May 2015

Investment Watch

Banks – entering uncharted waters

The major bank reporting season kicks off in May. For the three banks reporting we forecast 1H15 cash EPS growth of 3.0% on pcp, and DPS growth of 4.4%. On aggregate we expect margins to be off 4bps sequentially, and the bad debts/total loans ratio to edge up by 2bps (on 2H14).

Below we outline our thoughts heading into results across the key industry drivers:

Volumes: ANZ has outperformed peers in total lending, driven by a solid performance across all consumer segments. NAB has added most share in household deposits whilst WBC outperformed in business deposits in 1H15.

Margins: We expect a -4 basis point, half on half, fall in 1H15 as pressure on mortgage & corporate spreads and free funds are almost offset by gains on funding costs.

Trading income: After a weak 2H14, trends improved in 1Q15, and should carry over to 2Q15 on a lift in financial market volatility. Treasury earnings are difficult to judge given considerable movement in the domestic yield curve through the period.

Wealth: Improved equity market inflows and higher equities markets should help funds management. Pressure should remain on fees and we expect the worst has passed for life insurance.

Costs: We expect productivity programmes and progress on IT investment to be under the microscope. Some further gains are likely from staffing, although IT amortisation headwinds will continue to increase.

Bad debts: We expect another benign bad-debts outcome, consistent with further improvements noted in 1Q15 Pillar-three reports.

Capital: All focus will be on management commentary regarding the next wave of regulation. We expect no DRP neutralisations in coming weeks as banks look to build their capital organically.

We have a neutral sector recommendation on the major banks currently. **ANZ** remains our preferred pick in the space and our only Add recommendation. We think ANZ offers valuation appeal trading at a 13% discount to the sector, and many of the sources of ANZ's 1Q15 revenue weakness will be temporary, and we think management's capacity and focus on cost management should support underlying earnings growth in the near term. We remain optimistic that ANZ can increase returns in its Asian business and think ANZ's asset quality metrics have improved more than peers since the FY09-10 peak on a number of metrics.

For more information on Australian Banks visit our website to read **Entering uncharted waters** published on 23 April 2015

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations can be found at the end of this document. Morgans Financial Limited ABN 49 010 669 726 AFSL 235410 A Participant of ASX Group A Professional Partner of the Financial Planning Association of Australia Level 29 123 Eagle Street Brisbane QLD 4000 Australia Phone 1800 777 946

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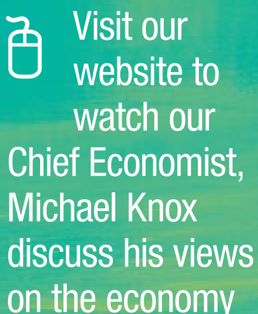


Visit our website to watch our Chief Economist, Michael Knox discuss his views on the economy

Economics

Unemployment will cause interest rates to fall

The crucial variable which will drive interest rates lower in Australia is unemployment. The March report by the Australian Bureau of Statistics suggested that unemployment had stabilised at 6.2%. Some commentators suggest that it will stay at that level. We would remark that an unemployment level of 6.2% is close to the highest level of the 21st century.

We think that the RBA will act to reduce unemployment to a level of 5.4% or lower. This is what is called 'the natural rate of unemployment'. This is the level at which inflation is stabilised.

We think that the RBA will undertake between one and three further rate cuts in calendar 2015 in order to force a fall in unemployment.

Much Budget ado for little change

Estimates released by the IMF in April suggest that the Australian Federal government has a chronic spending problem. In calendar 2013, general government spending was 37% of GDP. Unfortunately revenue was only 34% of GDP. This meant that we had a budget deficit of 3% of GDP in that year.

The change of government in 2014 did little to change the deficit. In fact the deficit slightly increased. Spending in the general government sector in 2014 rose to 37.6% of GDP. Revenue stayed pretty much the same at 34.0% of GDP. The result is that the deficit worsened to 3.6% of GDP.

In an attempt to do something about continuing budget deficits, the Abbott government introduced a budget which was widely attacked as being 'unfair'. The result of this, according to the IMF, is that the budget deficit is still pretty much unchanged. Revenue has risen slightly to 34.9% of GDP. Spending has risen to 38.2% of GDP. The net result is the budget deficit is -3.4% of GDP. The result of the supposed 'unfair' budget is to reduce the budget deficit by only 0.2% of GDP.

The IMF estimates that over the next year revenue will stay the same. They estimate that it will be 35% of GDP in 2016. A slight fall in spending should take spending down to 37.7% of GDP. The result may be a decline in the budget deficit to 2.7% of GDP. In spite of all of the heated debate, and media commentary, we find that the Australian budget deficit is relatively stable over the period from 2013 to 2016.

Commodities and iron ore

The last year has seen a dramatic rise in the value of the US$. The US$ index of trade weighted currencies has risen by 22% to reach 100.4 on 13 March 2015. The pace of this rise is one of the fastest since the 1970's. Most international commodities are priced in US$. This means a rise in US$ will almost automatically generate a fall in commodity prices. This currency provoked fall in commodity prices has been much exaggerated by traders attempting to get out of the way of these falling markets.

Most large volume commodities have high inventories in transit between the mine and the factory. There are further inventories in transit between the factory and end user. These inventories are usually financed by a high level of debt. As the US$ strengthens, traders financing these inventories may be subject to losses. They attempt to reduce these losses by delivering the inventories more quickly. This can involve faster sailing times of the ships that are transporting the commodities.

> The crucial variable which will drive interest rates lower in Australia is unemployment.

The result is that these commodities can arrive early and generate a short term over supply of the commodity. This further drives down the price. In this way an initial downward shock to the commodity price generated by a rise in the US$ can result in a much larger final fall in the commodity price.

We have seen this type of commodity price fall in oil. However, we have also seen it in other commodities where there is genuine excess supply. Such a commodity is iron ore. Increased iron ore production between 2013 and 2014 caused Chinese port stocks of iron ore to rise relative to Chinese consumption. At the end of 2014, it looked like these stocks had peaked and were beginning to decline. This decline reversed itself in early 2015 so that stocks returned to the same level relative to consumption that they were in 2014.

Surprisingly, it was at this time that iron ore prices appeared to bottom out and began to rally. The major reason however, was that the US$ appeared to reach its peak of around 100 on the US$ index. We think there is a little more upside in the iron ore price. Still, our model currently suggests that there is enough excess stock of iron ore to stop iron ore from rising much above US$67 per tonne.

For more information on Morgans ***Investment Strategy*** please visit our website to read '***Investment Strategy* – 2nd Quarter 2015**'.

Possible budget implications for self funded retirees

The Federal Budget is due out on May 12. As detailed earlier, our economist believes there will be much ado about the upcoming budget for relatively little change. The biggest question heading into this budget relates to whether the Federal Government takes a chance and introduces changes to Superannuation. Or will they wait until the Tax White Paper becomes the Green Paper later this year to then put forward their plan for changes in 2016? Our thoughts on the bigger issues are as follows:

Super / Contribution caps – We don't believe there will be any changes to the Concessional or Non-Concessional contribution caps. The reduction in contribution caps since the original Simpler Super reforms in 2007 have been enough, and we simply don't believe the Government would support further change in this area.

Super / Tax concessions – Not this year. There has been a lot of debate about the inequality of tax concessions, with high income earners and 'wealthy Australians' particularly benefiting. We believe the Government will wait for further consultation during 2015 before making a decision one way or the other.

Super / Benefit Payments for Retirees – Will the Government introduce restrictions on lump sum benefits? Again, we think not this year, although we do think there has to be changes in this area in the future as the current tax free benefit system for over 60s is not sustainable. However, we do think the Government will recognise this as a major issue for retirees and will not introduce any proposals until there has been reasonable consultation with the industry and the public.

Super / Borrowing in SMSFs – We believe there could be a proposal to change Limited Recourse Borrowing Arrangements for SMSFs in the 2015 Budget. We don't think the Government will abolish LRBAs altogether. Rather, we think they will take note of submissions made on this matter and consider certain restrictions. E.g. Limitations on related party loans, leverage restrictions and repayment timeframes.

Centrelink eligibility – One area that is questionable is access to age pension benefits. The Government has already proposed to increase the qualifying age to 70 by 2035 (2014 Budget Measures). It is already legislated to increase to age 67 by 2023. We wouldn't be surprised if there was something slipped into this year's Budget that could make it harder in the future to access age pension benefits.

General Tax / Negative Gearing – We don't believe the 2015 budget will target negative gearing. The Government knows they need to get this one right and therefore we can't see anything happening, if at all, until the results of further tax reviews are known later this year.

General Tax / Imputation – It would be disastrous for the Government to abolish dividend imputation. We see many more reasons as to why imputation should stay versus why imputation should go such as benefits to productivity, business efficiencies, shareholders, the economy, new investment and superannuation. The only way we see imputation changing is via a reduction in the company tax rate, which the Government has previously flagged.

The case for infrastructure investment – time to look offshore?

Infrastructure stocks provide exposure to long-life physical assets that provide essential services to the community, eg. electricity and gas transmission and distribution, airports, and tollroads.

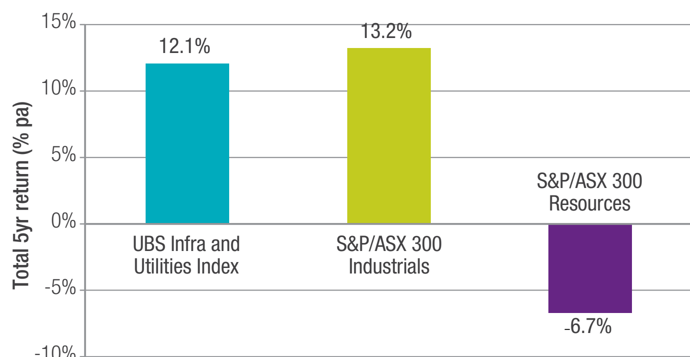
The essential nature of these services means demand is typically resilient through economic cycles. This, combined with inflation-linked pricing, long-term take-or-pay contracts, and/or regulatory regimes, results in robust, predictable revenues. Barriers to entry are high. Cashflow generation is typically strong, allowing for high dividends. We view such attributes as attractive for investors seeking defensive and/or income-yielding investments.

The sector has been rewarding for investors, no doubt boosted by falling interest rates. As the charts show, the sector has produced double digit annual average returns (capital growth and income) over the last 5 years, with particular outperformance of the resources sector. Importantly, those returns have been produced with lower volatility than industrials and resources stocks.

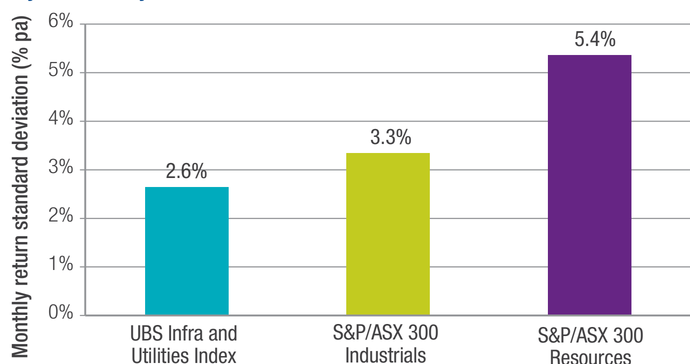
Australian investors are constrained by the number of ASX-listed infrastructure stocks and the asset diversity and valuations of those listed companies. Investing globally provides investors with a far larger stock universe with greater asset diversity, whose values may be cheaper than ASX-listed entities and which may provide exposure to regional trends, currency, and interest rates. Significant skills, experience, and resources are required to select and invest directly in stocks listed offshore.

Please speak with your advisor about how you can gain offshore infrastructure exposure for your portfolio.

5 year total return = capital growth and income



5 year monthly standard deviation of total return



Source: Iress, Morgans

Insurance – no longer favouring the domestic general insurers

We think the insurance sector is generally expensive at present. For Insurance Australia Group (IAG) and Suncorp (SUN) we think the operating environment is toughening and they need to prove up growth strategies to re-rate from here. For IAG that means its Asian expansion and for SUN its growth in banking and life insurance. We think achieving this is still a couple of years off for both stocks. We also think current multiples (c13x PE) imply a level of earnings predictability for IAG and SUN that does not allow for potential weather shocks.

While AMP Limited (AMP) arguably has the most favourable earnings climate seeing 23% underlying NPAT growth at the recent results, we think a turn-around in its life business will still take time and AMP is dependent on rising equity markets for a further re-rating. These markets remain susceptible to macro shocks, so on 18x underlying PE we see AMP as fair value.

QBE Insurance (QBE) is our preferred pick given upside potential from its business transformation program over the next few years, which creates a non-system story. We expect momentum to build in QBE's turnaround into FY16, with management's clear aim to grow dividends also pointing to a future lift in the payout ratio. QBE also stands ready to benefit from any fall in the AUD on its USD valuation and retains its strong leverage to any rise in USD interest rates.

For more information on insurance visit our website to read **No longer favouring the domestic GIs** published on 27 April 2015.

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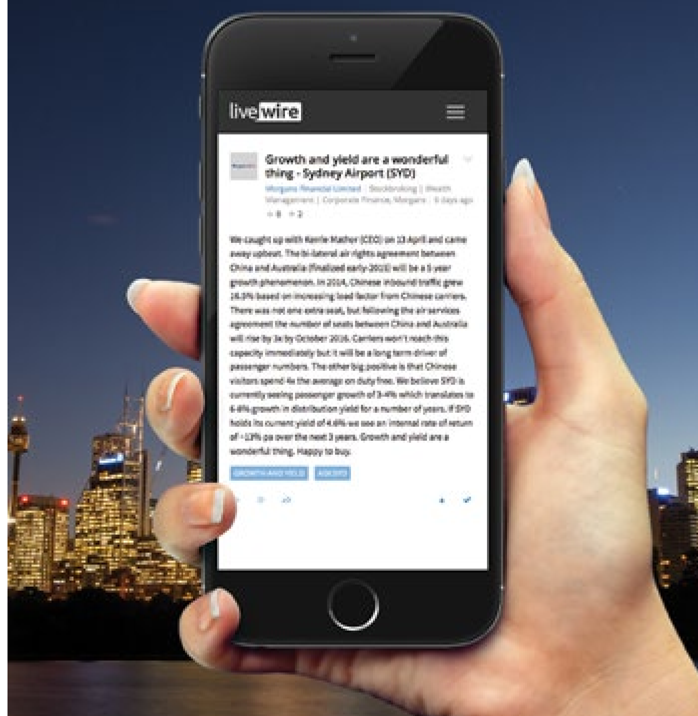


Sydney Airport – flying along

During the month, we revised our investment view of **Sydney Airport** (SYD), upgrading to an ADD rating. As well as its airport infrastructure, SYD owns retail space, commercial property, and airport car parking operations. This is akin to owning a premier infrastructure asset, a Westfield shopping centre, a lucrative car park, and a commercial REIT all in one.

Our key areas of focus were passenger growth, interest rates, and shareholder returns.

SYD generates 70-75% of its earnings from international passengers. We expect continued international passenger growth to benefit from the increased propensity of the emerging Asian middle class to travel. In particular, a new agreement between the Chinese and Australian Government in January this year will see the amount of allowed seat capacity between the two countries triple by October 2015, while also opening up additional regional cities in China from which air routes can be developed. We expect SYD to capture its share of this growth.

We believe the market has underestimated the amount of cost savings SYD will likely achieve across 2016-17 as expensive interest rate swaps expire and are replaced at far lower interest rates.

The lower interest costs may have two benefits. First, growth in distribution per share may be faster than the market expects. In a yield-focused environment, this is important. Second, SYD's credit metrics may improve faster than expected, increasing the potential that capital management initiatives may be undertaken.

Transport – travelling at a good pace

We have updated our coverage on the Transport sector with a neutral view as valuations are reasonably toppy. Revenue growth remains challenging for most companies with the broader economic environment still patchy, meaning cost reductions will therefore remain a major theme across the sector.

Qantas, Virgin, Aurizon, and Asciano are all pursuing material cost-savings initiatives currently. While this will leave the companies leaner and more leveraged to a pickup in volumes, revenue growth will eventually need to come through for earnings growth to be maintained beyond the next 2-3 years.

Our key short-term pick in the sector is Qantas with conditions in the airline industry some of the most favourable we've seen in a number of years. Capacity growth (a key driver of earnings) is minimal in both the domestic and international markets, while lower oil prices are providing a material cost benefit. This month we have added **Qantas** to our High Conviction list.

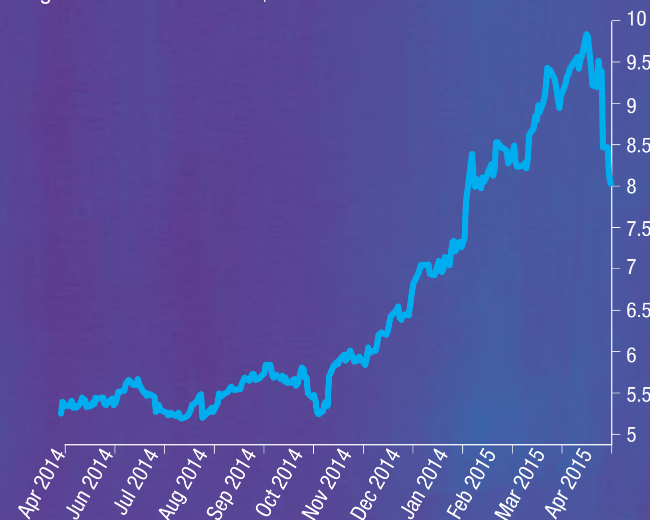
Our long term pick in the sector is **Qube**. While the stock appears expensive trading on a FY16 PE of 25x, the management team (ex-Patrick Corp) is one of the strongest in the market and is building out a profitable business that will be substantially bigger in a few years' time.

For more information on transport visit our website to read **Travelling at a good pace** published on 28 April 2015.

Technical Corner

Resmed (RMD)

The up trend from the October 2014 low has lost momentum over the past few weeks and the price has been trading in a correction mode. The current pull back retraced close to its previous support of $7.94, where initial buying interest is likely to arise. The RSI indicator has reached oversold territory, suggesting that the price is likely to bounce in the short term. The first potential upside price target is $8.70, however over the long term levels towards $9.30 are achievable.



Source: IRESS

Telco – the last sizeable consolidation round

Mergers and acquisitions in the telco sector continue. Internet Service Provider **iiNet** (IIN) is currently at the centre of a bidding war and is our key mid cap telco pick. IIN's key assets are a strong brand, strong Net Promoter Score (which creates the best customer advocacy in the sector) and strong market share (IIN has a 16% share of the household broadband market). IIN's large and sticky customer base creates economies of scale and we believe these economies of scale are necessary to create a competitive advantage under the National Broadband Network.

In March 2015, TPG Telecom (TPM) bid for IIN and recently M2 Group (MTU) made an even higher offer for IIN. TPM may raise its bid and offer scrip to IIN in order to win shareholder support. We think the MTU bid is a better outcome for IIN shareholders as it provides:

- upside to IIN shareholders through shared synergies
- capital gains tax relief
- the IIN Board will hold two Board seats of the combined group, and
- keeps IIN's brand whole (which was a key concern around TPM's offer).

We rate MTU more favourably than TPM (both for IIN shareholders and as an investment) but, given the potential for a bidding war, we think investors are best placed owning IIN in the short term.

For more information on Telco's visit our website to read **Hold-em, fold-em or walk away** published 28 April 2015

Fixed Interest – low rates to continue driving investor demand

Low interest rates continue to drive investors to look at higher yielding investments including equities and hybrids. With further cuts expected to the Official Cash Rate by the RBA, we anticipate this demand to remain strong, and consequently prices well supported. We have seen the recent Crown Subordinated Notes 2 (CWNHB) offering well supported by investors given the high issue margin of 4.00% above the 90d BBSW.

Investors continue to focus on running yield and we caution this investment approach. We recommend holding a basket of diversified ASX listed hybrid securities as part of a balanced portfolio but given these security structures, and our expectation of significant future issuance over the coming years, we prefer to stick to securities with terms to call of under five years. Our key picks are ANZPC, CBAPC, GMPPA, ORGHA and WBCHB.

BHP's South32 demerger

It remains our view that investors should be adding to their BHP positions ahead of the planned South32 demerger. We value South32 at A$2.98 per share. Although we expect an initial 'washing out' period of share price volatility when South32 first lists, we believe the sum of the two individual companies (BHP ex-demerger A$32.66 + South32 A$2.98) will quickly exceed BHP's current market capitalisation once the 'dust settles'.

We have an Add recommendation on BHP supported by our A$34.90 DCF-based price target before the planned demerger. Post the demerger, BHP will be trading on an attractive earnings multiple supported by a fully franked yield of 5.5% with an attractive exposure to a basket of high-margin commodities. Catalysts for BHP include:

- the South32 demerger
- the ability to fund a high progressive dividend, and
- exposure to a medium-term oil price recovery.

Even post demerger, BHP still offers a solid resources exposure for diversification purposes for clients who have been underweight resources, while not sacrificing yield.

For more information on BHP and South32 demerger visit our website to read **Head south for winter** published on 23 April 2015.

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Top 100

This month's changes

This month we have made six changes to our Top 100 High Conviction list. We have added Carsales.com, Qantas, and Sydney Airport. We have removed Macquarie Group and Transurban due to strong share price appreciation and Seek due to the lack of short-term re-rating catalysts.

ANZ Banking Group ANZ			
Price	$33.99	PE (x)	12.1
Price Target	$38.85	Yield	5.9%
Upside	14.3%	Gross Yield	8.4%

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.
- We think ANZ offers the best value of the major banks (on a PER and yield basis) and has 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.

Carsales.com CAR			
Price	$9.44	PE (x)	19.7
Price Target	$10.44	Yield	3.8%
Upside	11.0%	Gross Yield	5.4%

Carsales.com (CAR) is the market leader in the online classifieds markets for automobiles and other forms of transport and leisure equipment.

Key reasons to buy

- Market conditions in the new and used car markets have begun to improve in 2015. Dealer enquiry volumes – the principal driver of profit – are showing solid growth again.
- We expect that competitors who have been over-spending on marketing will be forced to reign in advertising campaigns in the second half of 2015 as financial realities bite. CAR should be able to raise prices again in FY16.
- Foreign operations of Carsales have tended to be overlooked. We expect strong growth from all offshore operations in FY15 and FY16.

Federation Centres FDC*			
Price	$2.95	PE (x)	15.5
Price Target	$3.01	Yield	6.1%
Upside	2.0%	Gross Yield	6.1%

Federation Centres (FDC) is a significant owner and manager of Australian retail assets. It is proposing to merge with Novion Property Group (NVN).

Key reasons to buy

- The new merged entity will be a top 30 stock with a market cap of c$11bn and the 3rd largest REIT with $22bn of assets under management.
- We expect given the increased size and scale the merged group will become meaningful for both offshore and domestic investors.
- The deal is expected to be highly accretive and we expect it will deliver a yield of around 6%.

Qantas QAN			
Price	$3.39	PE (x)	7.0
Price Target	$4.35	Yield	6.5%
Upside	28.4%	Gross Yield	9.3%

Qantas (QAN) 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 QAN's investor day (May 12), monthly operating statistics, and full year result (Aug 20) reinforcing the strong operating conditions.

Ramsay Healthcare RHC			
Price	$62.59	PE (x)	27.6
Price Target	$73.54	Yield	1.9%
Upside	17.5%	Gross Yield	2.7%

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	$8.07	PE (x)	18.7
Price Target	$9.90	Yield	2.2%
Upside	22.7%	Gross Yield	2.2%

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

- 3Q revenue was solid (+13% in constant currency), underpinned by new product launches.
- 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 approximately US$700m.

Sydney Airport SYD			
Price	$5.39	PE (x)	63.4
Price Target	$5.82	Yield	4.9%
Upside	8.0%	Gross Yield	4.9%

Sydney Airport (SYD) 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 30 April 2015.
* Factset forecast.

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Ex 100

This month's changes

This month we have added Qube Logistics and Bellamy's Australia to our ex 100 High Conviction list.

360 Capital Industrial Fund TIX			
Price	$2.58	PE (x)	11.0
Price Target	$2.72	Yield	7.7%
Upside	5.2%	Gross Yield	7.7%

360 Capital Industrial Fund (TIX) owns a portfolio of 22 industrial assets across Australia valued at around $525m.

Key reasons to buy

- Attractive yield.
- Cashflows supported by stable rents which average 3.2% rental growth p.a.
- Strong portfolio metrics (Woolworths is the largest tenant) including a WALE of 5.8 years.

Admedus AHZ			
Price	$0.08	PE (x)	n/a
Price Target	$0.20	Yield	0.0%
Upside	154.6%	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.

Bellamy's BAL			
Price	$3.48	PE (x)	46.6
Price Target	$3.85	Yield	0.6%
Upside	10.6%	Gross Yield	0.9%

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.

Corporate Travel Management CTD			
Price	$10.69	PE (x)	38.0
Price Target	$13.70	Yield	1.5%
Upside	28.2%	Gross Yield	2.2%

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.
- We believe that recently upgraded FY15 guidance is still conservative given the positive momentum across all of CTD's geographies.

Impedimed IPD			
Price	$0.85	PE (x)	n/a
Price Target	$1.70	Yield	0.0%
Upside	99.4%	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	$1.62	PE (x)	19.0
Price Target	$1.69	Yield	5.0%
Upside	4.6%	Gross Yield	5.0%

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.

Qube Logistics QUB			
Price	$2.79	PE (x)	26.7
Price Target	$3.23	Yield	2.1%
Upside	15.7%	Gross Yield	2.9%

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	$3.03	PE (x)	17.2
Price Target	$3.58	Yield	1.3%
Upside	18.3%	Gross Yield	1.3%

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 the demonstration that disbursement funding is improving cashflow will drive share price performance.

Villa World VLW			
Price	$2.29	PE (x)	9.3
Price Target	$2.46	Yield	6.7%
Upside	7.4%	Gross Yield	6.7%

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 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 and believe the group has the potential to outperform earnings expectations in FY15 and FY16.
- We view VLW's valuation as attractive (around a 10% discount to peers) along with a ~6.5% fully franked dividend yield.

Source: IRESS, Morgans

Priced at 30 April 2015.

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