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quantanalysis

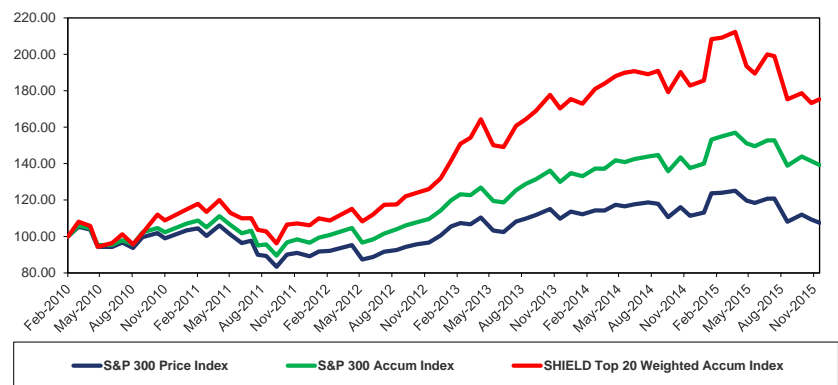
SHIELD – Sustainable High Yield

QUANTITATIVE ANALYSIS

Yield trade to benefit from growth risks and volatility

- *Note: The forecast data in this report is based on Thomson/IBES consensus data.*
- **We maintain a bullish long term view while short term volatility is expected with US Fed raising rates in December.** Global growth is struggling with US Fed interest rate outlook and growth worries in China, Japan and Europe. Despite the short term negative sentiment in yield stocks on the back of global investors selling, investors will start to chase high yielding stocks in an environment of low interest rates and lower growth. Commodity price decline and lack of manufacturing are beginning to show in the domestic economy as it struggles with declining growth. The banking sector is facing property bubble risk, capital requirement and slowing overall economic growth, while the resource sector is being hit by falling global growth, over supply and declining demand. Despite the US interest rate cycle about to turn positive, we remain positive on the domestic yield trade as the US interest rate up cycle is expected to take a slow path back to normalisation. Global growth will remain low for longer while central banks provide support to avoid any recession risks.
- **Small cap CCP** is the only low growth cheap yield pick from the SHIELD screen that has average earnings and cash flow per share growth of below 10%, an average of price-earnings and price-cash flow below 10, a dividend yield above 5% and a BUY rating.
- **SHIELD Top 20 picks are:** large cap – CBA, WBC, ANZ, TLS and MPL; mid cap – FLT and PPT; small cap – IMF, MOC, CCV, PTM, RRL, IFM, CWP, SGN, NEC and AGI; and micro cap – VTG, NCK and SIQ.
- **The performance of the Sustainable Yield Top 20 picks shows that yield should be a big part of the investment process in the post GFC low growth environment.** Further macro overlay (i.e. add, remove or substitute) stocks on top to cater for market themes can enhance the performance. The performance analysis weights each Top 20 stock by the market cap as well as equal weight in the index. The calculation does not take into account transaction costs.

FIG.1: SHIELD TOP 20 PERFORMANCE



Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

Model process

- The sustainable yield screen aims to identify the best 30 stocks that are most likely to maintain yields at a higher level than 100bps premium to 10-year bonds (that is 2.85%) through a mix of size, risk, quality, growth, yield and value factors.
- The screen starts with the universe of All Ordinaries stocks with consensus data while removing all stocks with yield/growth expectations below the bond rate, market caps under \$200 million and consensus recommendations below HOLD. All the data used in the analysis is of market close 10th Dec 2015.
- The factors used in the process and their weights are: market capital (5%), expected 12-month price return (5%), forecast net debt to equity (10%), EPS growth (5%), operating cash flow growth (5%), forecast return on equity (10%), forecast payout (15%), forecast dividend yield (20%), change in dividend yield (15%), forecast PE (5%) and forecast price-operating cash flow (5%). Forecast data is based on the first forecast year, and growth rates and changes in yields are calculated from the first forecast year to the second forecast year.
- The sustainable yield portfolio is updated in the first week of each month and any given stock could leave the top 20 and then come back in when the valuations match up to the selection process. The selection process is a multi-factor weighted screening process that does not rely on any stock selection overlay.

FIG.2: SUSTAINABLE YIELD SECTOR RANKING

Sector	GICS	Market Cap (\$mn)	Net Debt to Equity (%)	EPS Growth FY2/FY1 (%)	CPS Growth FY2/FY1 (%)	ROE FY1 (%)	Payout FY1 (%)	Div Yield FY1 (%)	Div Yield FY2 (%)	PE FY1 (x)	POCF FY1 (x)	Rank
Technology Hardware & Equipment	4520	522	52.55	13.43	-4.79	30.34	79.13	10.20	11.22	7.33	4.21	1
Capital Goods	2010	684	32.31	15.02	17.26	12.21	68.87	4.10	4.94	8.41	5.75	2
Diversified Financials	4020	65,556	4.22	6.98	14.22	20.00	73.07	4.58	4.97	15.50	12.23	3
Banks	4010	402,333	20.99	3.27	14.22	15.00	75.04	6.18	6.30	12.12	9.98	4
Media	2540	21,801	7.62	12.53	13.60	18.51	64.89	3.80	4.19	16.19	11.68	5
Insurance	4030	73,817	29.38	8.39	14.22	12.98	73.78	5.21	5.67	14.20	11.85	6
Materials	1510	183,336	34.65	23.72	7.74	8.87	85.83	5.73	5.93	16.33	6.35	7
Retailing	2550	24,132	25.15	11.13	11.04	16.30	72.86	4.27	4.87	16.07	12.22	8
Pharmaceuticals & Biotechnology	3520	51,355	69.60	17.15	15.42	44.49	50.40	1.70	1.94	27.16	24.38	9
Consumer Durables & Apparel	2520	1,973	36.15	20.34	24.68	14.71	109.47	4.65	5.38	14.35	9.86	10
Commercial & Professional Services	2020	40,757	60.96	10.54	9.64	19.03	65.42	3.87	4.24	16.40	9.59	11
Consumer Services	2530	50,531	39.49	10.85	11.24	17.25	67.71	3.64	3.95	17.29	11.99	12
Healthcare Equipment & Services	3510	59,267	36.44	13.28	3.33	20.73	70.14	3.05	3.47	22.52	10.91	13
Food Beverage & Tobacco	3020	21,901	37.08	19.87	10.60	13.60	72.37	3.06	3.53	21.61	14.04	14
Food & Staples Retailing	3010	73,632	26.98	5.25	7.56	12.84	87.74	5.05	5.33	16.26	10.69	15
Property Trust	4040	119,610	45.88	4.03	14.22	8.79	77.63	5.03	5.21	15.18	14.47	16
Telecommunication Services	5010	85,051	90.52	9.44	6.44	27.34	85.31	5.36	5.49	16.49	8.42	17
Software & Services	4510	21,113	26.40	18.14	13.81	22.74	85.83	2.77	3.04	22.48	18.21	18
Transportation	2030	73,418	78.12	14.88	7.21	11.53	94.92	3.89	4.32	22.33	10.10	19
Utilities	5510	37,502	71.83	5.47	6.87	9.30	99.91	5.50	5.81	21.00	8.86	20
Energy	1010	69,325	34.92	6.25	4.63	7.92	79.15	4.06	3.63	18.57	6.81	21

Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

FIG.3: SHIELD TOP 30 STOCK RANKING

Code	Company Name	GICS	Price (\$)	Market Cap (\$mn)	Target Price (\$)	Rating	Net Debt to Equity (%)	EPS Growth FY2/FY1 (%)	CPS Growth FY2/FY1 (%)	ROE FY1 (%)	Payout FY1 (%)	Div Yield FY1 (%)	Div Yield FY2 (%)	PE FY1 (x)	POCF FY1 (x)	Rank	Size
CBA	COMMONWEALTH BANK OF AUSTRALIA	40101010	78.90	134725.27	81.19	Hold		3.50		17.44	76.11	5.37	5.51	14.16	12.15	1	Large
IMF	IMF BENTHAM LTD	40201040	1.42	240.63	2.57	Buy	-38.99	41.04		14.10	62.43	7.61	8.66	8.21	2.88	2	Small
WBC	WESTPAC BANKING CORP	40101010	31.41	104372.50	34.21	Buy		2.92		15.21	75.15	6.06	6.18	12.41	9.83	3	Large
ANZ	AUSTRALIA AND NEW ZEALAND BANKING GROUP	40101010	26.19	76141.06	31.07	Hold		3.74		13.12	71.51	6.94	7.13	10.31	8.44	4	Large
MOC	MORTGAGE CHOICE LTD	40102010	1.76	218.43	2.29	Hold	-30.42	6.40		19.93	93.02	9.12	9.52	10.20	10.03	5	Small
CCV	CASH CONVERTERS INTERNATIONAL LTD	25504040	0.52	250.55	0.84	Hold	25.16	8.64	11.43	14.28	58.02	9.04	9.62	6.42	4.95	6	Small
PTM	PLATINUM INVESTMENT MANAGEMENT LTD	40203010	7.58	4447.03	7.81	Hold	-35.34	9.62		64.49	97.97	5.11	5.54	19.19	19.19	7	Small
RRL	REGIS RESOURCES LTD	15104030	2.09	1044.54	1.88	Hold	-14.29	31.98	18.84	19.91	51.74	4.26	5.12	12.15	7.16	8	Small
IFM	INFOMEDIA LTD	45103010	0.69	212.17	1.10	Buy	1.90	21.43	17.14	29.17	85.71	5.26	6.42	16.31	9.79	9	Small
VTG	VITA GROUP LTD	25504020	2.01	304.21	2.24	Buy	6.26	8.86	-1.21	41.23	63.92	5.02	5.57	12.72	8.10	10	Micro
CWP	CEDAR WOODS PROPERTIES LTD	40403030	4.10	323.46	6.33	Buy	16.59	9.58		14.74	52.12	6.90	7.34	7.55	7.40	11	Small
TLS	TELSTRA CORPORATION LTD	50101020	5.25	64184.69	5.81	Hold	97.01	7.63	6.15	30.01	89.27	6.02	6.17	14.83	7.69	12	Large
FLT	FLIGHT CENTRE TRAVEL GROUP LTD	25301020	34.62	3491.99	39.61	Hold	-66.63	5.18	0.95	20.39	59.37	4.60	4.85	12.90	9.71	13	Mid
SGN	STW COMMUNICATIONS GROUP LTD	25401010	0.73	311.16	0.76	Hold	38.32	6.12	0.00	8.65	53.06	7.17	8.41	7.40	5.18	14	Small
MPL	MEDIBANK PRIVATE LTD	40301020	2.15	5921.11	2.51	Hold	-86.91	11.30		21.74	73.04	3.91	4.42	18.70	17.48	15	Large
NEC	NINE ENTERTAINMENT CO HOLDINGS LTD	25401020	1.80	1583.41	1.85	Hold	2.69	12.58	-1.00	12.52	88.74	7.44	8.61	11.92	9.00	16	Small
NCK	NICK SCALI LTD	25504060	4.10	332.10	4.60	Buy	15.22	7.69	9.87	47.14	70.38	4.46	4.85	15.77	13.06	17	Micro
SIQ	SMARTGROUP CORPORATION LTD	20201070	3.70	383.68	3.14	Buy	-17.29	9.78	17.49	33.53	71.56	4.35	4.73	16.44	16.59	18	Micro
PPT	PERPETUAL LTD	40203010	44.63	2078.62	47.31	Buy	-45.02	7.83		21.09	90.61	5.49	5.88	16.49	14.29	19	Mid
AGI	AINSWORTH GAME TECHNOLOGY LTD	25301010	2.29	738.16	3.44	Buy	-19.04	17.78	2.76	18.98	56.67	4.45	5.11	12.72	10.55	20	Small
IRI	INTEGRATED RESEARCH LTD	45103010	2.05	349.38	2.90	Buy	-28.13	16.33	-3.45	41.90	86.73	4.15	4.39	20.92	11.78	21	Micro
TME	TRADE ME GROUP LTD	25502020	3.85	1529.42	3.20	Hold	15.73	8.44	10.96	11.83	82.81	4.03	7.03	20.55	17.28	22	Small
CCP	CREDIT CORP GROUP LTD	20201070	9.71	454.05	11.03	Buy	11.04	7.43	6.15	22.64	50.81	4.86	5.23	10.45	4.39	23	Small
QBE	QBE INSURANCE GROUP LTD	40301040	12.02	16482.67	15.46	Buy	32.99	18.03		8.57	56.43	4.15	5.69	13.61	12.40	24	Large
HFA	HFA HOLDINGS LTD	40203010	2.94	476.71	2.83	Buy		11.82		10.08	81.36	6.09	7.79	13.36	14.00	25	Small
RFG	RETAIL FOOD GROUP LTD	25301040	4.40	723.11	6.07	Buy	43.38	12.04	67.65	15.90	63.64	5.89	6.50	10.81	14.38	26	Small
MQG	MACQUARIE GROUP LTD	40203020	80.73	27472.58	92.15	Buy		2.90		14.45	64.68	4.80	5.18	13.47	9.82	27	Large
WES	WESFARMERS LTD	30101040	37.72	42477.67	42.11	Hold	23.77	8.07	9.65	10.18	92.69	5.51	5.83	16.82	11.17	28	Large
RMD	RESMED INC	35101010	7.58	10577.10	8.97	Hold	-24.68	12.73	-30.23	23.17	83.15	4.05	4.82	20.52	5.23	29	Mid
ALU	ALTIUM LTD	45103010	4.73	615.92	5.05	Buy	-35.03	20.10	18.70	22.18	92.46	3.89	4.52	23.77	20.57	30	Small

Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

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