

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

quantanalysis

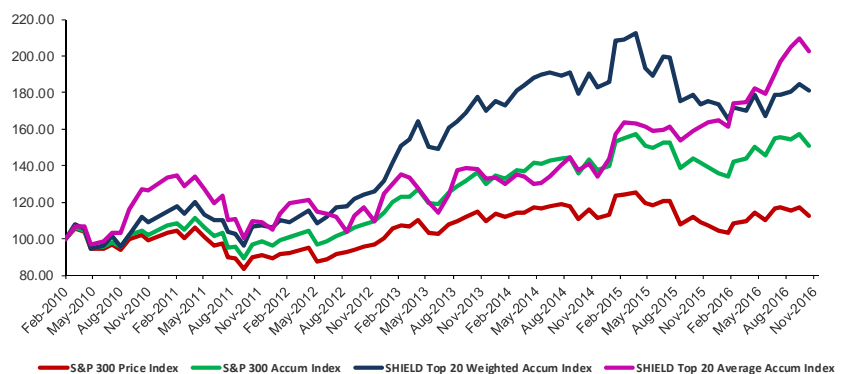
SHIELD – Sustainable High Yield

QUANTITATIVE ANALYSIS

Banks back in fashion

- 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 market worries are all about US presidential election in the short term while Italian referendum and US Fed rates cycle are the next road blocks ahead. US election cycle remains in the balance while the leading indicators are pointing to a market preferred option. There is a high probability of the Presidential race dragging on past the deadline with potential challenges in key states. We maintain our view that US Fed has been preparing the markets for a move in December while any major macro risk may derail that outcome. The recent economic data points out of US and China continues to favour a rate hike while the Presidential election remains the wild card. The potential end of easing cycle locally and the rate hike in US will support the yield outlook in the Australian banking sector while the low credit growth and regulatory capital requirements remains the overhang. Bank update season was relatively stable while two out of the four big banks will go ex-dividend over the next week.
- Cheap Picks: PRG and VLW** are the low growth cheap yield picks from the SHIELD screen that have average earnings and cash flow per share growth of below 10%; an average of price-earnings and price-cash flow below 10x; a dividend yield above 5% and; a BUY rating.
- SHIELD Top 20 picks are:** large cap – CBA, WBC, ANZ and NAB; mid cap – MFG; small cap – IMF, DNA, MLD, OFX, PRG, VLW, PTM, VTG, NEC, AYS, TRS and RRL; and micro cap – GNG, DTL and NCK.
- The performance of the Sustainable Yield Top 20 picks shows that yield should be a significant part of the investment process in the post-GFC low growth environment.** Adding 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 2.35%) 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 on 07 Nov 2016.
- 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
Diversified Financials	4020	80,181	6.95	14.50	16.04	15.52	82.25	5.04	5.38	15.53	12.81	1
Energy	1010	75,492	27.75	26.05	19.12	6.67	64.23	2.19	3.07	22.23	7.90	2
Media	2540	20,681	28.39	12.07	12.51	17.72	64.03	4.28	4.71	15.03	10.83	3
Banks	4010	391,295	23.45	3.17	16.04	13.78	77.36	6.15	6.14	12.33	10.01	4
Insurance	4030	53,779	13.40	10.52	16.04	12.39	76.64	5.23	5.55	14.69	12.24	5
Retailing	2550	26,718	35.11	11.68	15.01	17.61	71.49	4.55	4.93	15.79	12.59	6
Consumer Durables & Apparel	2520	3,384	20.14	14.89	10.84	18.55	77.81	3.64	4.18	19.05	12.69	7
Food & Staples Retailing	3010	77,634	30.50	6.40	9.95	13.90	76.77	4.38	4.75	17.40	11.55	8
Consumer Services	2530	57,349	44.15	12.88	14.05	19.91	72.10	3.64	4.00	20.30	13.62	9
Food Beverage & Tobacco	3020	27,627	25.99	19.43	9.80	14.30	72.30	2.93	3.42	21.03	13.29	10
Telecommunication Services	5010	79,063	84.14	7.76	4.97	24.32	89.20	5.83	5.90	15.15	7.73	11
Commercial & Professional Services	2020	20,957	77.99	11.09	6.75	20.46	61.10	3.19	3.58	19.12	9.82	12
Property Trust	4040	140,933	43.33	5.19	16.04	8.25	81.28	5.07	5.30	15.70	15.48	13
Capital Goods	2010	24,007	8.88	11.40	11.60	13.39	69.74	3.26	3.52	17.79	10.40	14
Materials	1510	255,816	29.95	6.04	6.20	10.86	58.52	2.75	2.89	17.59	8.01	15
Pharmaceuticals & Biotechnology	3520	52,247	86.71	23.47	24.06	42.33	60.00	1.65	1.90	28.98	25.06	16
Software & Services	4510	30,781	12.90	19.98	22.26	18.60	85.57	2.38	2.70	25.44	19.92	17
Healthcare Equipment & Services	3510	64,479	43.92	13.19	-0.21	21.62	78.18	3.20	3.48	25.24	13.16	18
Technology Hardware & Equipment	4520	1,142	75.36	27.63	36.47	23.06	131.31	3.80	4.18	18.12	15.78	19
Utilities	5510	42,605	68.06	9.01	3.30	7.88	106.63	5.57	5.87	22.03	8.88	20
Transportation	2030	66,327	77.55	13.41	7.81	11.90	104.53	4.60	4.85	23.12	9.59	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
IMF	IMF BENTHAM LTD	40201040	1.74	299	2.05	Buy	-21.48	100.00		12.50	52.23	4.70	8.71	11.11	3.01	1	Small
DNA	DONACO INTERNATIONAL LTD	25301010	0.42	349	0.99	Buy	-1.45	16.85	4.90	14.67	30.34	6.43	8.81	4.72	4.12	2	Small
MLD	MACA LTD	20103010	1.62	377	1.80	Buy		43.90	7.60	12.32	73.17	5.56	8.64	13.17	4.74	3	Small
OFX	OFX GROUP LTD	40201040	1.46	349	2.25	Hold		28.43		42.56	70.59	4.95	6.60	14.26	10.62	4	Small
CBA	COMMONWEALTH BANK OF AUSTRALIA	40101010	72.53	124982	76.72	Hold		2.61		15.87	75.95	5.81	5.84	13.08	10.95	5	Large
GNG	GR ENGINEERING SERVICES LTD	20103010	1.65	252	3.15	Buy		133.03	78.15	31.59	96.33	6.36	6.97	15.14	13.87	6	Micro
WBC	WESTPAC BANKING CORP	40101010	30.50	102058	31.50	Hold		3.46		13.94	80.24	6.10	6.00	13.15	10.50	7	Large
ANZ	AUSTRALIA AND NEW ZEALAND BANKING	40101010	27.03	79130	28.34	Buy		4.63		11.72	69.42	5.94	6.02	11.69	9.40	8	Large
MFG	MAGELLAN FINANCIAL GROUP LTD	40203010	21.26	3438	26.23	Buy		17.42		50.56	76.36	4.04	4.67	18.90	19.74	9	Mid
NAB	NATIONAL AUSTRALIA BANK LTD	40101010	26.27	69799	28.92	Hold		1.55		13.31	77.94	7.09	7.07	11.00	8.78	10	Large
PRG	PROGRAMMED MAINTENANCE SERVICES LTD	20201050	1.39	358	2.34	Buy	29.59	13.00	6.17	7.89	55.50	7.99	9.28	6.95	4.51	11	Small
VLW	VILLA WORLD LTD	40402030	2.26	257	2.68	Buy	46.52	5.02		14.83	58.93	8.32	8.54	7.08	2.02	12	Small
DTL	DATA#3 LTD	45102010	1.49	229	1.66	Buy		9.28	11.76	37.60	88.66	5.77	6.44	15.36	8.76	13	Micro
PTM	PLATINUM INVESTMENT MANAGEMENT LTD	40203010	4.97	2916	5.69	Hold		6.47		58.03	95.15	5.92	6.18	16.08	16.19	14	Small
VTG	VITA GROUP LTD	25504020	3.52	535	5.17	Buy	-3.73	12.12	16.31	49.90	64.02	4.80	5.40	13.33	10.63	15	Small
NCK	NICK SCALI LTD	25504060	5.63	456	5.96	Hold	-9.19	10.66	49.54	51.90	70.89	4.37	4.83	16.22	17.43	16	Micro
NEC	NINE ENTERTAINMENT CO HOLDINGS LTD	25401020	0.95	823	1.09	Hold	13.59	3.42	42.99	8.29	89.74	11.11	11.32	8.08	8.83	17	Small
AYS	AMAYSIM AUSTRALIA LTD	50102010	2.16	396	2.63	Buy	-11.15	13.07	6.94	61.26	71.90	5.09	5.51	14.12	12.49	18	Small
TRS	REJECT SHOP LTD	25503020	7.16	207	11.27	Hold	0.84	19.58	5.49	14.96	67.46	6.69	7.36	10.08	4.97	19	Small
RRL	REGIS RESOURCES LTD	15104030	3.42	1713	3.40	Hold	-19.06	19.78	17.52	26.49	50.72	4.12	4.68	12.30	7.99	20	Small
WPP	WPP AUNZ LTD	25401010	0.88	750	1.35	Buy	39.04	11.00	11.21	11.29	61.00	6.93	8.30	8.80	7.59	21	Small
CDA	CODAN LTD	45203010	1.44	256	1.60	Buy	4.30	9.56	42.59	15.05	50.74	4.78	5.40	10.62	8.92	22	Micro
FLT	FLIGHT CENTRE TRAVEL GROUP LTD	25301020	30.28	3057	34.47	Hold	-46.74	5.25	11.19	16.83	61.84	4.79	5.02	12.92	9.76	23	Mid
MPL	MEDIBANK PRIVATE LTD	40301020	2.51	6913	2.82	Hold		2.01		25.01	77.18	4.58	4.74	16.85	12.55	24	Large
BLA	BLUE SKY ALTERNATIVE INVESTMENTS LTD	40203030	7.01	473	8.72	Buy	-13.65	30.85		17.36	64.36	3.45	4.52	18.64	21.44	25	Small
TLS	TELSTRA CORPORATION LTD	50101020	4.93	58881	5.29	Hold		6.10	3.18	27.41	92.15	6.43	6.49	14.33	7.13	26	Large
ADH	ADAIRS LTD	25504060	1.52	252	2.15	Buy	29.63	23.08	17.65	22.35	80.77	6.91	7.11	11.69	8.94	27	Small
EPW	ERM POWER LTD	55101010	1.12	282	1.18	Buy	8.16	20.75	19.08	2.44	201.89	9.55	10.00	21.13	6.47	28	Small
SHJ	SHINE CORPORATE LTD	25302020	1.24	216	1.65	Buy	-0.15	6.79	20.00	14.10	25.31	3.29	3.86	7.69	12.45	29	Micro
AGI	AINSWORTH GAME TECHNOLOGY LTD	25301010	1.81	595	2.07	Hold	12.72	26.67	15.46	12.81	66.67	4.96	5.73	13.44	8.77	30	Small

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

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Baillieu Holst Ltd

ABN 74 006 519 393

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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