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quantanalysis

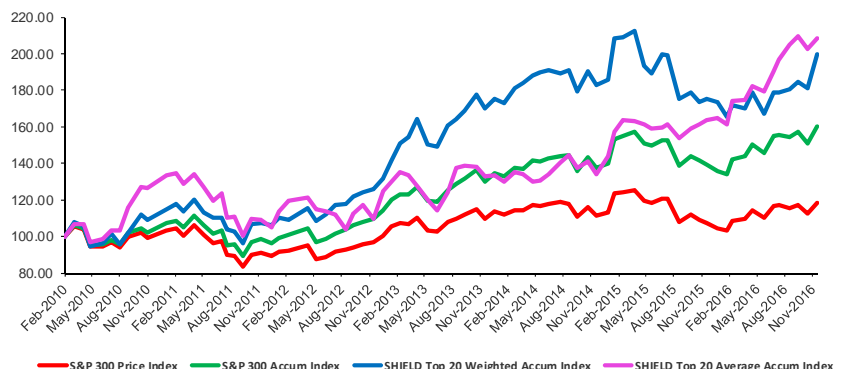
SHIELD – Sustainable High Yield

QUANTITATIVE ANALYSIS

Death of yield trade is overblown

- Note:** This report is a Quantitative Strategy product. The report uses consensus rating and forecast data from Thomson/IBES to gain 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 continue their positive momentum on-the-back of the strength of the recovery in the US and China, however stretched valuations are starting to weigh. The improving inflation outlook and US Fed rate hike expectations have driven the bond yields higher. An improving outlook for interest rates and strong commodity prices has driven a better yield outlook for the two major sectors of the Australian market. We continue to be positive on the premium to bond sustainable yield trade in an improving inflationary outlook. We expect the US Fed to be the only central bank to raise rates in 2017, while the rate of change will be slower than what the market is expecting.
- Cheap Picks: CWP 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 – WBC, ANZ and TLS; small-cap – IMF, MLD, VTG, OFX, VLW, AYS, RRL, CSV, NEC, PTM, HFA, TRS and WPP; and micro-cap – GNG, NCK, DTL and SDG.
- The performance of the Sustainable High 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 2.73%) 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 08 Dec 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 |
|------------------------------------|------|-------------------|------------------------|------------------------|------------------------|-------------|----------------|-------------------|-------------------|------------|--------------|------|
| Energy | 1010 | 80,541 | 27.74 | 27.79 | 22.17 | 6.65 | 62.69 | 2.11 | 3.77 | 23.68 | 8.41 | 1 |
| Diversified Financials | 4020 | 85,220 | 4.19 | 14.38 | 16.60 | 15.64 | 82.29 | 4.75 | 5.07 | 16.48 | 13.61 | 2 |
| Banks | 4010 | 426,208 | 21.92 | 2.95 | 16.60 | 13.81 | 74.94 | 5.63 | 5.66 | 13.32 | 10.80 | 3 |
| Media | 2540 | 21,690 | 26.94 | 12.33 | 12.56 | 17.69 | 63.99 | 4.07 | 4.51 | 15.94 | 11.40 | 4 |
| Retailing | 2550 | 26,375 | 33.09 | 12.07 | 16.78 | 17.23 | 71.53 | 4.59 | 4.98 | 15.70 | 12.65 | 5 |
| Commercial & Professional Services | 2020 | 3,373 | 24.14 | 18.44 | 8.43 | 7.26 | 56.79 | 3.24 | 3.79 | 17.66 | 7.89 | 6 |
| Insurance | 4030 | 60,731 | 12.51 | 10.57 | 16.60 | 12.20 | 76.18 | 4.68 | 4.95 | 16.31 | 13.26 | 7 |
| Telecommunication Services | 5010 | 78,880 | 84.87 | 7.52 | 4.79 | 24.38 | 89.35 | 5.81 | 5.89 | 15.14 | 7.78 | 8 |
| Food & Staples Retailing | 3010 | 78,017 | 30.06 | 5.96 | 9.22 | 13.88 | 76.16 | 4.35 | 4.73 | 17.39 | 11.48 | 9 |
| Consumer Services | 2530 | 59,411 | 38.08 | 12.01 | 14.07 | 19.77 | 73.12 | 3.60 | 3.95 | 20.49 | 13.84 | 10 |
| Property Trust | 4040 | 142,780 | 43.12 | 5.49 | 16.60 | 8.25 | 81.41 | 5.00 | 5.22 | 15.93 | 15.57 | 11 |
| Food Beverage & Tobacco | 3020 | 27,414 | 26.47 | 15.41 | 13.18 | 13.93 | 69.00 | 3.08 | 3.49 | 19.68 | 13.58 | 12 |
| Materials | 1510 | 278,536 | 28.76 | 3.09 | 4.77 | 11.58 | 60.41 | 2.97 | 3.04 | 16.81 | 8.00 | 13 |
| Consumer Durables & Apparel | 2520 | 3,455 | 18.62 | 14.77 | 14.90 | 18.03 | 89.70 | 3.65 | 4.15 | 19.78 | 13.28 | 14 |
| Pharmaceuticals & Biotechnology | 3520 | 50,063 | 86.27 | 24.66 | 23.00 | 41.80 | 61.00 | 1.76 | 1.99 | 27.31 | 23.38 | 15 |
| Capital Goods | 2010 | 24,793 | 8.00 | 9.15 | 12.37 | 13.22 | 69.27 | 3.02 | 3.22 | 18.67 | 11.21 | 16 |
| Software & Services | 4510 | 30,588 | 9.67 | 20.04 | 21.36 | 19.00 | 83.50 | 2.38 | 2.71 | 25.51 | 19.75 | 17 |
| Healthcare Equipment & Services | 3510 | 63,904 | 44.23 | 13.37 | -1.39 | 21.26 | 79.17 | 3.33 | 3.62 | 24.93 | 13.12 | 18 |
| Utilities | 5510 | 44,326 | 68.36 | 10.32 | 3.29 | 7.97 | 106.02 | 5.37 | 5.68 | 22.73 | 9.13 | 19 |
| Technology Hardware & Equipment | 4520 | 1,150 | 68.47 | 19.18 | 17.21 | 23.18 | 123.55 | 4.15 | 4.17 | 16.21 | 12.52 | 20 |
| Transportation | 2030 | 66,701 | 76.63 | 13.08 | 7.28 | 12.08 | 104.33 | 4.51 | 4.79 | 24.26 | 10.07 | 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 | 1.69 | 288 | 2.05 | Buy | -22.75 | 130.88 | | 11.45 | 58.82 | 4.75 | 9.02 | 12.39 | 2.91 | 1 | Small |
| MLD | MACA LTD | 15104020 | 1.57 | 366 | 1.80 | Buy | -26.34 | 43.90 | 7.60 | 12.32 | 73.17 | 5.73 | 8.92 | 12.76 | 4.59 | 2 | Small |
| GNG | GR ENGINEERING SERVICES LTD | 15104020 | 1.46 | 222 | 2.11 | Buy | -120.80 | 133.03 | 13.45 | 31.59 | 96.33 | 7.22 | 7.90 | 13.35 | 12.23 | 3 | Micro |
| WBC | WESTPAC BANKING CORP | 40101010 | 32.13 | 107512 | 31.78 | Buy | | 3.28 | | 13.71 | 77.07 | 5.71 | 5.70 | 13.49 | 10.67 | 4 | Large |
| VTG | VITA GROUP LTD | 25504020 | 2.83 | 430 | 4.71 | Buy | -8.73 | 11.58 | 13.71 | 48.60 | 63.32 | 5.80 | 6.54 | 10.93 | 8.82 | 5 | Small |
| OFX | OFX GROUP LTD | 40201040 | 1.77 | 426 | 1.85 | Buy | -211.31 | 29.17 | | 40.51 | 71.88 | 3.89 | 5.01 | 18.49 | 15.43 | 6 | Small |
| VLW | VILLA WORLD LTD | 40402030 | 2.25 | 256 | 2.68 | Buy | 46.52 | 5.02 | | 14.83 | 58.93 | 8.36 | 8.58 | 7.05 | 2.01 | 7 | Small |
| AYS | AMAYSIM AUSTRALIA LTD | 50102010 | 1.82 | 334 | 2.44 | Buy | -5.58 | 9.27 | 8.24 | 60.13 | 67.55 | 5.60 | 6.32 | 12.05 | 10.71 | 8 | Small |
| NCK | NICK SCALI LTD | 25504060 | 6.08 | 492 | 6.48 | Hold | -21.93 | 10.36 | 44.92 | 56.59 | 69.69 | 4.42 | 4.92 | 15.75 | 17.18 | 9 | Micro |
| ANZ | AUSTRALIA AND NEW ZEALAND BANKING | 40101010 | 29.53 | 86448 | 28.36 | Buy | | 4.41 | | 11.76 | 69.36 | 5.44 | 5.51 | 12.76 | 10.32 | 10 | Large |
| RRL | REGIS RESOURCES LTD | 15104030 | 2.67 | 1338 | 3.38 | Hold | -18.63 | 21.19 | 17.10 | 25.90 | 50.56 | 5.09 | 5.84 | 9.93 | 6.34 | 11 | Small |
| DTL | DATA#3 LTD | 45102010 | 1.50 | 231 | 1.66 | Buy | -277.61 | 9.28 | 11.76 | 37.60 | 88.66 | 5.73 | 6.40 | 15.46 | 8.82 | 12 | Micro |
| SDG | SUNLAND GROUP LTD | 40402030 | 1.50 | 246 | 2.27 | Buy | 52.30 | 20.18 | | 10.10 | 41.67 | 6.33 | 8.00 | 6.58 | 4.29 | 13 | Micro |
| CSV | CSG LTD | 45102010 | 0.73 | 228 | 1.00 | Hold | 2.66 | 17.33 | 5.81 | 8.08 | 102.67 | 10.62 | 11.45 | 9.67 | 8.43 | 14 | Small |
| NEC | NINE ENTERTAINMENT CO HOLDINGS LTD | 25401020 | 1.01 | 880 | 1.10 | Hold | 9.86 | 4.35 | 49.00 | 8.19 | 90.43 | 10.30 | 10.50 | 8.78 | 10.10 | 15 | Small |
| PTM | PLATINUM INVESTMENT MANAGEMENT LTD | 40203010 | 5.43 | 3186 | 5.25 | Hold | -42.68 | 5.56 | | 55.76 | 95.42 | 5.38 | 5.58 | 17.75 | 17.86 | 16 | Small |
| HFA | HFA HOLDINGS LTD | 40203010 | 1.98 | 322 | 2.95 | Buy | | 8.14 | | 8.57 | 95.48 | 10.63 | 11.18 | 8.98 | 22.06 | 17 | Small |
| TRS | REJECT SHOP LTD | 25503020 | 8.16 | 235 | 11.27 | Hold | 0.82 | 20.74 | 5.49 | 14.96 | 68.54 | 6.12 | 6.70 | 11.21 | 5.67 | 18 | Small |
| TLS | TELSTRA CORPORATION LTD | 50101020 | 4.96 | 59240 | 5.19 | Hold | 97.36 | 6.12 | 3.06 | 27.30 | 92.13 | 6.37 | 6.43 | 14.46 | 7.23 | 19 | Large |
| WPP | WPP AUNZ LTD | 25401010 | 1.00 | 848 | 1.35 | Buy | 39.04 | 11.00 | 11.21 | 11.29 | 61.00 | 6.13 | 7.34 | 9.95 | 8.58 | 20 | Small |
| FLT | FLIGHT CENTRE TRAVEL GROUP LTD | 25301020 | 32.83 | 3315 | 34.11 | Hold | -46.55 | 4.92 | 10.92 | 16.49 | 61.89 | 4.33 | 4.54 | 14.30 | 10.73 | 21 | Mid |
| ADH | ADAIRS LTD | 25504060 | 1.63 | 270 | 2.15 | Buy | 29.63 | 23.08 | 17.65 | 22.35 | 80.77 | 6.46 | 6.65 | 12.50 | 9.56 | 22 | Small |
| EPW | ERM POWER LTD | 55101010 | 1.16 | 292 | 1.18 | Buy | 8.16 | 20.75 | 19.08 | 2.44 | 201.89 | 9.22 | 9.66 | 21.89 | 6.71 | 23 | Small |
| CWP | CEDAR WOODS PROPERTIES LTD | 40402030 | 4.88 | 385 | 5.69 | Buy | 35.65 | 9.61 | | 14.03 | 52.14 | 6.00 | 6.45 | 8.68 | 9.84 | 24 | Small |
| IFM | INFOMEDIA LTD | 45103010 | 0.73 | 225 | 0.81 | Buy | -11.52 | 12.50 | 14.58 | 25.63 | 75.00 | 4.14 | 4.83 | 18.13 | 15.10 | 25 | Small |
| RCG | RCG CORPORATION LTD | 25504010 | 1.36 | 736 | 1.84 | Buy | 17.13 | 20.69 | 34.83 | 12.74 | 78.16 | 5.00 | 6.03 | 15.63 | 15.28 | 26 | Small |
| MQG | MACQUARIE GROUP LTD | 40203020 | 83.92 | 28562 | 84.01 | Buy | | 3.69 | | 13.41 | 69.25 | 5.08 | 5.32 | 13.62 | 10.56 | 27 | Large |
| PEA | PACIFIC ENERGY LTD | 55105010 | 0.57 | 211 | 0.72 | Buy | 21.80 | 13.33 | 16.67 | 12.27 | 60.00 | 4.74 | 5.61 | 12.67 | 6.79 | 28 | Micro |
| WES | WESFARMERS LTD | 30101040 | 40.77 | 46108 | 42.95 | Hold | 27.18 | 6.32 | 7.04 | 11.77 | 84.75 | 5.03 | 5.33 | 16.85 | 11.43 | 29 | Large |
| LLC | LENLEASE GROUP | 40402010 | 13.79 | 8039 | 15.83 | Buy | 20.08 | 6.92 | | 13.66 | 50.35 | 4.70 | 5.11 | 10.71 | 8.85 | 30 | Large |

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

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