a questionable unemployment outlook.

On this front, we continue to maintain a market weight exposure to consumer staples and a clear preference for **Wesfarmers**. We also favour those retailers exposed to the strong housing segment such as **Harvey Norman** and **Beacon Lighting**, although acknowledge the housing strength will run out of steam in future periods. We also maintain a preference for speciality retailers with strong structural growth and offshore exposure being **Domino's Pizza**, **Lovisa** and the recently listed **Adairs.**

Banks – raisings and repricing

APRA's announcement of increased Mortgage Risk Weightings to c25% makes it more certain that the banks (ex National Australia Bank) will announce capital management initiatives at their upcoming results. The increase in mortgage risk weightings is about a A$13bn increase in capital requirements across the banks sector, on our estimates. While the threat of significant capital raisings is a negative, we do note that two of the big four banks (Commonwealth Bank and ANZ Bank) also announced a 27 basis point increase in the variable interest rate on their investor mortgages. While they indicated this increase was an attempt to slow investor lending, per APRA requirements, we also think it highlights that banks may be able to offset some capital drag from raisings by increasing mortgage pricing. We estimate this move by CBA and ANZ adds 1.5%-2.5% to their earnings.

With the banks sector still trading on 13.5x earnings, the banks remain expensive versus their historic average trading multiple of 12.5x. Therefore we maintain a neutral sector stance until the capital raising story fully plays out, thinking it might see a gradual pull back in share prices over the next six months. We continue to prefer **ANZ Bank** given the stock is clearly the cheapest in the sector.

Westpac launches new Capital Note

Westpac (WBC) recently launched a prospectus for a new Capital Note offering. The new security will pay investors a margin of 4.00% to 4.20% above the 90 day bank bill swap rate which equates to an initial annual distribution rate of 6.15% to 6.35% (based on a 90 day bank bill rate of 2.15%). The security is Perpetual but redeemable by WBC on 22 March 2021 (subject to APRA approval). The security will provide investors the highest running yield of all major bank security issues and below we compare it to other ASX listed WBC securities. We view the security's issue margin as attractive relative to peer securities and note that it is at least 120bp higher than CBAPD which was issued last year at a margin of 2.80%.

For more information on Westpac Capital Notes 3 please refer to the Offer Summary.

Disclaimer: Morgans is a Joint Lead Manager to the Westpac Capital Notes 3 and may receive fees in this regard.

Property – stellar run extends

In extending its stellar run, the property sector continues to perform solidly delivering a total return of around 20% in FY15 versus the broader market return of around 6% including dividends. Key drivers of this performance have been the low interest rate environment (driving yield arbitrage) as well as merger and acquisition activity with many groups struggling to grow organically. We expect the upcoming reporting season won't hold too many surprises for the REITs given distributions have been announced. The focus will be on outlook commentary and leasing updates.

While property companies are broadly in good health, we highlight that the eventual upward movement in US interest rates will place capital values (share prices) at risk. We think the sector has exhibited 'bond-like' qualities on its way to significantly outperforming all others in the last two years. As global interest rates normalise, we think that property trusts are among the most vulnerable of asset classes to the reversal of the yield arbitrage trade.

Our preferred REIT exposures include **360 Capital Industrial Fund** (industrial exposure) where the average lease expiry profile is strong at over 5 years and the FY16 distribution yield is over 8% (paid quarterly). **Cromwell Property Group** (office exposure) has a 5 year weighted average lease expiry and a track record of managing cycles which we believe will help buffer against near term challenging office markets. The yield remains attractive and is paid quarterly. Cromwell also now has exposure to offshore funds management via its acquisition of Valad Europe.

We also continue to prefer REITs with exposure to niche sectors/ high barriers to entry such as **APDC Group** (data centres) and **Generation Healthcare REIT** (healthcare). Our preferred retail exposure remains **Federation Centres**. For diversified exposure we continue to prefer **Stockland Group** which has good leverage to the residential markets. For global exposure we continue to highlight **Westfield Corporation** given its exposure to the US and UK.

On the residential front, developers continue to enjoy strong markets across most states. Certainly the Sydney and Melbourne apartment markets are heated, driven by very strong investor activity and offshore buying which has an increasing focus from regulators. Elsewhere, the Western Australian market is softening; the Victorian detached homes market remains solid and Queensland's recovery remains in upswing. From a listed perspective, the noise around property bubbles and regulation have stalled share price momentum of the listed developers, despite what is a solid medium-term outlook for most companies in the sector. Our top pick in the sector is **Villa World (VLW)**, which on our FY16 forecasts is trading on 8.5x PE and a fully franked dividend yield of c7%. The company has a bias to the Queensland market, where we expect the cyclical uplift will be steadier and has more longevity from this point than the other main east coast states. VLW's core market is the affordable owner occupier segment, which we believe will be less volatile and reduces VLW's exposure to potential risks associated with tighter regulation of investment and offshore housing investment.

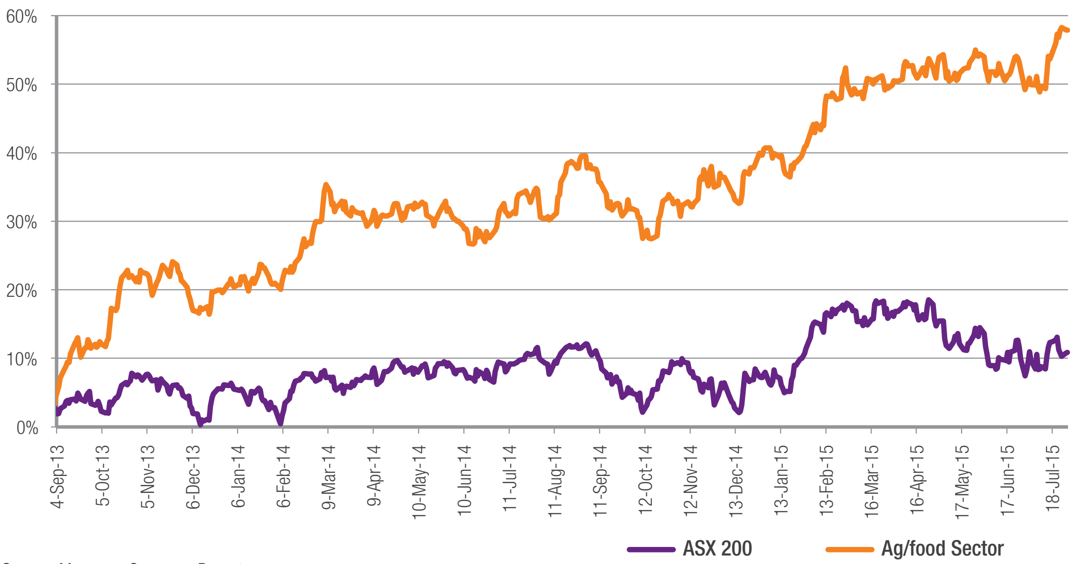
Agri/food sector – a profitable place to invest

There has been strong interest in the sector for the following reasons:

- There is a switch from the mining boom to the dining boom.
- Industry fundamentals look positive for many years to come – strong population growth (particularly from Asia) will require more food; a rising middle class is eating a more westernised, higher protein diet; and the supply of agricultural land and water is reducing due to urbanisation, environmental contamination and climate change. In short, rising food demand needs to be met from fewer resources which will put upward pressure on soft commodity prices.
- There is strong demand for Australian agricultural produce for its high quality and safe image. These factors can be important in attracting premium prices in Asia. Australia also benefits from its freight advantage to Asia.
- The sector is a beneficiary of a falling AUD and lower oil prices.
- Recent Free Trade Agreements (FTA's) will increase Australia's competitiveness and we are already seeing more deals being discussed which should lead to more M&A in the future.

While stocks have performed strongly, we continue to have a positive view on stocks with strong earnings momentum including: **Bellamy's Australia (BAL), Capilano Honey (CZZ), Select Harvests (SHV)** and **Elders Limited (ELD)**.

Agri/food sector vs ASX 200



Source: Morgans, Company Reports

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Ellerston Asian Investments Limited – IPO

Ellerston Asian Investments

Ellerston Asian Investments has launched a new Listed Investment Company ('LIC') to provide Australian investors with a concentrated portfolio of high quality investment opportunities in Asian equities. Ellerston Capital will be managing the new LIC and is led by Ashok Jacob who has over 31 years of global equity investment experience and currently manages over $4 billion in Funds Under Management. Portfolio Manager, Mary Manning has invested in Asian equities since 2001 and worked for leading funds management companies in New York and Singapore.

Key investment highlights:

- Access to high quality and high growth Asian listed companies through an opportunistic but disciplined investment approach
- Proven investment approach using macro analysis, identification of thematics and intensive bottom up analysis to arrive at high conviction ideas
- Strong and sustainable underlying growth drivers with a current bias towards China and India over ASEAN opportunities
- Active currency management with dynamic hedging taking a directional view of currency.

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High Conviction Stocks

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Top 100

This month's changes

The market finally got some relief in July from the macro issues surrounding a Grexit and Chinese equity bubble. Approaching reporting season, the focus will return to earnings. The breadth of analysts downgrades has been quite alarming and we err on the side of caution. FY15 will be unspectacular so key for us is how companies are viewing FY16. We make only one change to the list this month, removing Federation Centres.

Amcor AMC			
Price	$14.41	PE (x)	17.9
Price Target	$15.52	Yield	3.9%
Upside	7.7%	Gross Yield	3.9%

Amcor Limited is a global packaging company offering a range of packaging related products mainly servicing defensive sectors such as food, beverages, healthcare, personal and homecare, and tobacco.

Key reasons to buy

- AMC is a high quality, defensive business with exposure to higher growth emerging markets. AMC generates 95% of revenue from sectors such as food & beverage, healthcare, personal care and tobacco packaging. Given its defensive characteristics, we think the stock should be well supported in the current volatile environment.
- MC reports earnings in USD. A fall in the AUD/USD is therefore positive when calculating our AUD-based valuation. We expect the AUD/USD to average 73c in FY16 and see upside to our numbers if it continues to depreciate further.
- AMC is always a potential capital management candidate given its strong FCF generation. AMC is currently undertaking a US$500m buyback, which should provide support for the share price in the short term and we see potential for further capital management opportunities down the track.

ANZ Banking Group ANZ			
Price	$32.68	PE (x)	11.4
Price Target	$39.00	Yield	6.2%
Upside	19.3%	Gross Yield	8.8%

ANZ is among the top 20 banks in the world, operating in 33 countries with the largest exposure to Asia of the Aussie major banks.

Key reasons to buy

- With further interest rate cuts looking likely in Australia, we with think the domestic banks should continue to perform well.
- ANZ offers the best value of the major banks (on a PER and yield basis), and should deliver ROE expansion as it gains economies of scale across its Asian operations.
- ANZ has the largest currency exposure and has leverage to Asian lending where growth should comfortably exceed the anaemic growth in domestic lending.

BHP Billiton BHP			
Price	$26.45	PE (x)	14.3
Price Target	$33.90	Yield	6.6%
Upside	28.2%	Gross Yield	9.5%

BHP is the world's largest diversified resources company, with a large portfolio of highly diversified mining and energy interests across several key commodity markets and regions.

Key reasons to buy

- The demerger has removed a number of less profitable and smaller operations from BHP's asset portfolio, boosting its overall profitability and simplifying the business.
- We expect BHP's portfolio of predominantly high margin business segments will underpin its progressive dividend, supporting a fully franked dividend.
- BHP has flagged its interest in M&A in copper and oil markets – two of our preferred long-term commodity exposures and offers a superior combination of commodity and market exposures within resources, enhancing the company's ability to defend its strong margins.

Qantas QAN			
Price	$3.75	PE (x)	7.8
Price Target	$4.35	Yield	5.9%
Upside	16.1%	Gross Yield	8.4%

Qantas is the largest airline in Australia providing domestic and international passenger services via its Qantas and Jetstar brands, as well as possessing the largest loyalty program in Australia in Qantas Loyalty.

Key reasons to buy

- The capacity growth outlook is the most favourable for some time in both the domestic and international markets, providing the opportunity for QAN to increase revenue via increased load factors and ticket prices.
- Lower oil prices and a A$2bn internal cost-out program are providing a material earnings benefit, with QAN likely to return to near record levels of profitability in FY16.
- News flow is a key share price driver of airline stocks and the next 6-12 months is likely to remain positive with monthly operating statistics, and the full year result (expected 20 August) reinforcing the strong operating conditions.

Ramsay Healthcare RHC			
Price	$66.88	PE (x)	28.7
Price Target	$75.64	Yield	1.8%
Upside	13.1%	Gross Yield	2.6%

Ramsay Healthcare is Australia's largest private hospital operator and more recently has expanded its operations into the UK, France and parts of Asia, where now about 25% of its revenue is generated.

Key reasons to buy

- RHC is benefitting from an aging population which uses more medical services.
- RHC consistently delivers above market earnings growth (last three years averaging 18.0%pa) and for the next three years is forecast to grow at 15% pa.
- RHC is expected to benefit from further public hospital outsourcing opportunities.

Resmed RMD			
Price	$8.00	PE (x)	20.1
Price Target	$8.63	Yield	2.1%
Upside	7.9%	Gross Yield	2.1%

Resmed is a world leader in the development and manufacturing of medical products to treat sleep apnoea

Key reasons to buy

- While recent results from the SERVE-HF clinical trial are disappointing, we believe it is ring-fenced from the broader business as the device used in the trial represents <2% of total devices sold and the trial was not targeting the core patient segment; we estimate the total earnings impact of <3%.
- The core respiratory and sleep-disorder breathing market remains intact, underpinned by a large and growing customer base, with favourable trends in obesity, aging, cardiovascular diseases and increasing diagnosis rates; RMD controls c40% of this market.
- It remains early days in a new platform cycle, with the rollout of new products the most concentrated vs the last four major product platform launches over 15 years. The quarterly result exceeded market expectations with double digit sales growth (+14%).

Sydney Airport SYD			
Price	$5.61	PE (x)	57.0
Price Target	$5.91	Yield	5.1%
Upside	5.3%	Gross Yield	5.1%

Sydney Airport is the 100% owner of a long-term leasehold of Kingsford Smith Airport, Australia's busiest airport.

Key reasons to buy

- SYD provides exposure to Australia's premier aeronautical infrastructure asset and prime retail space leveraged to Asian travel growth, as well as commercial property and airport car parking.
- Interest costs are expected to fall materially, as out-of-the-money interest rate swaps expire and are replaced at far lower interest rates.
- The combination of solid earnings growth and falling interest costs should generate strong distribution growth and potential for capital management initiatives.

Source: IRESS, Morgans.

Priced at 31 July 2015.

High Conviction Stocks

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Ex 100

This month's changes

We add Burson Group while we remove National Storage REIT and Impedimed from the ex 100 High Conviction list.

360 Capital Industrial Fund TIX			
Price	$2.46	PE (x)	10.7
Price Target	$2.73	Yield	8.7%
Upside	11.0%	Gross Yield	8.7%

360 Capital Industrial Fund owns a portfolio of 21 industrial assets across Australia.

Key reasons to buy

- Strong portfolio metrics (Woolworths is the largest tenant) including a WALE of 5.8 years.
- Cashflows are supported by stable rents underpinned by long-term leases which average around 3.2% rental growth pa.
- An attractive distribution yield (paid quarterly).

Admedus AHZ			
Price	$0.09	PE (x)	n.m
Price Target	$0.20	Yield	0.0%
Upside	136.9%	Gross Yield	0.0%

Admedus has a diversified life science portfolio across, medical products, regenerative medicine and DNA vaccines.

Key reasons to buy

- AHZ is well funded to accelerate sales in Europe and the US for its key regenerative medicine product called CardioCel.
- AHZ is developing DNA vaccines, using Prof Ian Fraser's technology and an efficacy trial is expected to start later this year following a successful safety trial in HSV-2 (genital herpes).
- Plenty of newsflow is expected in the next six months - additional CardioCel approval in the Asian region, increasing sales for CardioCel and further updates on the vaccine trial.

Bellamy's BAL			
Price	$4.89	PE (x)	32.3
Price Target	$4.55	Yield	1.1%
Upside	-7.0%	Gross Yield	1.6%

Bellamy's Australia (BAL) is a Tasmanian-based organic food business, specialising in premium baby food and formula.

Key reasons to buy

- Bellamy's Organics is the fastest growing brand in the Australian baby food category. The infant formula category in Australia is one of the fastest growing categories in the grocery trade and 'organic' is the fastest growing segment of the global food and beverage industry.
- BAL is on a strong growth trajectory as its benefits from consumer's preference for organic food and Asia's demand for safe, high quality Australian food.
- Key share price catalysts include further profit upgrades, expansion in new markets or products, and corporate activity.

Burson Group BAP			
Price	$3.48	PE (x)	19.5
Price Target	$3.92	Yield	3.3%
Upside	12.7%	Gross Yield	4.8%

BAP supplies replacement parts and consumables used in the service and repair of vehicles. It also includes the sale of accessories and maintenance products to vehicle owners. BAP operates over 120 Auto Parts stores across Australia. BAP is headquartered in Victoria.

Key reasons to buy

- We believe the acquisition of Metcash Auto was strategically sound and accelerates BAP's earnings growth significantly. We expect the modest forecast synergies will be exceeded. We expect the company will host a strategy day on the acquisition post reporting season providing a catalyst.
- We expect additional growth from BAP further expanding in the WA market and the group may decide to accelerate this rollout following Repco's acquisition of Covs in WA.
- The base trade business is highly resilient and continues to grow at 4-5% (like-for-like sales). We prefer the trade category over retail as consumers switch from DIY to DIFM (do it for me). BAP is also well placed in a falling AUD environment to pass on cost increases to its customers.

Corporate Travel Management CTD			
Price	$10.71	PE (x)	27.1
Price Target	$13.70	Yield	2.0%
Upside	27.9%	Gross Yield	2.9%

Corporate Travel Management is an award-winning global provider of innovative and cost effective travel management solutions to the corporate market.

Key reasons to buy

- Operationally, the business is performing well. Domestic ticket prices are rising, its market share is rising, new acquisitions are performing well and the company is a key beneficiary of a falling AUD given about 50% of its earnings are in USD.
- Now that CTD operates in all the key corporate travel markets globally, we believe the company can win more regional and global client accounts. There is also the opportunity to cross sell clients between the different regions. We expect the company to add further highly accretive bolt-on acquisitions in the second half of calendar 2015.
- We expect a strong result on 26 August and upbeat outlook commentary.

Qube Logistics QUB			
Price	$2.44	PE (x)	23.4
Price Target	$3.00	Yield	2.7%
Upside	22.8%	Gross Yield	3.9%

Qube Logistics (QUB) is a transport and logistics operator (road and rail) focused on import/export supply chains in the container, auto, and bulk commodity markets.

Key reasons to buy

- Strong management team (previously from Patrick Corporation) that understands the transport industry and has history of delivering efficiencies while building scale
- We expect increasing market share and further acquisitions to drive strong earnings growth over the medium-longer term as management builds out the business
- Short-term newsflow around the Moorebank development in Sydney will continue to provide share price momentum.

Shine Corporate SHJ			
Price	$2.33	PE (x)	12.3
Price Target	$3.58	Yield	2.0%
Upside	53.8%	Gross Yield	2.0%

Shine Corporate (SHJ) is a market leader in the area of damages-based plaintiff litigation.

Key reasons to buy

- We believe SHJ's strong forecast EPS growth, balance sheet capacity for future accretive acquisitions, and internal initiatives to improve margins will see the stock re-rate further.
- SHJ will continue to benefit from a fragmented market and its ability to acquire value enhancing acquisitions.
- We expect further acquisitions and demonstration that disbursement funding is improving cashflow will drive share price performance.

Villa World VLW			
Price	$2.13	PE (x)	8.5
Price Target	$2.75	Yield	7.3%
Upside	28.9%	Gross Yield	10.4%

Villa World (VLW) is an integrated residential land developer and home builder delivering affordable housing across Queensland and Victoria.

Key reasons to buy

- We expect VLW to deliver strong earnings growth into FY16/17, supported by increased scale in its land portfolio and solid sector conditions. We expect residential volumes in QLD to continue to improve and VLW has the best placed portfolio amongst small cap developers to capture the upswing.
- VLW recently upgraded FY15 earnings guidance. We see earnings tailwinds continuing and believe the group has the potential to outperform earnings expectations in FY16.
- We view VLW's valuation as attractive (around a 10% discount to peers) along with a ~7% fully franked dividend yield.

Source: IRESS, Morgans
Priced at 31 July 2015.

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