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quantanalysis

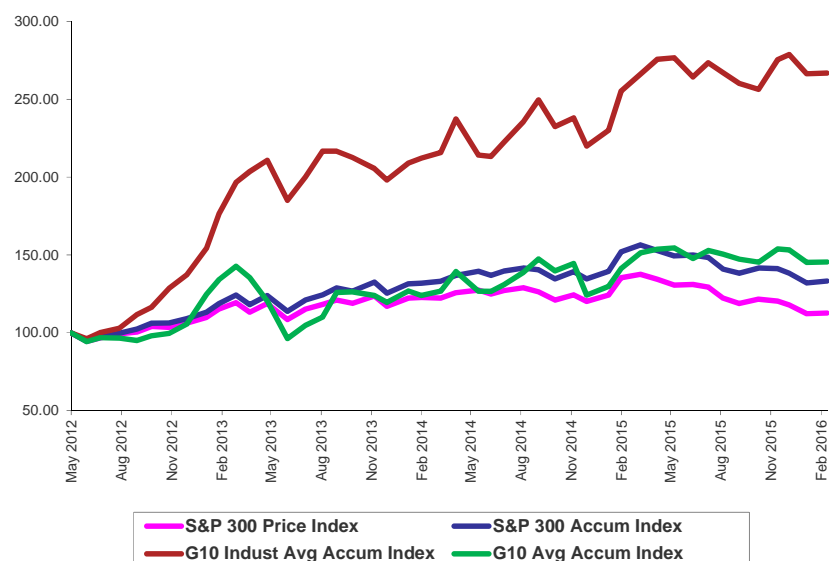
GARY - Growth At Reasonable Yield

QUANTITATIVE ANALYSIS

Yield helps GARY hold ground in volatility

- *Note: The forecast data in this report is based on Thomson/IBES consensus data.*
- **Macro outlook:** Central bank currency wars, political election cycles and corporate survival mode will continue to put downward pressure on growth rates and interest rates. The global trade to chase the US interest rate cycle and European/Japanese QE driven equities are unwinding as the reality of the currency war becomes clearer. US growth outlook is showing weakness while Euro, Japan and China recovery will take time. We continue to expect to see the 2015 currency trade reverse as yield premium widens and the USD weakens. The Australian equity market's sustainable dividend yield will attract investors in an environment of low rates and low growth. The GARY approach allows the investor to get the exposure to recovering growth with the protection of the yield thematic.
- **GARY (Growth At Reasonable Yield) screen allows us to pick stocks with good yield, good growth and cheap value 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:** large cap (QBE), mid cap (QAN), small cap (FXL, CWP, GDI, RFG, NEC and VLW) and micro cap (MYS).
- **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

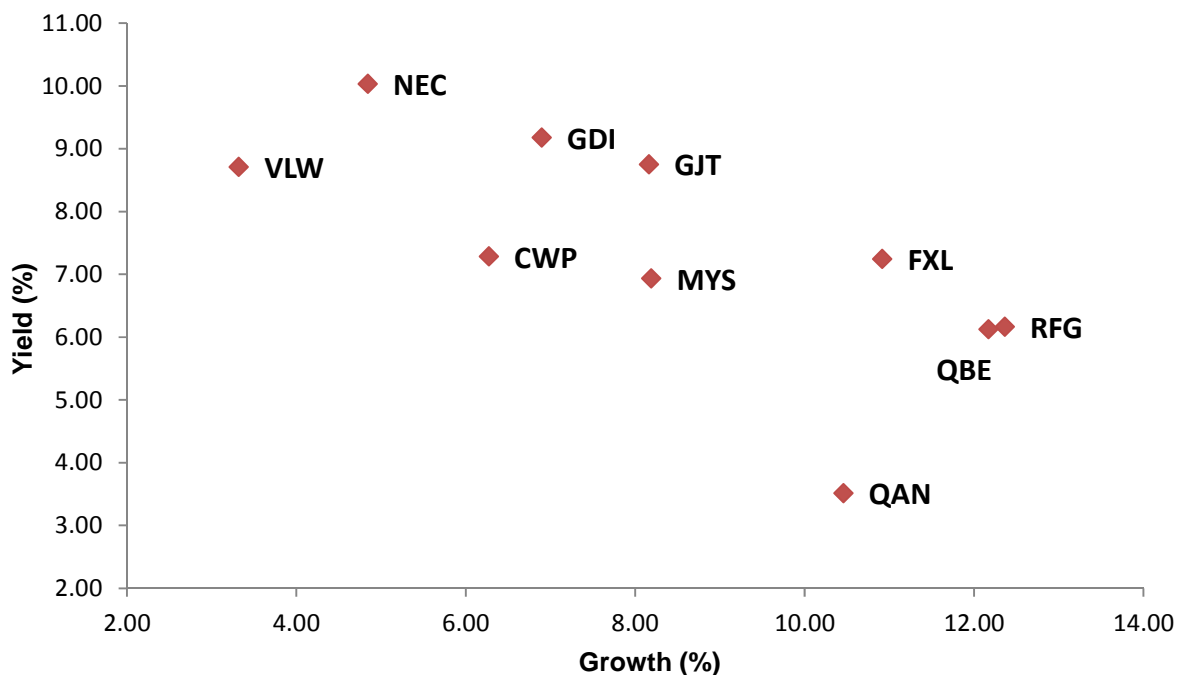


Source: ASX, Baillieu Holst, Bloomberg, IRESS, Thomson

Model Process

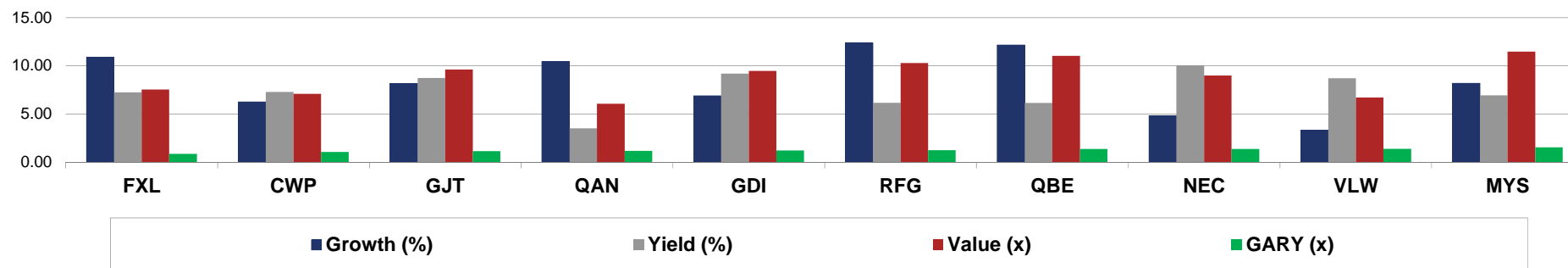
- GARY identifies companies that are able to deliver growth and yield at a reasonable cost. The screen starts with all stocks in the All Ordinaries using Thomson/IBES consensus data, and then removes stocks with yield/growth expectations below 2.40% (that is, below the bond rate) for the next two-year 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
FXL	FLEXIGROUP LTD	40202010	2.25	838	3.03	Buy	41.56	10.92	7.24	7.53	0.69	1.04	0.86	Small
CWP	CEDAR WOODS PROPERTIES	40403030	3.96	312	5.86	Buy	55.03	6.27	7.29	7.09	1.13	0.97	1.05	Small
GJT	GALILEO JAPAN TRUST	40402010	1.96	207	2.21	Buy	20.92	8.16	8.75	9.62	1.18	1.10	1.14	Micro
QAN	QANTAS AIRWAYS LTD	20302010	3.97	8,188	4.88	Buy	25.37	10.46	3.51	6.07	0.58	1.73	1.15	Mid
GDI	GDI PROPERTY GROUP LTD	40402040	0.85	458	1.03	Buy	29.76	6.90	9.18	9.45	1.37	1.03	1.20	Small
RFG	RETAIL FOOD GROUP LTD	25301040	4.42	726	6.43	Buy	51.22	12.36	6.17	10.28	0.83	1.67	1.25	Small
QBE	QBE INSURANCE GROUP LTD	40301040	11.02	15,111	14.49	Buy	37.30	12.17	6.13	11.03	0.91	1.80	1.35	Large
NEC	NINE ENTERTAINMENT CO	25401020	1.45	1,275	1.88	Buy	38.97	4.85	10.03	8.98	1.85	0.90	1.37	Small
VLW	VILLA WORLD LTD	40403030	2.05	226	2.50	Buy	30.44	3.32	8.71	6.70	2.02	0.77	1.39	Small
MYS	MYSTATE LTD	40102010	4.22	369	4.86	Buy	21.94	8.19	6.93	11.47	1.40	1.65	1.53	Micro

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

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