

RESEARCH ANALYST
Mathan Somasundaram
+61 2 9250 8947 mathan@baillieuholst.com.au

quantanalysis

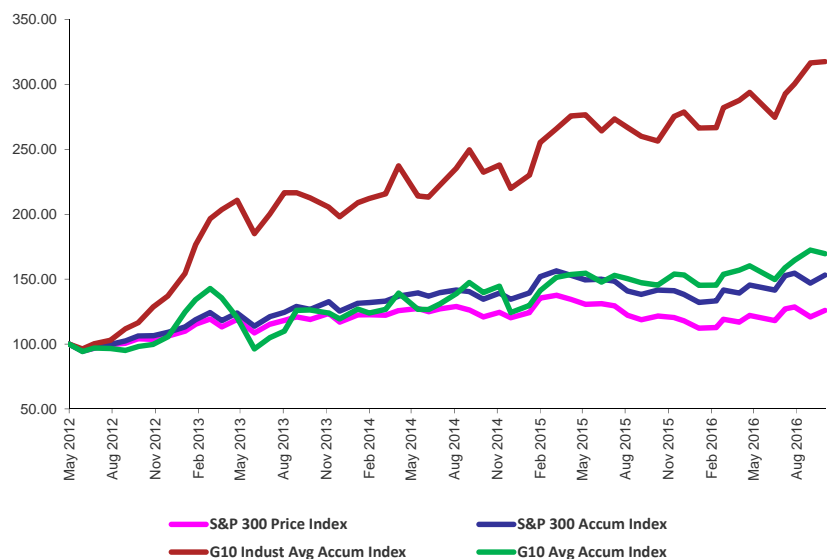
GARY - Growth At Reasonable Yield

QUANTITATIVE ANALYSIS

Small Cap Industrials continue to dominate

- 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 past US Fed and US election worries as the US reporting season starts to test stretched multiples. We continue to see global growth remaining weak, while an easing bias stance from most central banks will support equity markets. We maintain the view that the US Fed will only move in December; a move that continues to remain under threat from economic weakness from election and global uncertainties (such as the Italian referendum). A recent bond squeeze has delivered a bounce in yields, whilst a medium to long term outlook suggests that bond yields will settle in the slightly higher range from early 2016. The yield trade will continue to see support in Australia as interest rates remain low for longer. Small cap industrial stocks continue to dominate the GARY screen.
- The 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.** Resources and related service stocks carry higher risk due to global growth worries, while property related stocks carry the bubble risk.
- GARY Industrial picks are:** mid-cap (SKI), small-cap (CWP, HFA, WPP, VLW, FXL, FSF, AJA and GDI).
- GARY Resource and related picks are:** small-cap (PRG).
- 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

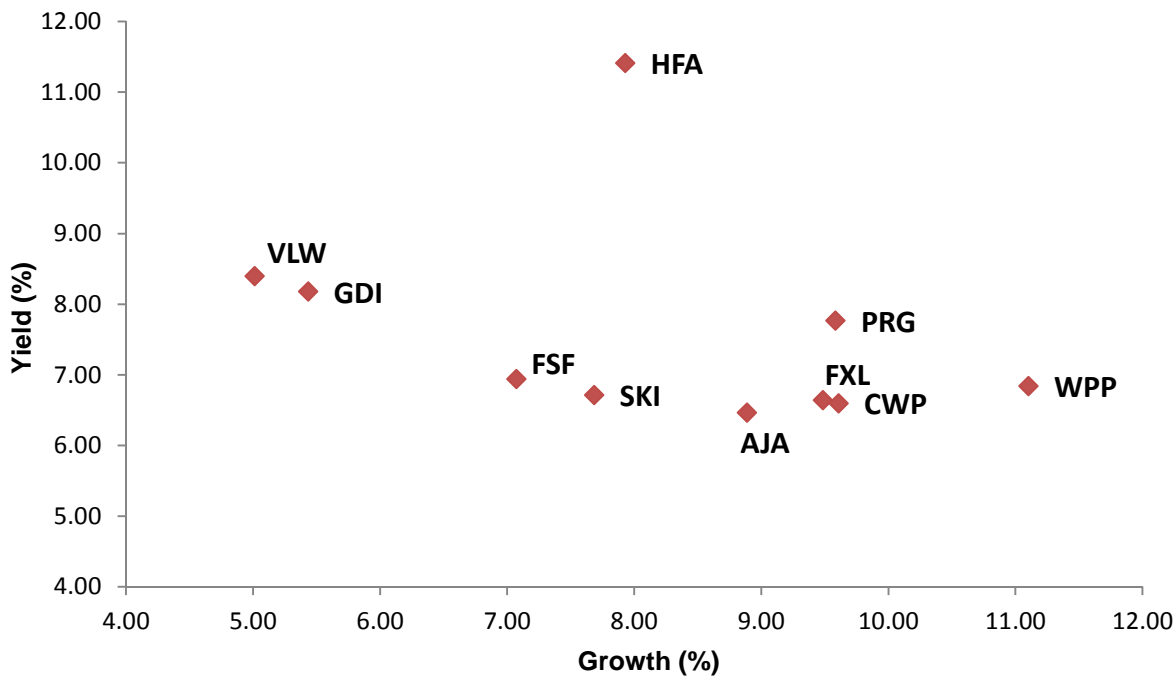


Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

Model Process

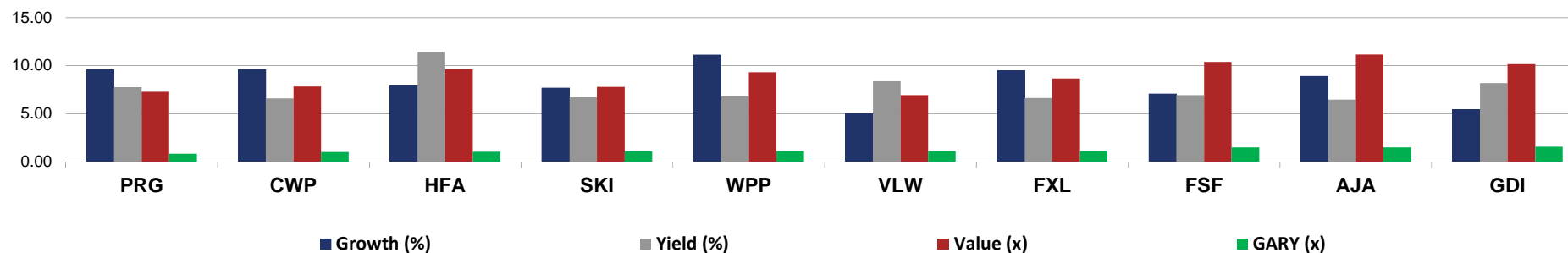
- GARY identifies companies that are able to deliver growth and yield at a reasonable cost. The screen starts with the All Ordinaries using Thomson/IBES consensus data and then removes stocks with yield/growth expectations below 2.24% (that is, below the bond rate) for the next two-year average, and 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
PRG	PROGRAMMED MAINTENANCE SERVICES	20201050	1.55	398	2.34	Buy	58.83	9.58	7.77	7.28	0.76	0.94	0.85	Small
CWP	CEDAR WOODS PROPERTIES LTD	40402030	4.61	364	5.69	Buy	29.85	9.61	6.59	7.84	0.82	1.19	1.00	Small
HFA	HFA HOLDINGS LTD	40203010	2.27	368	3.10	Buy	47.36	7.93	11.41	9.63	1.21	0.84	1.03	Small
SKI	SPARK INFRASTRUCTURE GROUP	55101010	2.22	3,734	2.61	Buy	24.23	7.69	6.71	7.79	1.01	1.16	1.09	Mid
WPP	WPP AUNZ LTD	25401010	0.98	835	1.35	Buy	43.57	11.10	6.84	9.31	0.84	1.36	1.10	Small
VLW	VILLA WORLD LTD	40402030	2.27	258	2.68	Buy	26.48	5.02	8.39	6.95	1.38	0.83	1.11	Small
FXL	FLEXIGROUP LTD	40202010	2.29	853	2.63	Buy	21.22	9.49	6.64	8.66	0.91	1.30	1.11	Small
FSF	FONTERRA SHAREHOLDERS' FUND	30202030	5.58	674	6.38	Buy	21.16	7.07	6.94	10.40	1.47	1.50	1.48	Small
AJA	ASTRO JAPAN PROPERTY GROUP LTD	40401010	6.81	413	7.40	Buy	14.83	8.89	6.46	11.17	1.26	1.73	1.49	Small
GDI	GDI PROPERTY GROUP LTD	40401040	0.96	517	1.05	Buy	17.50	5.43	8.18	10.17	1.87	1.24	1.56	Small

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

This document has been prepared and issued by:

Baillieu Holst Ltd

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

Analysts' stock ratings are defined as follows:

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

Disclosure of potential interest and disclaimer:

Baillieu Holst Ltd (Baillieu Holst) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Holst Ltd.

Save for any statutory liability that cannot be excluded, Baillieu Holst Ltd and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Holst Ltd assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

Baillieu Holst Ltd

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

www.baillieuholst.com.au

Melbourne (Head Office)

Address Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

Postal PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

Phone +61 3 9602 9222

Facsimile +61 3 9602 2350

Email melbourne@baillieuholst.com.au

Adelaide Office

Address Ground Floor, 226 Greenhill Road,

Eastwood SA 5063

Postal PO Box 171

Fullarton SA 5063

Phone +61 8 7074 8400

Facsimile +61 8 8362 3942

Email adelaide@baillieuholst.com.au

Bendigo Office

Address Level 1, 10-16 Forest Street

Bendigo, VIC 3550

Postal PO Box 84

Bendigo, VIC 3552

Phone +61 3 4433 3400

Facsimile +61 3 4433 3430

Email bendigo@baillieuholst.com.au

Geelong Office

Address 16 Aberdeen Street

Geelong West Vic 3218

Postal PO Box 364

Geelong Vic 3220 Australia

Phone +61 3 5229 4637

Facsimile +61 3 4229 4142

Email geelong@baillieuholst.com.au

Gold Coast Office

Address Suite 202 Level 2, Eastside Building

6 Waterfront Place, Robina QLD 4226

Phone +61 7 5628 2670

Facsimile +61 7 5677 0258

Email goldcoast@baillieuholst.com.au

Newcastle Office

Address Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

Postal PO Box 111

The Junction, NSW 2291 Australia

Phone +61 2 4037 3500

Facsimile +61 2 4037 3511

Email newcastle@baillieuholst.com.au

Perth Office

Address Level 10, 191 St Georges Terrace

Perth WA 6000 Australia

Postal PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

Phone +61 8 6141 9450

Facsimile +61 8 6141 9499

Email perth@baillieuholst.com.au

Sydney Office

Address Level 18, 1 Alfred Street

Sydney, NSW 2000 Australia

Postal PO Box R1797

Royal Exchange, NSW 1225 Australia

Phone +61 2 9250 8900

Facsimile +61 2 9247 4092

Email sydney@baillieuholst.com.au