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# quantanalysis

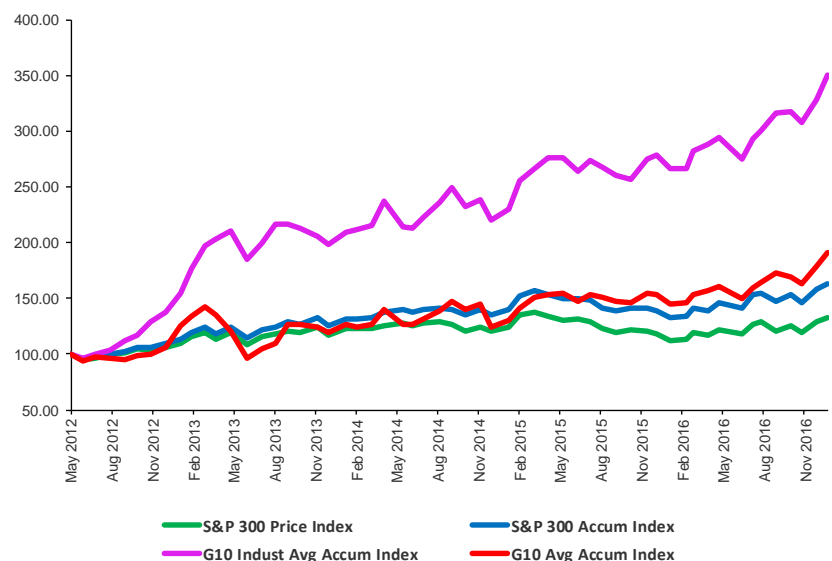
## GARY - Growth At Reasonable Yield

### QUANTITATIVE ANALYSIS

#### You ain't seen nothing yet

- Note:** This report is a Quantitative Strategy product. The report uses consensus rating and forecast data from Thomson/IBES to get coverage of the whole market and avoid a house skew, and as such sometimes the highlighted themes, sectors and stocks will not match our analysts' view.
- Macro Outlook:** Global markets are moving from deflation and low rates to an inflation and rate rising environment. Recovering economies will deliver growth while struggling economies will see capital outflows. The changing global dynamics will continue to push investors towards a better equilibrium between growth and yield. We see this transition driving even higher returns for GARY stocks in 2017. The inflation rally since October has been driven by better than expected US and China economic data, US Fed rate cycle expectations and potential fiscal stimulus in US. The market will soon move from optimism to execution risk due to a higher interest rate outlook. We expect to see a higher level of macro volatility in 2017 due to US/China growth outlook and EU breakup risks.
- GARY (Growth At Reasonable Yield) screen** allows us to pick stocks with strong yield, solid growth and cheap valuation multiples compared to the overall historical market trend.
- GARY Industrial picks are:** large-cap (LLC), small-cap (VLW, CWP, FXL, HFA, AJA, GDI and KMD), micro-cap (AFG and PPC).
- GARY Resource and related picks are:** None.
- The performance of the GARY Top 10 (G10) picks shows that Industrial ideas have consistently outperformed since May 2012, while Resources and related companies remain volatile.** The performance analysis is calculated using a maximum 10 ideas by equal weighting. The calculation does not take transaction costs into account.

FIG.1: GARY TOP TEN (G10) PERFORMANCE

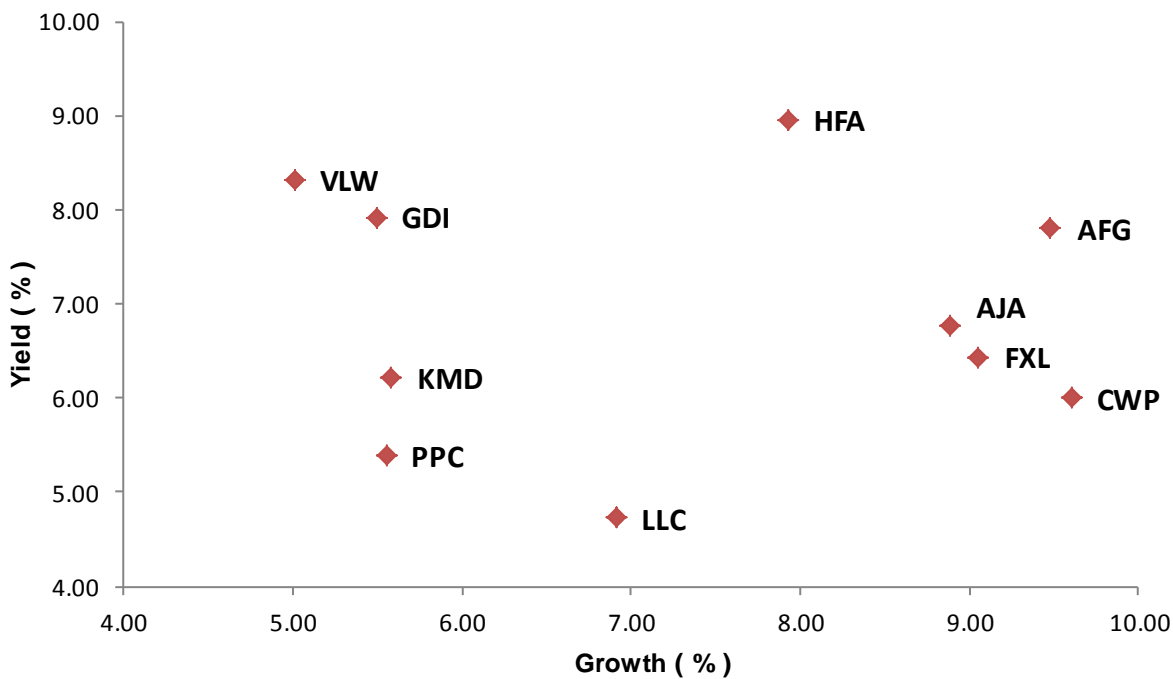


Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

## Model Process

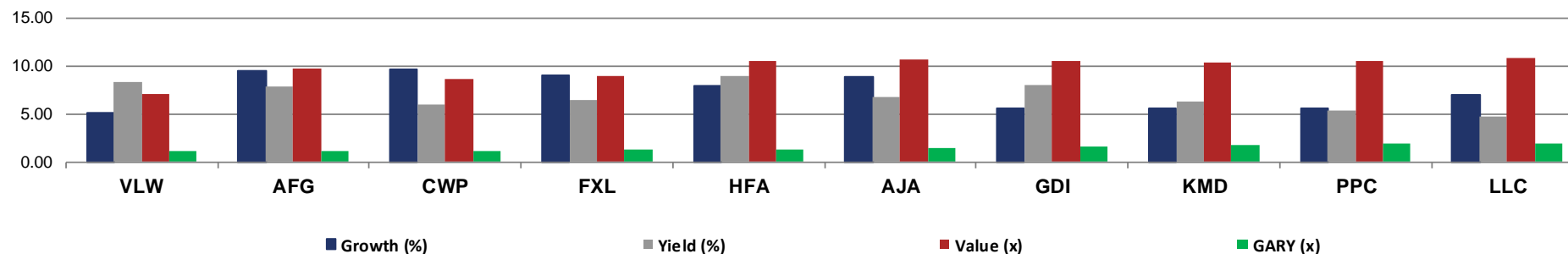
- GARY identifies companies that are able to deliver growth and yield at a reasonable cost. The screen starts with the All Ordinaries using Thomson/IBES consensus data and then removes stocks with yield/growth expectations below 2.79% (that is, below the bond rate) for the next two-year average, and stocks with market caps below \$200 million. Infrastructure and utilities stocks have been included, with cash flow being substituted for earnings in growth and value measures due to their unique accounting requirements.
- The screen removes stocks with consensus recommendations below BUY and total expected returns less than 10%. On multiples, GARY removes stocks with price-earnings above 12 (that is, the market long-term average less 1 standard deviation), dividend yield below 100bps premium to bond yield and growth above 13% (that is, the market long-term) from the first forecast year to the second forecast year.
- GARY is an average of GARP (Growth At Reasonable Price) and DARP (Dividend yield At Reasonable Price). GARP is the cost of PE per 1% of growth and DARP is the cost of PE per 1% of dividend yield. Growth is calculated over the first to second forecast years, and value and yield are two forecast year averages.

FIG.2: GARY TOP TEN STOCKS



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

FIG.3: GARY MULTIPLES FOR THE TOP TEN



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

FIG.4: THE GARY TOP TEN SCREEN

Code	Company Name	GICS	Price (\$)	Market Cap (\$mn)	Target Price (\$)	Rating	Total Return Expectations (%)	Growth (%)	Yield (%)	Value (x)	GARP (x)	DARP (x)	GARY (x)	Size
VLW	VILLA WORLD LTD	40402030	2.29	260	2.68	Buy	25.37	5.02	8.32	7.01	1.40	0.84	1.12	Small
AFG	AUSTRALIAN FINANCE GROUP LTD	40102010	1.18	253	1.55	Buy	38.73	9.48	7.80	9.73	1.03	1.25	1.14	Micro
CWP	CEDAR WOODS PROPERTIES LTD	40402030	5.07	400	5.69	Buy	18.07	9.61	6.00	8.63	0.90	1.44	1.17	Small
FXL	FLEXIGROUP LTD	40202010	2.37	882	2.69	Buy	19.54	9.06	6.43	8.94	0.99	1.39	1.19	Small
HFA	HFA HOLDINGS LTD	40203010	2.48	402	2.95	Buy	27.46	7.93	8.95	10.52	1.33	1.18	1.25	Small
AJA	ASTRO JAPAN PROPERTY GROUP LTD	40401010	6.50	394	7.40	Buy	20.31	8.89	6.77	10.66	1.20	1.57	1.39	Small
GDI	GDI PROPERTY GROUP LTD	40401040	0.99	531	1.09	Buy	18.07	5.49	7.92	10.54	1.92	1.33	1.63	Small
KMD	KATHMANDU HOLDINGS LTD	25504040	1.85	374	2.02	Buy	14.85	5.58	6.22	10.39	1.86	1.67	1.76	Small
PPC	PEET LTD	40402030	0.96	473	1.24	Buy	33.58	5.56	5.39	10.44	1.88	1.94	1.91	Micro
LLC	LENLEASE GROUP	40402010	14.31	8,343	15.83	Buy	15.13	6.92	4.72	10.76	1.56	2.28	1.92	Large

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

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