



Reporting Season Preview

Stocks to Watch & Chasing Yield

With the February 2018 company reporting season right around the corner, let's have a look at some opportunities that may present coming into reporting season. If you are an investor chasing income (yield), now may be a good opportunity to enter stock or top up existing holdings to take advantage of upcoming dividend payments.

While the Reserve Bank of Australia's official cash rate remains steady at 1.50%, and term deposit rates also at historically low levels, investors are searching for alternatives to receive a better return for their dollar.

Please see below a short summary of some selected stocks of interest. If you would like any further information or a copy of the full research summary of these stocks or any others, please don't hesitate to contact me. ****Please note:** The research recommendations and target prices listed below may be reviewed/updated once each company releases their results.

Commonwealth Bank

HOLD – Target Price \$85.00

Current Price: \$79.36 Current Yield: 5.41%

CBA offers an attractive fully franked yield and our positive view is based on the bank's robust balance sheet, dominant market position, strong profitability, organic capital generation capability, sound loan book and high returns on equity. CBA trades at a premium to its major peers due to lower financial risk and a long history of sustainable earnings and dividend growth despite pressure on funding costs. CBA will report first half earnings in February and we expect a cash profit of around \$5.2 billion and a fully franked interim dividend of \$2.06 per share. CBA's underlying fundamentals are supportive of steady and consistent earnings growth. Matt Comyn has recently been appointed as the new CEO, taking over from Ian Narev when he retires from the position in April.

Suncorp

HOLD – Target \$13.00

Current Price: \$13.73 Current Yield: 5.32%

Suncorp is well capitalised and provides good upside from major restructuring and simplification, but is heavily exposed to volatile insurance earnings. CEO Michael Cameron continues to restructure the business, establishing a strong customer focus and improving operational efficiency, and ultimately, we expect increasing earnings growth. First half results are due out in February, and we expect a cash profit of around \$550 million and an interim fully franked dividend of \$0.35 per share (half-year).

Bendigo & Adelaide Bank

HOLD – Target \$11.50

Current Price: \$11.58 Current Yield: 5.87%

Bendigo boasts strengths including brand, customer loyalty and its unique community branch distribution model. All of its major operating segments have been profitable for the past several years, and over the long term we expect Bendigo to continue delivering solid operating results. Despite a slow start to fiscal 2018, we expect a cash profit of \$452 million and a fully franked dividend of \$0.70 per share (annual) based on a 75% payout ratio.

Telstra

ACCUMULATE – Target \$4.60

Current Price: \$ 3.63 Current Yield: 8.53%

Telstra remains the dominant player in the Australian telecom industry, with strong brand recognition. Our fair value of \$4.60 is intact, post management's impact assessment of NBN's recent changes. Management has revised guidance of fiscal 2018 EBITDA guidance to between \$10.1 and \$10.6 billion, and reaffirmed dividend guidance of \$0.22 per share (annual) settling the nerves of some investors who were expecting the worst. Telstra is currently on our research "Top Stock Picks" list.

(Note: Current yield is reflective of the previous 2 paid dividends - this will adjust with the new dividend payment policy.)



IAG

HOLD – Target \$6.80

Current Price: \$7.27 Current Yield: 4.54%

Insurance Australia Group has delivered on foreshadowed capital management and risk mitigation, implementing three new quota share agreements covering 12.5% of the business. The quota deals start in January 2018 and will reduce earnings risk and release capital. Forecast 2018 cash profit is around \$990 million, and we have increased our target price on the stock higher by 5% on improved outlook. The stock has enjoyed a string of recent broker upgrades.

Woodside Petroleum

ACCUMULATE – Target \$40.00

Current Price: \$34.26 Current Yield: 3.70%

As Australia's premier dedicated oil and gas player, we maintain our \$40.00 price target, after an 8% increase in Woodside's fourth quarter production. Woodside's pedigree is unmatched in the Australian oil and gas space, and there's more potential development in the pipeline if prices will allow. If oil prices jump towards US\$70/barrel for Brent, analysts estimate Woodside could increase their dividend yield payout to around 4.9% which would be very attractive.

BHP Billiton

ACCUMULATE – Target \$31.50

Current Price: \$30.75 Current Yield: 3.45%

We have recently raised our target price for BHP. The increase reflects higher near-term earnings forecasts and stronger commodity prices. We expect at least some of the benefit of higher commodity prices to flow into dividends for BHP. BBHP recorded record shipments for December, slightly ahead of estimates.

Rio Tinto

HOLD – Target \$79.00

Current Price: \$79.11 Current Yield: 3.81%

Fourth quarter production for RIO was in line with our expectations, however commodity prices and not volumes are the dominant force. Near-term earnings for RIO look attractive. RIO is supported by the strength of its earnings, yield and net asset valuation.

AMP

ACCUMULATE – Target \$5.50

Current Price: \$5.20 Current Yield: 5.48%

AMP has strong market positions in a long-term growth industry, improving investment performance, a large distribution base, integration synergies and a strong track record in cost control. AMP's third quarter update is evidence the group is slowing moving ahead and funds under management did not disappoint in terms of fund flows. Despite earnings pressure, we expect AMP to benefit from solid investment markets.

QBE Insurance Group

ACCUMULATE – Target \$13.00

Current Price: \$10.93 Current Yield: 5.03%

QBE provides attractive upside potential because of benefits expected from major restructuring and consolidation undertaken over recent years. 2017 was a horror year for the stock with natural peril events across the globe resulting in the costliest year in history for the global insurance industry. The insurance events and one-off items in 2017 do not impact our long-term view. Possible sales of non-core assets could boost value in the company. Our research analysts believe the stock is currently undervalued, and is presently on our "Top Stock Picks" list.

Fortescue Metals

ACCUMULATE – Target \$5.30

Current Price: \$5.05 Current Yield: 8.91%

Fortescue's accelerated development plans and unprecedented volume growth, fuelled predominantly by debt, has seen the company rapidly rise to become the world's fourth largest iron ore miner. Fortescue showed a rebound in shipments in December, after weaker numbers in November.

(Note: Current yield is showing a larger than usual number due to a recent dip in the share price.)

Newcrest Mining

HOLD – Target \$21.50

Current Price: \$23.03 Current Yield: 0.83%

Gold major Newcrest is a long established and low-cost producer. We have lowered our forecasts for Newcrest by 10% as first quarter production was weak. However, we remain confident on the outlook for Newcrest with Cadia and Lihir both progressing well.



APA Group

HOLD – Target \$8.00

Current Price: \$8.09 Current Yield: 5.44%

APA Group is a good-quality infrastructure stock with astute internal management. It owns an unparalleled network of gas transmission and distribution infrastructure assets across Australia. The firm expects to pay distributions of \$0.45 per share (annual) this year, representing a 5.3% yield. Distributions should continue to grow at a moderate pace over the medium term. With an average contract length of around 10 years, near-term risk to earnings is limited.

Wesfarmers

REDUCE – Target \$37.00

Current Price: \$44.04 Current Yield: 5.06%

Wesfarmers diversified portfolio provides exposure to many segments of the Australian economy. The sale of Wesfarmers Curragh coal mine came as no surprise. The transaction reduces Wesfarmers diversification but also reduces earnings volatility. We estimate 92% of the group EBIT to be generated by retail operations, up from 80% in fiscal 2017. Market commentary sees many analysts preferring Wesfarmers over Woolworths currently, as supermarket earnings make up just 35% of earnings for WES compared to 77% for Woolworths.

Westfield

HOLD – Target \$9.15

Current Price: \$9.12 Current Yield: 3.57%

Westfield is currently subject to a takeover offer from Unibail-Rodamco with consideration being a mix of Unibail script at 65% and cash. We expect the transaction to proceed as proposed, as the offer has been supported by the board and the founding Lowy Family.

Scentre

HOLD – Target \$3.85

Current Price: \$4.05 Current Yield: 5.32%

Consistent with most listed Australian RETIs, Scentre Group recorded weak sales for the year. Against a backdrop of escalating Australian household indebtedness and increasing household essential bills, we don't see a catalyst for a sharp rebound in retail sales and hence rents. Adding salt to the wounds in Amazon Australian's launch which will unquestionably weigh on brick and mortar sales and by extension retail rents.

Tabcorp

REDUCE – Target \$4.20

Current Price: \$5.19 Current Yield: 4.82%

We maintain our price target on Tabcorp following the completion of the Tatts merger. We long expected the firms to complete the merger, and our valuation incorporates the earnings from Tatts. We envisage the combined entity to be better placed to combat the competition from digital-only operators. We expect cost efficiencies to arise from consolidating systems, leading to a boost in EBIT over the coming years.

Woolworths

REDUCE – Target \$23.50

Current Price: \$27.04 Current Yield: 3.11%

Woolworths has long been the largest supermarket company in Australia and has achieved strong EPS growth for many years. Discount supermarkets Aldi and Costco and a stronger performance from Coles has increased competition. The ACCC opposition to the sale of Woolworths petrol business to BP has delayed the repayment of debt, which would have bolstered the company's credit rating. Nevertheless, the balance sheet remains robust and gearing is estimated to be broadly similar over coming years. Numbers show Woolworths has outperformed its rivals over the recent festive period.

CSL Limited

HOLD - Target \$137.00

Current Price: \$150.00 Current Yield: 1.17%

CSL is one of three major players in the global blood-plasma-derived biotherapies space. We expect consistent product innovation to drive high single-digit top-line growth in developed and emerging markets. We have increased our target price due to recent currency movements. CSL has confirmed a move into the field of transplantation, which we think is attractive given the target market is about 200,000 patients worldwide waiting for organ transplants.

Medibank Private

HOLD - Target \$3.10

Current Price: \$3.32 Current Yield: 3.61%

Expenditure on healthcare is expected to grow in the long term, driven by an increasing and ageing population. Medibank is well placed to deliver solid long-term earnings growth. We forecast industrywide private health insurance premiums to increase in the 3-4% range per year until 2022. We expect the private health insurance market to continue to grow in response to ongoing affordability concerns.



Sonic Healthcare

HOLD – Target \$24.00

Current Price: \$23.13 Current Yield: 3.33%

During the past two decades, Sonic has built a dominant position in the Australian medical diagnostics market, and is now the largest Australian pathology laboratory operator. We maintain our \$24.00 target on the stock after the company recently reiterated fiscal 2018 guidance. Recent changes to the US Medicare fees may benefit Sonic's acquisition strategy as smaller players come under pressure.

G8 Education

ACCUMULATE – Target \$4.00

Current Price: \$3.30 Current Yield: 5.45%

G8 Education has embarked on a rapid, yet highly successful and disciplined acquisition strategy, consolidating the fragmented child-care industry. Despite lower earnings forecasts, we don't believe G8's business model is broken, nor is the company entering a period of structural decline. We expect the childcare sector to continue to benefit from long-term supportive tailwinds, such as population growth, increasing female workplace participation and supportive Federal government industry support.

Greencross Limited

HOLD – Target \$6.50

Current Price: \$6.40 Current Yield: 2.97%

Greencross is the dominant player in the pet care retailing and veterinary services industry. Greencross should continue to benefit from growing industry demand and further integration of vet clinics within the retail stores. Pet ownership is relatively steady, but the increasing humanisation of pets is seeing expenditure per pet outpace inflation, particularly for services and specialty products.

Sydney Airport

HOLD – Target \$7.10

Current Price: \$6.87 Current Yield: 5.02%

Sydney Airport enjoys strong competitive advantages, stemming from its position as the only airport in Sydney capable of handling international aeroplanes at present. Despite the new Western Sydney Airport scheduled for 2026, we expect Sydney Airport to enjoy robust gains in international traffic, supported further by middle-class development in emerging economies, particularly in Asia.

Transurban Group

HOLD – Target \$11.50

Current Price: \$12.02 Current Yield: 4.52%

Transurban is a leading toll road owner/operator, with a portfolio of assets on the eastern seaboard of Australia and in the US. Transurban will extend its US toll road and the project looks attractive, given the extension should encourage more motorists to use adjoining toll roads owned by Transurban, a free kick!

Brambles

ACCUMULATE – Target \$11.20

Current Price: \$9.94 Current Yield: 2.92%

Brambles is the largest global provider of pallet and reusable plastic crates. Global scale and years of experience provide the company a competitive advantage. After a strong start to fiscal 2018, Brambles is well placed to achieve full year growth expectations of 5% through their core business. With the stock's "accumulate" rating, they are currently on our "Top Stock Picks" list.

National Bank

HOLD – Target \$32.00

Current Price: \$29.33 Current Yield: 6.75%

NAB reports on a different cycle, so they are not due to report formal results until May 2018. They will however provide a trading update, which will provide guidance for their upcoming report. We like their strong asset quality, sound capital levels and improved second-half fiscal 2017 net interest margins. They presently sit on a yield of 6.75% fully franked, and they remain the best yielding of all the bank stocks.

Bank of Queensland

HOLD – Target \$12.50

Current Price: \$12.42 Current Yield: 6.12%

Bank of QLD offers the most attractive yield of the regional banks, currently yielding 6.12% fully franked, however as they report on a different cycle their next payment and report isn't due until April. We like Bank of QLD's increasingly diversified business and distribution mix complementing the bank's core strengths in consumer and SME banking. There was plenty to like in fiscal 2017, with earnings momentum boding well for fiscal 2018 and beyond.



ANZ Bank

HOLD – Target Price \$30.00

Current Price: \$28.70 Current Yield: 5.57%

With ANZ having reported and paid its dividend in Nov / Dec last year, they are not due for another report and payment until May 2018. As expected the bank announced an on-market buy-back late last year to reduce mounting surplus capital. They presently sit on a yield of 5.57% fully franked. There is upside potential towards our price target, so buying the stock on any weakness remains attractive.

Westpac Bank

HOLD – Target - \$35.00

Current Price: \$31.16 Current Yield: 6.03%

Westpac currently has a dividend yield of 6.03% fully franked, but like ANZ and NAB is not due for another formal report and payment until May 2018. The balance sheet strength and asset quality of Westpac stand out, and we expect similar trends to continue into fiscal 2018.

Speculative Opportunities

WhiteHawk Limited (WHK)

Current Price: \$0.22

WhiteHawk operates an internet based cybersecurity marketplace. The company offers an online tool that enables small and midsize businesses to take immediate action against low to mid-level cyber-crime, fraud, and disruption.

Galaxy Resources (GXY)

Current Price: \$3.54

Global lithium demand is booming. Galaxy Resources is an Australian global lithium company with lithium production facilities, hard rock mines and brine assets in Australia, Canada and Argentina

Clean Teq Holdings (CLQ)

Current Price: \$1.45

The lithium-ion battery actually contains more cobalt than it does lithium, meaning that the boom in batteries is huge for cobalt. Clean Teq owns nickel, cobalt and scandium projects in NSW, which they claim is one of the best nickel/cobalt deposits outside of Africa, with current reserves that should sustain almost 40 years of operation.

Collaborate Corporation (CL8)

Current Price: \$0.031

Collaborate operates peer-to-peer marketplaces. Collaborate disrupts traditional business models by enabling owners and renters to transact directly with each other, monetising assets that would otherwise sit idle. CL8 currently operates three businesses: Drivemycar, Mycaravan and mobilise.

Viralytics Limited (VLA)

Current Price: \$0.70

Viralytics is an Australian biotechnology company focusing on developing oncolytic virotherapy for the treatment of a range of cancers. VLA's principal asset is the intellectual property relating to CAVATAK, an Oncolytic Virus Technology, and is in current product development and pipeline. VLA holds granted patents in all major markets including the USA and Europe.

Digitalx Limited (DCC)

Current Price: \$0.32

DigitalX is a Blockchain-based software solutions group disrupting the global payments industry. Its suite of software for institutions and consumers provides secure, fast and cost-effective money transfers worldwide. The company's solutions also allow partners to use Digitalx's technology to offer new financial products to the market. They are based in Boston and also have offices in Australia. The company also holds an investment in Bitcoin – so is an indirect way of getting exposure to Bitcoin.



There was a comment in "Money Magazine" last year that stated if you're not receiving a gross return on your investment of greater than 4.1%, you are actually going backwards when you take into account taxation and inflation. It is more important than ever for investors to seek out quality stocks to invest in that will provide an attractive return on their funds. This is amplified at present with returns on term deposits at all-time lows, and is an important consideration to keep in mind when making investment decisions.



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