February 2015

Investment Watch

February reporting season preview

The February results season marks another critical juncture for investors given the recent step-up in volatility. Lower global growth, Euro zone debt concerns and turmoil in the oil market all pose material risks to returns. Investors therefore need to take a highly selective, bottom-up approach in 2015, with the February result period offering a critical health check of Australian corporates.

Consensus estimates of corporate earnings have steadily fallen through the first half, reducing the likelihood of downside surprises. The market expects a mere 2.2% growth in full-year earnings for the top 200 stocks in FY15 so expectations are clearly low.

Cost out has been a key feature of recent reporting seasons and is likely to remain a key source of earnings growth, although the theme is maturing. Labour costs and operating efficiencies are a key focus. Revenue growth remains weak, however depreciation in the Australian dollar and the collapse in the oil price offer positive tailwinds into the second half, provided they persist. The key beneficiaries here are the materials and healthcare sectors, where upgrades appear yet to be factored in.

The safest sectors heading into February appear to be the Banks, Healthcare, Telcos, Infrastructure and Property, while we see risks in the Retail, Resources, Capital Goods and Services sectors. However we do take a highly selective stock picking approach. February is also likely to maintain the recent trend where companies capable of returning surplus cashflows to shareholders in the form of higher dividends (or capital management) will continue to command a premium.

Canvassing the Research team for their best ideas leading into reporting season yielded some interesting repositioning ideas:

- **Telstra** is expected to generate strong surplus cashflows enough to consider ongoing capital management
- Consumer stocks **Harvey Norman, Domino's Pizza, Corporate Travel** and **Lovisa** are all expected to report solid earnings growth and potential upgrades
- Healthcare names **CSL Limited, Ramsay Health** and **Resmed** are perennial outperformers and will benefit from currency tailwinds
- Online and Tech stocks **Seek** and **NextDC** are expected to report strong growth and maiden profits respectively – both are Morgans High Conviction calls
- Large caps **Wesfarmers, Asciano** and **Aurizon** look solid for a combination of cost out and capital management potential, and
- Small caps **Aveo** and **Vita Group** all offer solid potential for upside earnings and dividend surprise.

We remind investors that winners can still be found in flat and volatile markets. You just need to know where to look.

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

Economics

US – A stronger US economy should support Australian growth and equity markets.

The US economy grew by 3.9% in the third quarter of 2014, easing from the cracking pace of 4.6% set in Q2. Growth should ease slightly in the fourth quarter consistent with the seasonal trend. However, this is likely to be the softest growth the US economy sees until the end of 2017.

2015 is shaping as a year of sustained above trend growth driven by investment across most segments of the economy. Investment growth in the Services, Residential and Healthcare sectors are all running at between 7-19%. The only weak spot is the petroleum sector where weaker oil prices look like being a precursor to lower investment in 2015.

Overall, we forecast US GDP growth of 2.7% for calendar 2015 versus 2.2% in 2014. Despite such robust growth, inflation should remain below the Federal Reserve target of 2%. This suggests to us that the Fed may tighten rates later and more slowly than market consensus currently believes, thus prolonging the strong run for US equities.

Europe – Inflation forces Mario's hand

Inflation in the Euro zone turned negative in December for the first time since 2009, driven by sharply lower energy prices and a lower growth outlook. The ECB subsequently cut its inflationary expectations for 2014 to 0.5%. Given that the bank targets inflation of close to 2%, this forced the ECB to begin a program of Quantitative Easing.

The program involves purchases of at least 1.1 trillion euros of securities between now and September 2016. Under the program, the national central banks will purchase bonds with maturities ranging from 2-30 years on behalf of the ECB. This enables liquidity to be provided on much longer terms than previously had been the case. The ECB believes European banks will then have this money plus an incentive to lend to the private sector, generating increased investment and leading the Euro Area to recovery.

Australia – Strength in the US economy is set to drive upside surprise in Australian growth.

The Federal Treasury's Mid Year Economic and Fiscal Outlook (MYEFO) makes for sombre reading. The MYEFO forecasts nominal GDP growth of 1.5% in FY15 which is significantly lower than the 3% forecast via the Federal Budget. This means that total income will grow more slowly than the consumer price index. This may not be a recession but for many it will feel like one.

Our own view is more optimistic. We think the Australian economy will grow by 2.9% in calendar 2014 accelerating to 3.4% in 2015, driven by Australia's close connection with the US economy. Above trend US growth should stimulate a much more liquid wholesale capital market. This in turn facilitates higher bank imports of capital into the Australian lending market, leading to stronger domestic business finance and private sector investment. Notwithstanding this, we do anticipate a series of lower than expected inflation readings in early 2015 which will give the RBA room to cut the cash rate. We think there will be two 25bp rate cuts this year.

Stockmarkets – Watching for AUD stabilisation

US earnings grew steadily through 2014 and we expect a further rise in the fourth quarter. Based on this, we peg fair value of the S&P500 at 1869 points. Further forecast earnings growth in 2015 increases our estimate to 2068 points by December 2015. The problem is that US equities are already trading close to this level which almost entirely captures all of the earnings growth for the year ahead. We think the US equity market outlook is strong, it's just that prices have run a little ahead of fundamentals.

> We're on the lookout for a dramatic bounce in Australian shares when the Australian dollar eventually stabilises in early 2015.

The Australian picture is quite different. Australian dollar weakness tends to see foreign investors withhold buying Australian equities until the currency bottoms out. The result is an extremely cheap Australian equities market. Our model of the ASX200 based on earnings per share and bond yields generates a fair value of 5,771 points, suggesting that Aussie equities are around 5% too cheap. By December 2015 our fair value rises to 6,127 points, implying more than 11% upside in 2015.

Commodities – Don't panic about oil

The dramatic recovery in the US dollar against most major currencies placed downward pressure on many commodities in 2014, including oil. Much commentary attributes the fall to an oil 'glut' but the numbers speak differently. If there was a glut in US oil production, then carryover stocks of oil in the US would trend higher. Yet in December, US carryover stocks of 380 million barrels were 17 million barrels lower than the 2014 peak.

We think that what is actually happening is an accelerated markdown of inventories globally, provoked by the rapid appreciation in the US dollar. Should we be correct, the second half of 2015 should see a rally in the US dollar oil price which will surprise many commentators.

Diversified Financials and Insurance

It will be a very interesting reporting season in the Insurance sector, with Medibank Private's inaugural result as a listed company and some clear margin pressures looming in the General Insurance sector. **Suncorp Group** has been our stable portfolio stock amongst the insurers for over two years, however we are neutral at current prices ($14.40ps) going into the result. The domestic general insurers face heightened competition in personal insurance and commercial insurance (as highlighted by insurance broker **Austbrokers** earnings downgrade in January) which will see top-line and margin pressure. Additionally, the Brisbane storms in November are likely to see Suncorp with limited headroom remaining in its natural hazard allowances. QBE Insurance remains very topical and is always a 'surprise' candidate at this time of year, although picking the direction is difficult. At this stage, we prefer to watch for clearer signs that QBE is on a more sustainable earnings trajectory given the business faces headwinds from lower US bond rates, a weak European economy and increasing competition in domestic commercial insurance.

Our favoured stock in the Diversified Financials sector is **Macquarie Group.** Macquarie doesn't report its result until May, however recently upgraded its earnings guidance. Macquarie will hold an operational update in mid-February which we believe will be a positive update and help continue the momentum in the stock.

Infrastructure – yield thematic continues to drive infrastructure share prices

In the face of ongoing declines in interest rates and commodity price volatility, the defensive, growth and yield attributes of infrastructure stocks continue to be attractive to investors. A number of stocks are trading at or close to all-time highs, while the sector continues to deliver solid income yields for investors.

Looking to the February reporting season, we don't expect any major negative surprises due to a mix of demand stability (essential services), pre-release of volume and/or revenue data (eg. Aurizon, Macquarie Atlas, Sydney Airport, Transurban), and/or recently reaffirmed guidance (eg. APA Group, DUET). Potential upside surprises could come from better than expected interest cost savings (across the sector dependent on unhedged exposure) and on dividends (eg. **Sydney Airport** is expected to give 2015 guidance).

While recognising that stocks in the sector have run hard, our preference remains for stocks with solid yields and underlying growth. **APA Group, Sydney Airport** and **Transurban** are the highest quality plays in the sector. The key sector-wide risk is a rise in interest rates undermining confidence in the yield thematic.

Telco – more of the same, another good year

Calendar year 2015 looks to be a similar year to 2014 with interest rates flat to lower, the economy bumping along, cyclical stocks struggling and defensive yielders performing well. With this in mind we think telcos will be well supported, until such time as it looks like interest rates will rise. While we are generally neutral on the Telco sector, we remain positive on **Telstra** believing fundamentally it is well placed. **M2 Group** is our preferred mid cap telecommunications stock as we expect a positive trading update in February. We recently added **NextDC** to our High Conviction picks. After five years of making losses, NextDC will report a maiden EBITDA profit in February. We believe the February result could mark the turning point in investor sentiment. With its five data centres now live and NextDC EBITDA positive, the upside around positive operating leverage will become apparent.

For more on the Telco sector, visit our website to read **1H15 Telco results preview** published 29 January 2015.

Property – expected to perform well again in 2015

The property sector was the top performing sector in 2014, posting a total return of 27% versus the S&P/ASX 200 index which had a total return of 5.6%. The strong performance was largely driven by the ongoing low interest rate environment and search for yield as well as merger and acquisition activity which occurred throughout the year. As interest rates are expected to stay low during 2015, we expect REITs will continue to benefit and perform well despite challenging operating conditions persisting.

REITs continue to benefit from low interest costs with many groups announcing new debt deals over the past six months. Balance sheets remain in good shape with average gearing levels around 30%. At the upcoming reporting season, we expect most REITs will reiterate FY15 distribution guidance with the key focus on outlook statements and leasing updates. We also expect NTAs to increase as many groups expect cap rates to tighten further (particularly for assets with long leases).

Our preferred REIT exposures include: **360 Capital Industrial Fund** (industrial exposure): post recent acquisitions, the lease expiry is strong at 5.8 years and the distribution yield is over 8% paid quarterly. **Cromwell Property Group** (office exposure) has a five year weighted average lease expiry and a track record of managing cycles (recent net seller of assets) which we believe will help buffer against near term challenging office markets (the yield also remains attractive at +7% paid quarterly). The group's focus remains on 'predictable income returns' and has recently announced the acquisition of a large European based funds management business which will further grow its earnings. We also like REITs with exposure to niche sectors/high barriers to entry such as **National Storage REIT** (self-storage). For diversified exposure we continue to prefer **Stockland Group** which has good leverage to the residential markets. We continue to highlight **Westfield Corporation** for global exposure (US and UK) although we note it's not for pure yield investors.

Healthcare – CSL impacted by the fall in the Swiss Franc

Since the start of the new year the Swiss National Bank has unpegged the Swiss Franc from the Euro and the ECB has introduced Quantitative Easing measures, substantially increasing the volatility in currencies impacting the healthcare sector. The appreciation of the Swiss Franc against the USD will have a negative impact on CSL Limited with about 25% of its cost base in Berne in Switzerland. Given the uncertainty surrounding the currency movements we have removed **CSL Limited** from our High Conviction list this month, preferring to stick with **Ramsay Healthcare** as our key large cap Healthcare exposure. As we move into reporting season the lower Australian dollar and defensive earnings from the Healthcare names will continue to attract investor interest. We have positive recommendations on **Ansell, Healthscope, Ramsay, Resmed** and **Sonic Healthcare.**

For more on the Healthcare sector, visit our website to read **1H15 Preview – Slow and steady** published on 28 January 2015.

Industrials – domestic cyclical recovery taking longer to materialise

We anticipate that reporting season commentary by industrial companies will continue to be patchy. Commentary is likely to reflect the benign growth environment with weak consumer spending and subdued economic conditions. In our view, many industrial companies are now well placed after significant cost cutting initiatives for the eventual recovery in economic activity. However, we remain particularly cautious on those stocks leveraged to resources and oil and gas which have been impacted by continuing falling iron ore and oil prices. However, until we see positive indicators of an uptick in economic activity, many industrial companies are reluctant to commit capital to growth initiatives.

We continue to be attracted to those stocks with offshore earnings due to the weakening AUD (**Slater & Gordon** and **Brambles**), and those stocks leverage to markets like the US where economic recoveries are in motion. A weaker AUD should also enable the domestic recovery to broaden. This should provide a boost to domestic housing, logistics, manufacturing, tourism and education services. The lower currency should support an east coast housing recovery and we are seeing residential building activity remaining strong with housing starts at a record high. These strong housing starts should help support earnings of stocks like **Brickworks** (March year-end). Nevertheless, we are still waiting for the much anticipated wave of government infrastructure spending to occur which would help support the construction materials sector.

Q1 Out now

Fixed Interest – 2015 off with a bang

The listed fixed interest sector has started off with a bang in 2015 with **ANZ Bank** launching the third instalment of its capital notes series. **The ANZ Capital Notes 3** are a floating rate security that will pay investors a margin of 3.6% above the 180 day BBSW. Based on current rates, investors will get an initial gross return of 5.8%p.a. We view the offer as attractive and recommend clients participate in the IPO. In our view, investors will continue to seek higher returns from listed fixed interest securities given the current low cash rate environment. We expect further ASX listed issuance from financial institutions in 2015 as they look to source regulatory capital. Industrial issuers on the other hand will continue to look to the wholesale and offshore markets given strong investor appetite and the speed of execution compared to ASX listed issues. That said, we hope to be offering ASX listed exchange traded corporate bonds by mid-year and believe this will be a great opportunity for clients.

For more on ANZ Capital Notes 3, visit our website to read **Offer Summary – Continuing the capital build** published 23 January 2015.

Selective shopping in the consumer discretionary sector

The state of the consumer is always very topical and used as a barometer for the state of the broader economy. Whilst consumer sentiment remains relatively low, Christmas trading appears to have weathered the storm and we expect retailers to report reasonable sales growth. However, the level of price investment required to generate this outcome (ie discounting and the impact to retailers margins) remains to be seen. One of the key themes for this upcoming reporting season will be the sharp decline in the AUD which will have a meaningful impact on pricing and margins for most retailers from 4QFY15. Increasing prices in the current fragile consumer environment could be challenging for some retailers. As is always the case, there will still be winners in the sector and we continue to favour:

- retailers exposed to the strong housing cycle such as **Harvey Norman** and **Beacon Lighting**, and
- speciality retailers with strong structural growth and offshore exposure being **Domino's Pizza** and **Lovisa**.

Resources & Energy – swings and roundabouts

Resources stocks have been choppy as weaker commodity prices, world growth concerns, and a continued benign outlook gave investors little incentive to buy into the sector. The depreciation of the Australian dollar helped buffer commodity prices and acted as a currency boost for the Australian mining sector. The miners also benefitted from additional tailwinds thanks to oil prices at 6 year lows further reducing production costs and enhancing the margins for the broader mining sector which is heavily reliant on diesel fired power stations to run their operations.

Despite the gains we remain neutral on the sector and our core strategy remains the accumulation of **BHP Billiton** on weakness whilst collecting fully franked c3-4% dividend yield. Dividends are paid in US dollars so investors will enjoy a currency kicker thanks to the recent weakness in the AUD along with shares in the planned demerged entity called 'South32' which is scheduled for completion by mid-2015.

Oil price volatility has resulted in across the board selling of energy stocks with smaller companies and those funding large capital projects hit the hardest. Questions of an over-supplied market coupled with OPEC's decision not to cut output resulted in the price of oil declining from around US$100 in July to a low of around US$45/bbl. While the near-term outlook for oil remains uncertain, we believe patient investors should use the current price weakness to accumulate quality names. **Santos** is 90% through the construction of the GLNG project and is consequently nearing its peak leverage as it continues to draw down on debt to fund the project. While the company's credit metrics have deteriorated due to the sharp fall in the price of oil received, it is actively looking to cut costs from the business. 2015 production guidance is for 57-64 million barrels of oil equivalent and capital expenditure is anticipated to be approximately $2.0bn. We view **Santos** as having good leverage to an improving oil price and suggest clients build positions at current levels.

For more on the Resource sector, visit our website to read **Big miners ahead of reporting season** published 29 January 2015.

Online media – mixed bag

We expect strong double-digit growth from online classified leaders **SEEK** (employment) and **REA Group** (real estate) during the coming reporting season. The combination of strong advertising volume growth and price rises should see SEEK and REA deliver growth in underlying earnings per share for the first half and a positive trading outlook for the balance of FY15. Of the two largest online players we prefer SEEK as it trades at a larger discount to valuation than REA.

The other member of the big three online classified advertising companies, Carsales.com, has been doing it tougher than its peers due to a decline in the volume of new and used car listings on its site over the past six months. Assuming that the lower listings volume has flowed through into lower enquiry volumes delivered to car dealers, we expect that Carsales' revenues growth will have slowed considerably from the level seen in recent years. As the second half outlook is unclear, we see some risk of downgrades to Carsales and remain cautious towards the stock in the short term.

At the smaller end of the online media sector, **iProperty Group** and **iCar Asia** have already reported quarterly cash flows so we do not expect surprises – positive or negative – when they report their results.

High Conviction Stocks

In the digital edition, you may click on the stock tables for links to the latest company research reports from our website. You can also watch our analysts outline key reasons to buy our recently added stocks in short videos available here **www.morgans.com.au/high-conviction-stocks-february-2015**

Top 100

This month's changes

This month we have made seven changes to our Top 100 High Conviction list. We added ANZ Banking Group (ANZ), Macquarie Group (MQG) and Resmed (RMD). We also removed CSL (Swiss currency unpegged from Euro), Brambles (strong share price appreciation), and Origin Energy and Oil Search (both due to volatile oil markets).

ANZ Banking Group ANZ			
Price	$33.00	PE (x)	12.3
Price Target	$37.15	Yield	5.8%
Upside	12.6%	Gross Yield	8.2%

ANZ Banking Group (ANZ) is among the top 20 banks in the world, operates in 33 countries globally, and has the largest exposure of domestic major banks to the emerging Asian economies.

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 is the cheapest of the major banks (on a PER and yield basis), has potential for ROE expansion (as it gains economies of scale in its Asian operations), and has strong cash generation (and the lowest dividend payout ratio).
- ANZ has the largest currency exposure and has leverage to Asian lending where growth should comfortably exceed the anaemic growth in domestic lending.

Macquarie Group MQG			
Price	$62.08	PE (x)	12.9
Price Target	$62.00	Yield	4.8%
Upside	-0.1%	Gross Yield	5.7%

Macquarie Group (MQG) is a global provider of banking, financial advisory, investment and funds management services.

Key reasons to buy

- MQG recently upgraded its earnings guidance, expecting to achieve 10-20% growth on the prior year. This highlighted MQG's earnings momentum and provides near-term earnings certainty for investors.
- Around 65% of MQG's earnings are derived offshore, giving earnings leverage to the falling A$ versus other currencies. We believe this will continue to provide a small tailwind.
- We believe MQG's valuation is reasonable at current levels whilst providing a solid yield (partially franked).

Ramsay Healthcare RHC			
Price	$59.45	PE (x)	31.5
Price Target	$64.12	Yield	1.7%
Upside	7.9%	Gross Yield	2.4%

Ramsay Healthcare (RHC) 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 benefiting from an aging population which uses more medical services.
- RHC consistently delivers above market earnings growth (last three years averaging 18% 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	$8.08	PE (x)	24.3
Price Target	$8.63	Yield	1.7%
Upside	7.9%	Gross Yield	1.7%

Resmed (RMD) is a world leader in the development, manufacturing and marketing of medical products to treat and manage sleep-disordered breathing, more commonly known as sleep apnoea.

Key reasons to buy

- 2Q15 results exceeded market expectations with double digit sales growth (+14%).
- New product (AirSense 10 platform) launch is likely to drive sales growth in subsequent quarters, reflected in forecast earnings growth of 13% pa over the next three years.
- Strong balance sheet with net cash of approx. US$700m.

Seek SEK			
Price	$17.85	PE (x)	26.2
Price Target	$19.97	Yield	1.7%
Upside	11.9%	Gross Yield	2.4%

Seek (SEK) is the leading provider of online employment services in Australia, China, Southeast Asia and Latin America. The company also owns a rapidly expanding online education business.

Key reasons to buy

- The Australian recruitment cycle is at or near to all-time lows in churn rates and recently volumes have begun to rebound.
- Year-to-date job ad growth is higher than we have assumed in our forecasts.
- Seek's offshore operations will deliver high double-digit growth in FY15 as the benefits of the Jobstreet acquisition become available. The company is achieving strong growth while simultaneously de-leveraging its balance sheet.

Stockland Group SGP*			
Price	$4.38	PE (x)	16.8
Price Target	$4.25	Yield	5.5%
Upside	-3.0%	Gross Yield	5.5%

Stockland Group (SGP) is Australia's largest property developer with significant land banks.

Key reasons to buy

- Around a third of earnings are derived from residential development. Given the improving macro environment, we believe SGP is well placed to benefit in the medium term.
- The balance of the investment portfolio is good quality (office, retail, logistics, retirement), and although medium term retail and office conditions are challenging, the earnings visibility is good given contracted rents. SGP's strategy is to reduce its office exposure over time.
- SGP offers investors an attractive distribution yield.

Transurban Group TCL			
Price	$9.21	PE (x)	86.2
Price Target	$9.26	Yield	4.2%
Upside	0.5%	Gross Yield	4.6%

Transurban Group (TCL) develops, operates, and maintains toll roads in Australia and the US.

Key reasons to buy

- We expect TCL to generate double-digit EBITDA growth over the next three years driven by traffic growth, CPI/CPI+ toll increases, ongoing cost control, and contribution from growth projects and acquisitions.
- We expect this traffic and earnings growth to translate into double-digit growth in distribution per share.
- Confidence in this growth outlook can be gained from the management incentive plan, which rewards management for growing free cashflow per share at 10-13% per annum CAGR across FY14-17.

Source: IRESS, Morgans

Priced at 30 January 2015.

* Applies Factset consensus forecasts.

High Conviction Stocks

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Ex 100

This month's changes

This month we added Corporate Travel Management (CTD) to our ex 100 High Conviction list.

Admedus AHZ			
Price	$0.13	PE (x)	n/a
Price Target	$0.23	Yield	0.0%
Upside	86.7%	Gross Yield	0.0%

Admedus (AHZ) 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.

Corporate Travel Management CTD			
Price	$9.76	PE (x)	33.0
Price Target	$11.20	Yield	1.6%
Upside	14.8%	Gross Yield	2.3%

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

Key reasons to buy

- Increased global market share, improving corporate travel demand, higher airfares, new acquisitions, and a falling AUD should underpin strong double digit earnings growth for many years to come.
- CTD intends to further refine its FY15 guidance at the 1H15 result on 25 February. We interpret this comment as the potential for an earnings upgrade.
- We expect CTD will be included in the S&P/ASX 200 when the index inclusions are announced in March 2015.

GBST Holdings GBT			
Price	$3.78	PE (x)	20.0
Price Target	$4.79	Yield	2.5%
Upside	26.7%	Gross Yield	2.5%

GBST provides software and systems to banks and fund managers to enable them to manage order and settlement work flow in a highly automated and efficient fashion.

Key reasons to buy

- The five-year drought in spending on new systems by financial institutions has come to an end, offering GBST a chance to pick up significant new contract wins over the next few years.
- The company implemented 16 new customer projects in FY14, some of whom were implemented at the end of the financial year. The full-year impact of these new installations will deliver double-digit growth in FY15.
- GBST will be debt free in FY15 and will be poised for acquisitions or capital management by FY16.

Impedimed IPD			
Price	$1.00	PE (x)	n/a
Price Target	$1.71	Yield	0.0%
Upside	70.5%	Gross Yield	0.0%

Impedimed (IPD) has developed a medical device which aids in the clinical assessment of patients for the potential onset of secondary lymphoedema.

Key reasons to buy

- IPD has an approved medical device which is being rolled out mainly across oncology centres in the US.
- Medicare in the US has determined it will reimburse each reading at US$112.67, which was well ahead of our forecasts.
- IPD's technology has wider applications in fluid monitoring, for example in nutrition and dialysis monitoring.

National Storage REIT NSR			
Price	$1.47	PE (x)	16.0
Price Target	$1.55	Yield	5.7%
Upside	5.4%	Gross Yield	5.7%

National Storage REIT (NSR) is the first ASX-listed, internally managed and fully integrated owner and operator of self-storage centres.

Key reasons to buy

- First mover advantage in the self-storage asset space
- Future growth potential via acquisitions given the fragmented storage market, and
- An attractive distribution yield.

NextDC (NXT)			
Price	$1.95	PE (x)	n/a
Price Target	$2.44	Yield	0.0%
Upside	24.9%	Gross Yield	0.0%

NextDC (NXT) is Australia's only national, independent data centre operator, with five operational data centres.

Key reasons to buy

- At their October AGM NXT upgraded guidance that it is now EBITDA positive. Turning profitable is typically a value creating event which generates renewed investor interest.
- We expect sales guidance to increase due to new contract wins and as channel partners build up momentum, with more than 75c of every dollar of new sales benefitting EBITDA.
- NXT looks fundamentally undervalued, given it is trading close to replacement value. Positive news and the potential for short covering should help drive the share price higher.

Shine Corporate SHJ			
Price	$2.85	PE (x)	16.6
Price Target	$3.09	Yield	1.5%
Upside	8.3%	Gross Yield	1.5%

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.

360 Capital Industrial Fund TIX			
Price	$2.72	PE (x)	11.6
Price Target	$2.66	Yield	7.4%
Upside	-2.2%	Gross Yield	7.4%

360 Capital Industrial Fund (TIX) owns a portfolio of 21 industrial assets across Australia valued at around $500m.

Key reasons to buy

- Attractive yield.
- Cashflows supported by stable rents which average 3.5% rental growth p.a.
- Strong portfolio metrics (Woolworths is the largest tenant) including a WALE of 6 years.

Source: IRESS, Morgans

Priced at 30 January 2015.

Queensland

Brisbane – Head Office	+61 7 3334 4888
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Brisbane – Tynan Partners	+61 7 3152 0600
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Emerald	+61 7 4988 2777
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Mt Gravatt/Capalaba	+61 7 3245 5466
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787
Yeppoon	+61 7 4939 3021

New South Wales

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Hurstville	+61 2 9570 5755
Merimbula	+61 2 6495 2869
Neutral Bay	+61 2 8969 7500
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