

## Australian Equity Research

MARCH 2017

### Top Stock Picks – Mid & Small Caps

- Overall:** We select the top picks from our 85 mid and small cap universe, as well as the outlook for the economy and equity market. We also provide key insights from our listed investment company (LIC) coverage.
- Trying to avoid the disappointers:** The last few months have delivered significant volatility in the equity market, especially in certain segments. Australian large caps (S&P/ASX100) have outperformed small caps (Small Ordinaries) by 11% since our last update (6 September, 2016). From another perspective, resources (S&P/ASX300 Resources) have outperformed industrials (S&P/ASX300 Industrials) by 9%. Thus, for a small and mid-cap universe focusing largely on industrials, the last few months has been a tough stock picking environment and we have not been immune from the disappointments. That said, as we look forward that volatility has provided some more reasonable valuations for high quality stocks with solid management teams and reasonable growth prospects. Our top stock picks are shown in the table below (alphabetical order).
- Equity market outlook:** Looking at the year ahead, our global economics team now forecast the fastest year of global growth since 2011. The new US administration is promising to stimulate an economy already enjoying considerable momentum. Meanwhile, Chinese authorities are expanding fiscal policy and global PMIs are once again rising in a synchronous manner. Following the strongest interim reporting season since 2010, we have broken down the Australian equity market into three building blocks: Australia earnings per share (EPS); dividends per share (DPS); and valuations. In short, we believe the year will be highlighted by expanding earnings and could see total returns of c.10% for the calendar year.
- Listed Investment Companies (LICs):** Baillieu Holst provides performance reporting and insights across a universe of 51 listed investment companies. Based on that analysis, our top picks include AFIC (AFI) and Diversified United Investment (DUI) in large caps; Perpetual Equity (PIC) and WAM Leaders (WLE) in mid-caps, Acorn Capital (ACQ) in the small caps and PM Capital Global Opportunities (PGF) internationally.
- Rating System:** The Baillieu Holst stock rating system is based on BUY (stock's total return is expected to increase by at least 10-15% from the current share price over the next 12 months), HOLD (total return is expected to trade within a range of  $\pm$ 10-15%) and SELL (total return is expected to decrease by at least 10-15%). Each stock is also assigned a risk rating of Low, Medium, High or Speculative.

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#### SUMMARY OF TOP PICKS

Stock	Code	Rating	Risk	Share	Price	Analyst
				Price	Target	
Aristocrat Leisure	ALL	BUY	Medium	16.95	18.35	Nick Caley
AUB Group	AUB	BUY	Low	11.36	12.50	Nicolas Burgess
Bega Cheese	BGA	BUY	Medium	6.01	8.00	Josh Kannourakis
Credit Corp Group	CCP	BUY	Medium	16.91	19.70	Nick Caley
Danakali	DNK	BUY	Speculative	0.78	1.02	Warren Edney
EQT Holdings	EQT	BUY	Medium	18.00	20.50	Nicolas Burgess
Galaxy Resources	GXY	BUY	High	0.48	0.81	Warren Edney
Hansen Technologies	HSN	BUY	Low	3.15	4.20	Nicolas Burgess
Mantra Group	MTR	BUY	Medium	2.76	4.35	Nick Caley
Pacific Energy	PEA	BUY	High	0.71	0.82	Luke Macnab
SpeedCast International	SDA	BUY	High	3.68	4.88	Luke Macnab
Vita Group	VTG	BUY	Medium	3.55	4.75	Josh Kannourakis

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## Equity Market Strategy

### STRATEGY

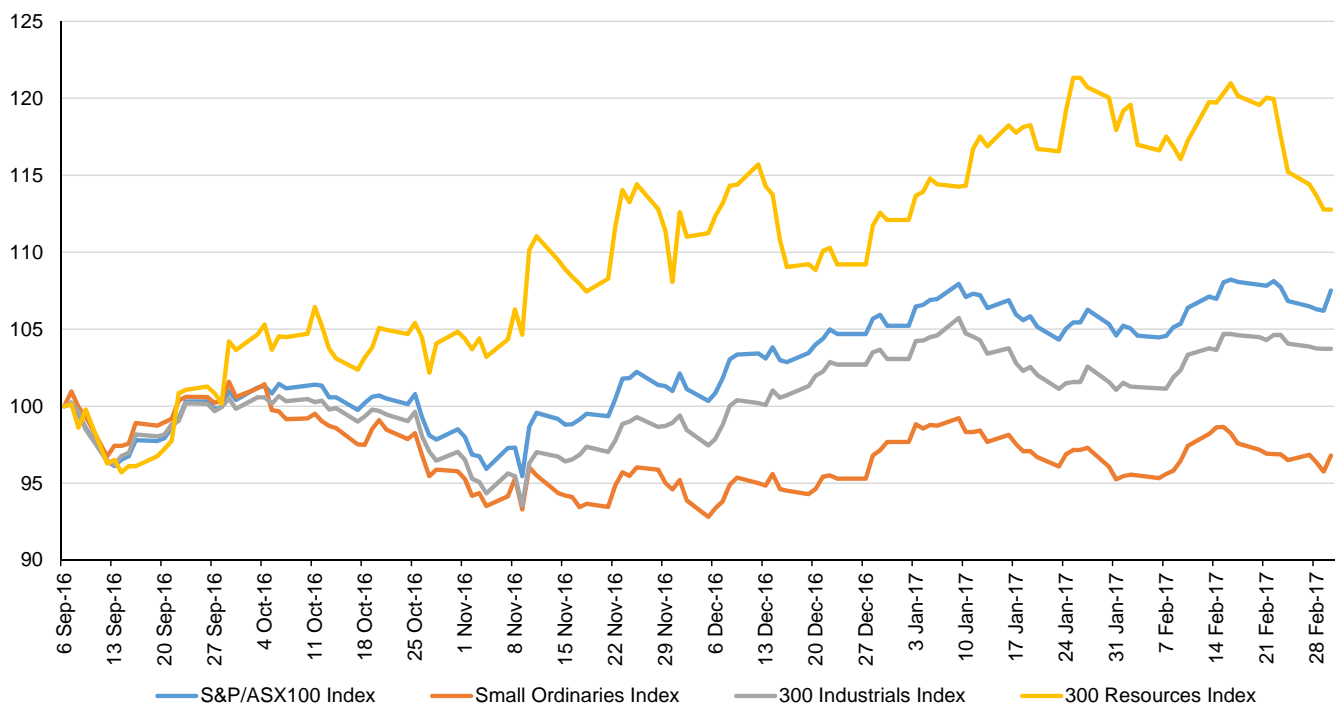
#### Positive market outlook

- **Recent history for Small & Mid-Caps:** The last few months have delivered significant volatility in the equity market, especially in certain segments. Australian large caps (S&P/ASX100) have outperformed small caps (Small Ordinaries) by 11% since our last Top Picks Report (6 September 2016). From another perspective, resources (S&P/ASX300 Resources) have outperformed industrials (S&P/ASX300 Industrials) by 9%. Thus, for a small and mid cap universe focusing largely on industrials, the last few months has been a tough stock picking environment and we have not been immune from the disappointments. That said, as we look forward that volatility has provided some more reasonable valuations for high quality stocks with solid management teams and reasonable growth prospects. Our top stock picks are shown in the table below (alphabetical order).
- **Reporting season wrap:** The recent reporting period was the strongest since February 2010, with analysts upgrading their EPS forecasts by 1.6%. We believe the earnings expansion has begun and the global economic backdrop supports further gains in profits ahead. We also believe the risks to analysts' forecasts are to the upside. The earnings expansion is the third and final phase of a typical profits cycle. They usually last for an average of five years. The current earnings expansion is six months old. They have previously been a time of rising markets but falling PE ratios. In conclusion, we are positive on Aussie equities.
- **Broader outlook:** Looking at the year ahead, our global economics team now forecast the fastest year of global growth since 2011. The new US administration is promising to stimulate an economy already enjoying considerable momentum. Meanwhile, Chinese authorities are expanding fiscal policy and global PMIs are once again rising in a synchronous manner. Following the strongest interim reporting season since 2010, we have broken down the Australian equity market into three building blocks: Australia earnings per share (EPS); dividends per share (DPS); and valuations. In short, we believe the year will be highlighted by expanding earnings and could see total returns of c.10% for the calendar year.
- **Dividend outlook:** Dividend momentum has also hit a low and is now trending higher for all major markets around the world. While analyst expectations are for the ASX 200's EPS growth to be 15%, they are forecasting around 10% DPS growth. While analysts upgraded ASX 200 EPS by 1.6% during the February reporting period they raised their DPS forecasts by 2.1%. It was the best interim results period for dividends in more than 15 years. While the biggest dividend upgrades were in the commodity stocks, there were some increases elsewhere too. There were clear DPS upgrades for the more cyclical components of the market, however upgrades were lacking for the defensives (Staples, Telecoms, Infrastructure, Utilities and REITs). While defensive stocks were in demand this time last year, when dividends were being cut elsewhere, they are less sought after this year as more cyclical company distributions recover.

## Equity Market Strategy

- Outlook:** The February 2017 reporting period was the strongest since 2010. ASX 200 EPS forecasts were upgraded by 1.6%. On average they downgrade their forecasts in results months by 0.9%. There was enough evidence in the reporting season to confirm the start of the earnings expansion. Meanwhile, the global economic backdrop suggests further gains in profits ahead. We expect the risks to analysts' forecasts are to the upside. In the past we find the initial stages of an earnings expansion has been a time to consider companies which are under-valued and under-earning.
- Recent history for Small & Mid Caps:** The last few months have delivered significant volatility in the equity market, especially in certain segments. Australian large caps (S&P/ASX100) have outperformed small caps (Small Ordinaries) by 11% since our last Top Picks Report (6 September 2016). From another perspective, resources (S&P/ASX300 Resources) have outperformed industrials (S&P/ASX300 Industrials) by 9%. Thus, for a small and mid cap universe focusing largely on industrials, the last few months has been a tough stock picking environment and we have not been immune from the disappointments. That said, as we look forward that volatility has provided some more reasonable valuations for high quality stocks with solid management teams and reasonable growth prospects.

**FIG.1: AUSTRALIAN EQUITY MARKET PERFORMANCE – VARIOUS SECTORS (COMMON BASE = 100)**



Source: Iress

### The earnings season has begun

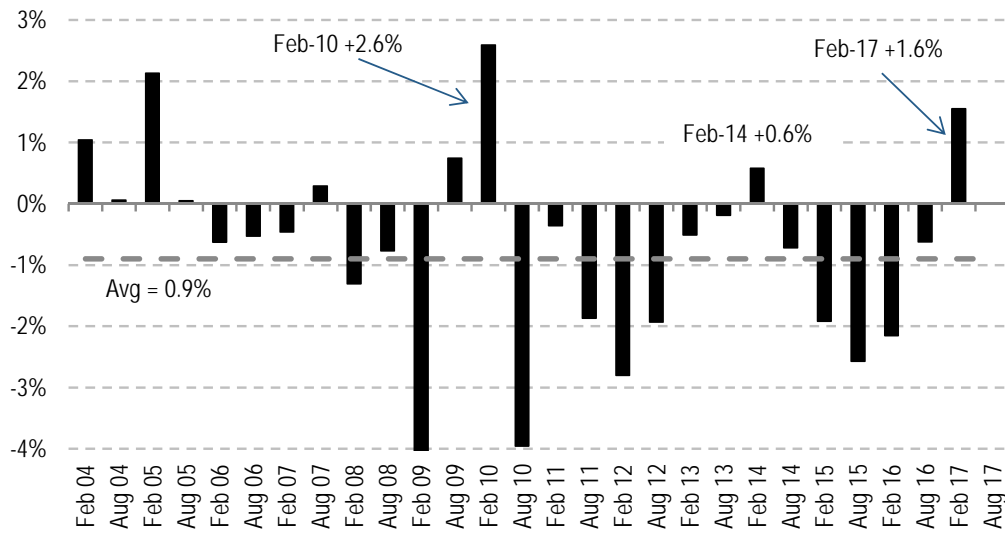
The February 2017 reporting period was the strongest since 2010. ASX 200 EPS forecasts were upgraded by 1.6%. There was enough evidence in the reporting season to confirm the start of the earnings expansion. Meanwhile, the global economic backdrop suggests further gains in profits ahead. We expect the risks to analysts' forecasts are to the upside.

In the past we find the initial stages of an earnings expansion has been a time to consider companies which are under-valued and under-earning.

**Upgrade cycle**

The reporting season was the strongest since February 2010. Analysts upgraded their June-17 EPS forecast by 1.6%. On average they downgrade their forecasts in results months by 0.9%.

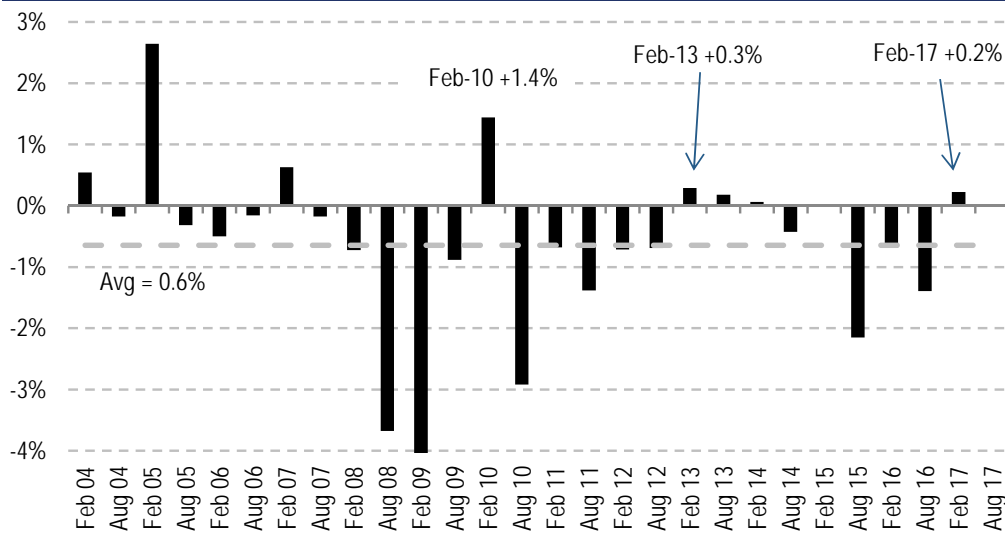
**FIG.2: ASX 200 REPORTING SEASON EPS UPGRADES/DOWNGRADES FOR THE 12 MTHS TO JUNE**



Source: Company data, IBES, BH estimates

While the upgrades were concentrated in commodities we find even outside of this area the reporting period was strong when compared to history. Analysts upgraded their ASX 200 ex commodity EPS forecasts by a weighted average of 0.2%. Not large but we need to consider on average EPS is downgraded for this group of companies by 0.6% during reporting season month.

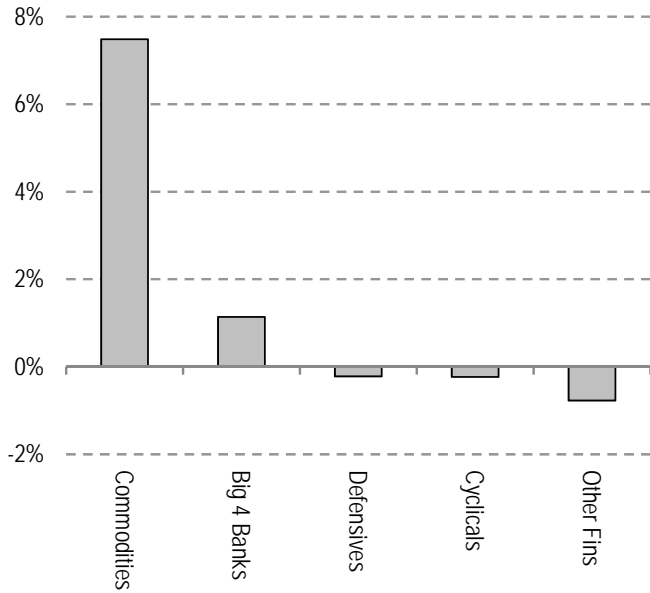
**FIG.3: SOLID RESULTS SEASON OUTSIDE OF COMMODITIES TOO – ASX 200 EX COMMODITIES REPORTING SEASON EPS UPGRADES/DOWNGRADES FOR THE 12 MONTHS TO JUNE**



Source: Company data, IBES, BH estimates

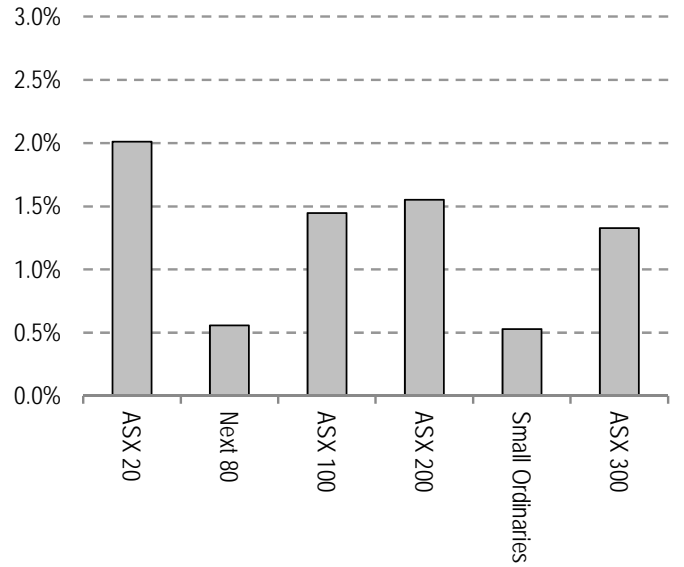
Amongst the major groups of stocks in the ASX 200 the biggest upgrades were in the commodities and the big four banks. Aggregate EPS was downgraded elsewhere. So it is no surprise that the biggest upgrades amongst the size groupings were in the ASX 20. The smallest upgrades were in the Small Ordinaries (those stocks from 101 to 300). From this perspective (size) the strength in the reporting period was broad.

**FIG.4: COMMODITIES DOMINATE – ASX 200 FEB-17 UPGRADES/DOWNGRADES FOR JUNE EPS**



Source: Company data, IBES,

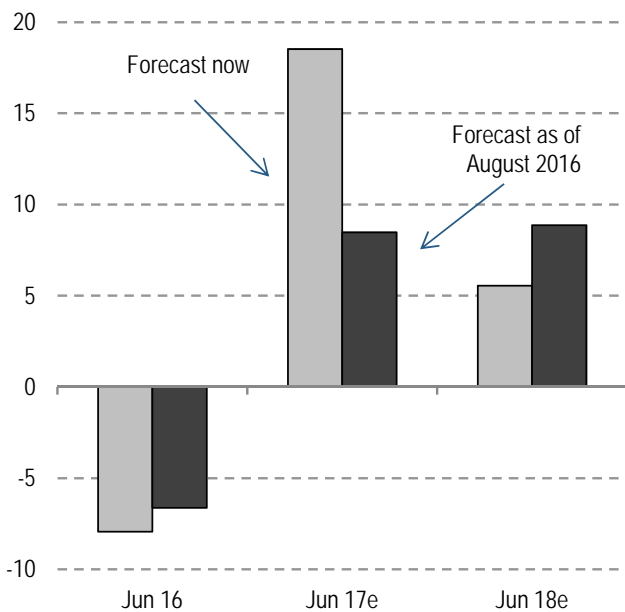
**FIG.5: BIG IS BEAUTIFUL – FEB-17 UPGRADES/DOWNGRADES BY SIZE FOR JUNE EPS**



Source: Company data, IBES,

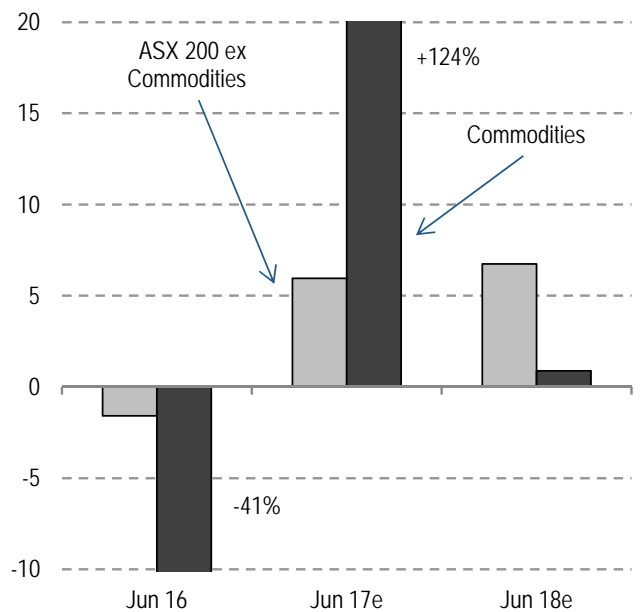
After the reporting season analysts are now forecasting 18% EPS growth for the ASX 200 for June 2017 and 6% for June 2018. During the last reporting period (in August 2016) these forecasts were both 8%.

**FIG.6: ASX 200 EPS GROWTH FORECASTS FOR 12 MONTHS TO JUNE – MORE BULLISH NEAR TERM**



Source: Company data, IBES, BH estimates,

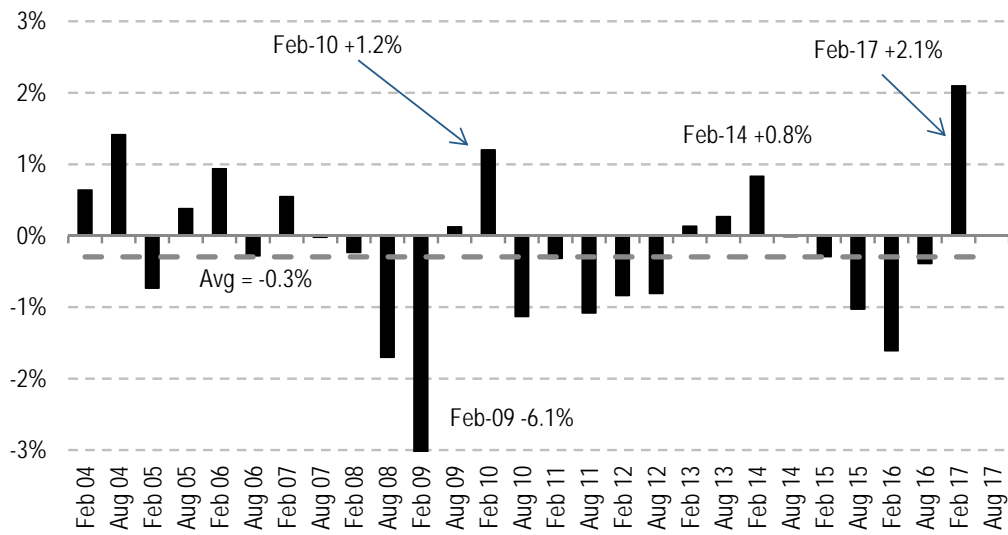
**FIG.7: ASX 200 EX COMMODITIES AND COMMODITY EPS GROWTH FORECASTS FOR 12 MONTHS TO JUNE – BUT SCEPTICAL LONGER-TERM**



Source: Company data, IBES, BH estimates,

Analysts upgraded their June-17 DPS forecast by more than 2%, making it the best reporting season for DPS revisions in over 15 years. On average reporting month is a time when DPS forecasts are downgraded by an average of 0.3%. There has previously been persistence in DPS upgrades — it has been unusual to have just one reporting month upgraded without a consecutive month being upgraded as well.

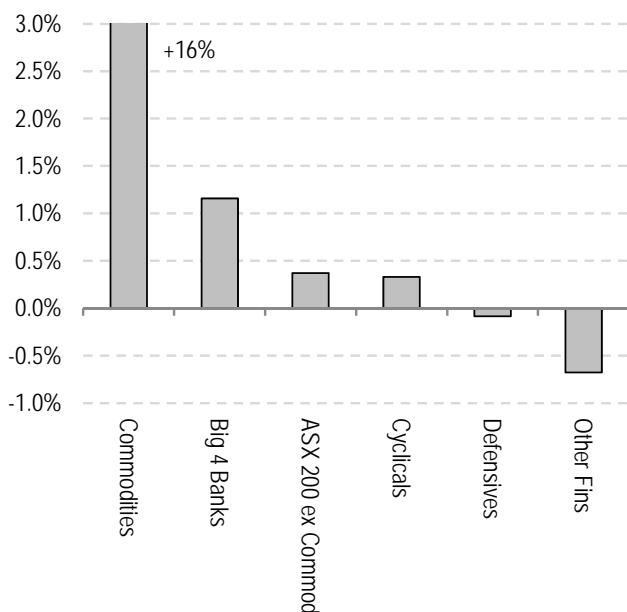
**FIG.8: BEST REPORTING SEASON FOR DIVIDENDS IN OVER A DECADE – ASX 200 REPORTING SEASON DPS UPGRADES/DOWNGRADES FOR THE 12 MONTHS TO JUNE**



Source: Company data, BH estimates

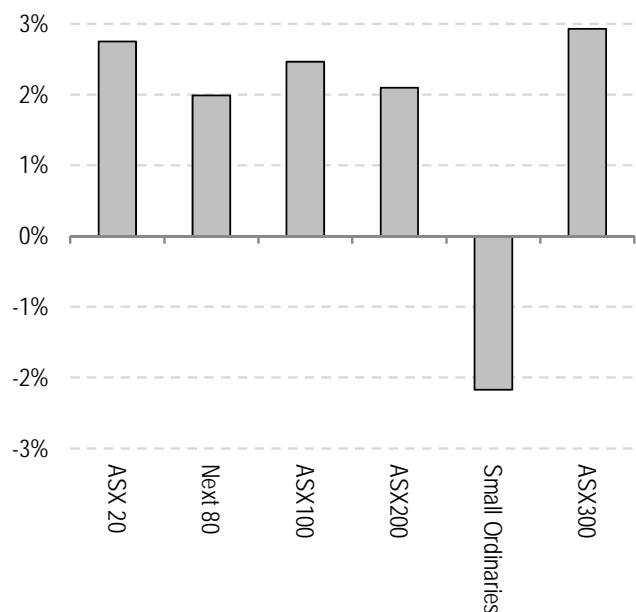
The consensus DPS upgrades were again concentrated in the commodity companies but there were also some in the industrial cyclicals. The Small Ordinaries were the only area of DPS downgrades.

**FIG.9: DPS UPGRADES ALSO IN COMMODITIES – ASX 200 FEB-17 UPGRADES/DOWNGRADES FOR JUNE DPS**



Source: Company data, IBES,

**FIG.10: DPS MOMENTUM INVESTOR DON'T LIKE SMALL – FEB-17 UPGRADES/DOWNGRADES BY SIZE FOR JUNE DPS**



Source: Company data, IBES,

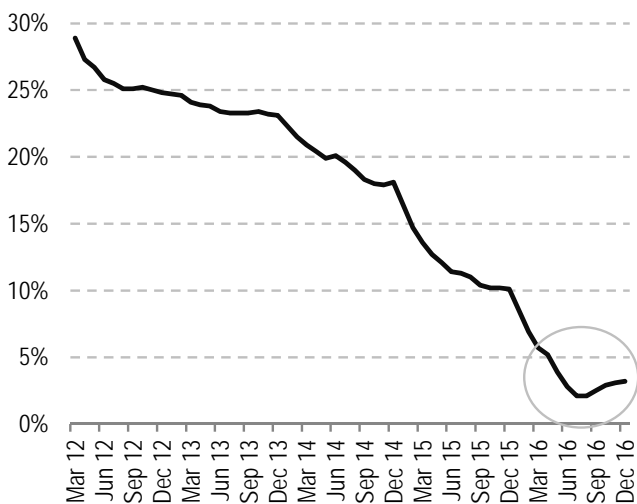


**Earnings expansion**

The reporting season provided enough evidence to confirm the earnings expansion has begun, in our view. While it still remains largely concentrated in commodity stocks, we expect it will broaden into other areas of the market as we progress through the year. A more positive global and local macro backdrop supports our view here. There is increasingly more evidence to show that economic activity in China, the US and Europe continues to expand. PMIs have so far been consistent with accelerating growth and there are early signs of business investment recovering. For example, private business investment (excluding real estate) growth in China is now higher than where it was last year. Of course this follows a pick-up in public infrastructure spend, real-estate investment and corporate profits. Perhaps the recovery in our biggest trading partner is becoming self-sustaining.

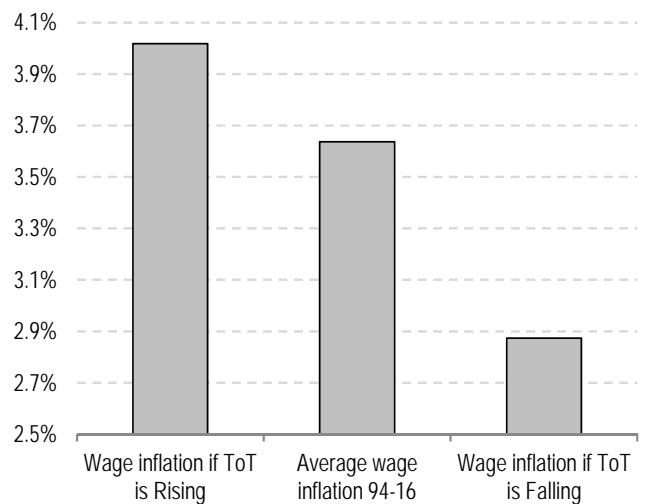
Meanwhile in Australia, history suggests that an improvement in the terms of trade should eventually feed through to faster wage inflation. While we are not seeing this just yet, consumption growth is running at a solid pace as households lower their savings rate.

**FIG.11: CHINA INC. LOOSEN THE PURSE STRINGS – CHINA PRIVATE BUSINESS INVESTMENT (CUMULATIVE YOY % CHG)**



Source: Datastream

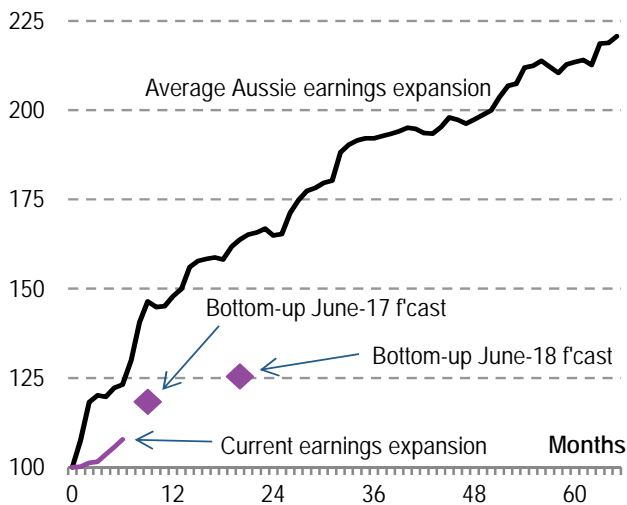
**FIG.12: AUSSIE WAGE INFLATION STILL TO COME – AUSTRALIAN NOMINAL WAGE INFLATION AND TERMS OF TRADE (TOT)**



Source: Australian Bureau of Statistics,

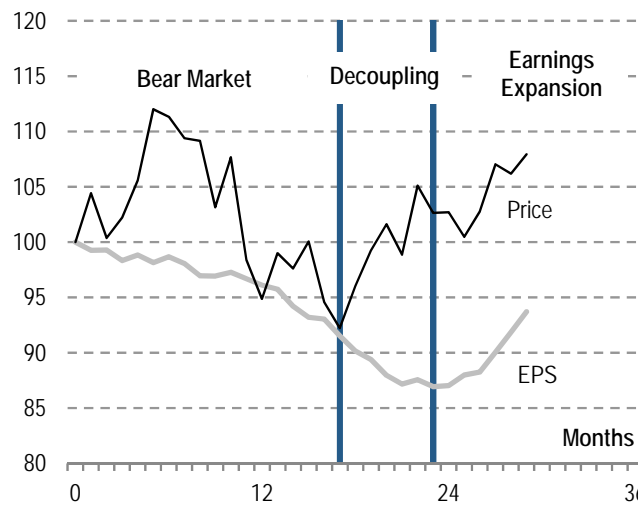
So the recent reporting season and the macro backdrop both suggest we could be in the early stages of an earnings expansion. While earnings expansion is underperforming those in the past, this was to be expected as we knew the downturn was not nearly as sharp as those in the past either. Sharp downturns in profits often precede sharp recoveries. Still, bottom-up forecasts suggest there is much scepticism in the strength of the expansion. History suggests the risk to EPS forecasts remain to the upside.

**FIG.13: ASX 200 EPS DURING CURRENT EXPANSION VS AVERAGE OF PREVIOUS FOUR – ANALYSTS REMAIN SCEPTICAL**



Source: Company data, BH estimates

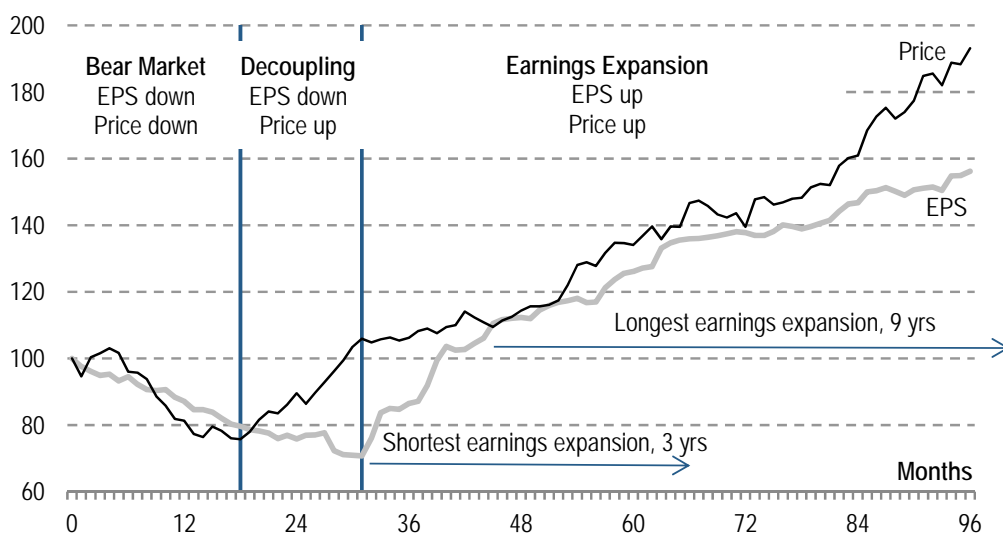
**FIG.14: CURRENT PROFITS CYCLE IN AUSTRALIA (START = 3Q14) - CURRENT CYCLE SIMILAR TO THOSE IN THE PAST**



Source: Company data, BH estimates,

In the figure below, we illustrate the average profile of EPS and stock prices (ASX 200) during the last four profits cycles in Australia. The earnings expansion is the third and final phase of a typical Aussie profits cycle and we think we have just started this stage. The shortest earnings expansion has been three years, the longest has been nine years and the average is five years. We are six months into the current. During the previous four earnings expansions we find equity indices rally, but they lag the gain in EPS so this tends to be a period of PE de-rating. This has so far been the case during the current period.

**FIG.15: AVERAGE OF EPS AND ASX 200 PRICE INDEX DURING PREVIOUS FOUR AUSTRALIAN PROFIT CYCLES – IN THE EARLY STAGES OF THE EARNINGS EXPANSION**



Source: Company data, estimates

## **2017 equity outlook**

Looking at the year ahead, our global economics team now forecast the fastest year of global growth since 2011. The new US administration is promising to stimulate an economy already enjoying considerable momentum. Meanwhile, Chinese authorities are expanding fiscal policy and global PMIs are once again rising in a synchronous manner.

Following the strongest interim reporting season since 2010, we have broken down the Australian equity market into three building blocks: Australia earnings per share (EPS); dividends per share (DPS); and valuations. In short, we believe the year will be highlighted by expanding earnings and could see total returns of c.10% for the calendar year.

## **Australian EPS outlook**

We note that global equity markets have rallied strongly and believe much of the increase has been justified by improving EPS momentum. Locally, ASX 200 EPS forecasts hit a low around the middle of 2016 and have since started to increase.

## **Australian dividend outlook**

Dividend momentum has also hit a low and is now trending higher for all major markets around the world. While analyst expectations are for the ASX 200's EPS growth to be 15%, they are forecasting around 10% DPS growth.

While analysts upgraded ASX 200 EPS by 1.6% during the February reporting period they raised their DPS forecasts by 2.1%. It was the best interim results period for dividends in more than 15 years. Of course the big dividend surprise comes after the big miss this time last year when BHP made it clear its full-year dividend would be cut by an extraordinary A\$6bn.

While the biggest dividend upgrades were in the commodity stocks, there were some increases elsewhere too. There were clear DPS upgrades for the more cyclical components of the market, however upgrades were lacking for the defensives (Staples, Telecoms, Infrastructure, Utilities and REITs).

While defensive stocks were in demand this time last year, when dividends were being cut elsewhere, they are less sought after this year as more cyclical company distributions recover.

## **Australian valuation outlook**

The Australian equity market de-rated through the 2H16 and now trades on 16x forward EPS. Only the US is more expensive on this basis, trading on 17x. In Australia, expensive sectors have de-rated while cheap ones have re-rated. The de-rating in commodities has come from a big increase in forward EPS.

Meanwhile, defensive sector (including property trusts) de-rating has mostly been due to prices falling. Australia continues to be the market for income seeking investors, although, we think global amounts of dividend seeking money will diminish as bond yields rise.

Overall, we believe Australian companies have already entered their earnings expansion phase. This is the last stage of the profits cycle when we typically find that stock indices trend higher during this period but do not surge. The average duration of the earnings expansion phase has been five-and-a-half years, but we think this one will be more moderate when compared to the past as it is beginning from a higher base.

**RECOMMENDATIONS**

Rating **BUY ▲**  
Risk Medium  
Price Target **\$18.35**  
Share Price \$16.95

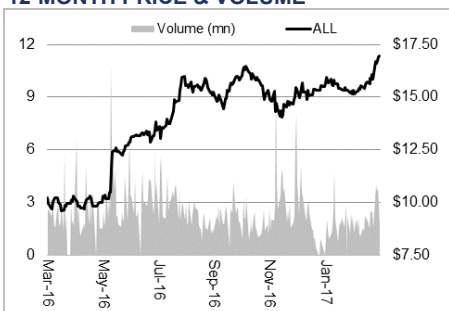
**SNAPSHOT**

Monthly Turnover \$685.7mn  
Market Cap \$10,791mn  
Shares Issued 638.5mn  
52-Week High \$17.04  
52-Week Low \$9.58  
Sector Consumer Discretionary

**BUSINESS DESCRIPTION**

Aristocrat Leisure Limited (ALL) operates as a developer, manufacturer and distributor of gaming machines and systems in Australia, New Zealand, the Americas, Japan/Asia-Pacific and Europe. ALL acquired US based Class II manufacturer VTG.

**12-MONTH PRICE & VOLUME**



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**Disclosure**

The author owns no shares in ALL.

**Aristocrat Leisure (ALL)**

**COMPANY REPORT**

**The Machinist**

- **The business:** ALL was listed in 1996 and is now one of a handful of scale electronic gaming machine (EGM) manufacturers. It designs, manufactures and distributes EGM's globally with a major focus on Australia/NZ, North America and Asia. The company sells machines on an outright basis in Australia/NZ and on both an outright and participation (profit share with venue) in North America and Asia. More recently ALL developed an online game platform.
- **AGM Update:** At its recent AGM, ALL announced that its FY17 NPATA is expected to increase by 20-30%, which would put it in the range of A\$478-\$518m – pre AGM consensus (Bloomberg) was A\$482m. Also, all regulatory approvals are now in place for Mr Trevor Croker to replace Mr Jamie Odell as CEO.
- **Commentary:** ALL provided little commentary at its AGM as to the geographical/product drivers sitting behind the FY17 guidance. However, we expect that the outlook statements from its FY16 result can still be relied upon. In summary these were: 1) modest growth in the installed base and stable fee per day in the North American Class II and III markets; 2) growth in Digital to moderate from lofty highs in FY16; 3) International markets to see growth in Asia from new venue openings; 4) ongoing share gains in the North American outright sale market, which is expected to remain flat overall; 5) maintaining market share in Australia/NZ; and 6) D&D costs to rise in dollar terms and relative to revenue, to position ALL for the next phase of growth.
- BUY maintained with DCF valuation of A\$18.33 and price target of A\$18.35. Whilst somewhat reluctant to get too aggressive with outer year forecasts in what can be a fad based industry, the quantum of ALL's recurring revenue deserves further re-rating. Also, ALL is currently using strong results to further invest in its next generation of games. Our BUY call is supported by: 1) expected ongoing share gains in North America, with the Lightning Link opportunity yet to fully play out in that region; 2) the development of other iterations of Lightning Link, such as Dragon Link, serve to address the changeable fads in this industry; 3) dominance of ALL's Digital offering, which continues to surprise on the upside; and 4) rapidly improving balance sheet, which could soon facilitate capital management and/or further M&A.

**INVESTMENT SUMMARY**

Year End: 30 September		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	1,582	2,129	2,594	2,748	2,898
EBITDA	\$mn	524.2	801.7	978.2	1,014.1	1,068.6
EBIT	\$mn	360.8	597.1	742.6	769.2	814.7
Reported Profit	\$mn	191.5	350.5	459.1	477.4	508.8
Adjusted Profit	\$mn	236.1	398.2	507.1	525.4	556.8
EPS (Reported)	¢	30.1	54.9	71.9	74.8	79.7
EPS (Adjusted)	¢	37.1	62.4	79.4	82.3	87.2
EPS Growth	%	60.5	68.1	27.2	3.6	6.0
PER (Reported)	x	56.3	30.8	23.6	22.7	21.3
PER (Adjusted)	x	45.7	27.2	21.3	20.6	19.4
Dividend	¢	17.0	25.0	29.0	31.0	33.0
Yield	%	1.0	1.5	1.7	1.8	1.9
Franking	%	0	0	0	0	0

## Financial summary

<b>Aristocrat Leisure Limited</b>					
<b>Analyst:</b>	Nick Caley				
<b>Date:</b>	03-March-2017				
<b>Market Cap (A\$m):</b>	\$10,791				
<b>Share Price (\$A):</b>	\$16.95				
<b>Year End:</b>	30 September				
<b>Rating:</b>	<b>BUY</b>				
<b>Price Target:</b>	\$18.35				
<b>Valuation:</b>	\$18.33				
<b>Risk:</b>	Medium				
<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Operating Revenue	1582.4	2128.7	2593.9	2748.4	2897.6
<b>Segment EBIT</b>	<b>667.0</b>	<b>968.0</b>	<b>1216.8</b>	<b>1266.7</b>	<b>1334.9</b>
Design & Development	191.4	239.2	324.2	343.6	362.2
Foreign Exchange	-1.0	1.0	0.0	0.0	0.0
Corporate - Unallocated	45.6	54.4	70.0	74.0	78.0
<b>Total Unallocated Expenses</b>	<b>236.0</b>	<b>294.6</b>	<b>394.2</b>	<b>417.6</b>	<b>440.2</b>
Add Back Dep & Amort.	93.2	128.3	155.6	164.9	173.9
<b>EBITDA</b>	<b>524.2</b>	<b>801.7</b>	<b>978.2</b>	<b>1014.1</b>	<b>1068.6</b>
<b>EBITA</b>	<b>431.0</b>	<b>673.4</b>	<b>822.6</b>	<b>849.2</b>	<b>894.7</b>
Acquired Goodwill Amortisation	70.2	76.3	80.0	80.0	80.0
<b>EBIT</b>	<b>360.8</b>	<b>597.1</b>	<b>742.6</b>	<b>769.2</b>	<b>814.7</b>
Interest Expense	81.3	89.9	77.3	77.3	77.3
<b>NPBT</b>	<b>279.5</b>	<b>507.2</b>	<b>665.3</b>	<b>691.9</b>	<b>737.5</b>
Income Tax Expense/(Benefit)	88.0	156.7	206.2	214.5	228.6
Minority Interests	0.0	0.0	0.0	0.0	0.0
Abnormal Items After Tax	0.0	0.0	0.0	0.0	0.0
<b>NPAT - Reported</b>	<b>191.5</b>	<b>350.5</b>	<b>459.1</b>	<b>477.4</b>	<b>508.8</b>
Significant Items After Tax	0.0	0.0	0.0	0.0	0.0
Acquired Goodwill Amortisation	44.6	47.7	48.0	48.0	48.0
<b>Normalised NPATA</b>	<b>236.1</b>	<b>398.2</b>	<b>507.1</b>	<b>525.4</b>	<b>556.8</b>
<b>BALANCE SHEET (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	329.0	283.2	707.7	1172.4	1555.8
Receivables	525.8	529.8	635.7	661.0	694.5
Property, Plant & Equipment	203.5	217.5	217.5	217.5	217.5
Intangibles	1941.8	1736.5	1656.5	1576.5	1496.5
Other Assets	218.7	220.7	231.1	237.4	245.8
<b>Total Assets</b>	<b>3218.7</b>	<b>2987.7</b>	<b>3448.5</b>	<b>3864.8</b>	<b>4210.1</b>
<b>Liabilities</b>					
Payables	404.6	408.6	588.8	718.7	759.1
Loans & Borrowings	1779.6	1287.8	1287.8	1287.8	1287.8
Provisions	42.8	127.7	127.7	127.7	127.7
Other Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2301.3</b>	<b>1912.2</b>	<b>2092.4</b>	<b>2222.3</b>	<b>2262.7</b>
<b>Equity</b>					
Contributed Capital	693.8	693.8	693.8	693.8	693.8
Reserves	15.7	-55.7	-55.7	-55.7	-55.7
Retained Earnings	207.9	437.4	718.1	1004.3	1309.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>917.4</b>	<b>1075.5</b>	<b>1356.2</b>	<b>1642.4</b>	<b>1947.4</b>
Book Value per Share (cps)	144.0	168.8	212.9	257.8	305.7
NTA per Share (cps)	-160.8	-103.7	-47.1	10.3	70.8
<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS - Reported	30.1	54.9	71.9	74.8	79.7
EPS - Normalised	37.1	62.4	79.4	82.3	87.2
EPS Growth (%)	60%	68%	27%	4%	6%
DPS	17.0	25.0	29.0	31.0	33.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	46%	40%	37%	38%	38%
<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
P/E (x)	45.7	27.2	21.3	20.6	19.4
EV/EBIT (x)	19.2	16.4	15.3	14.2	12.9
EV/EBITDA (x)	13.2	12.2	11.6	10.8	9.9
Dividend Yield (%)	1.0%	1.5%	1.7%	1.8%	1.9%
Price/Book (x)	11.8	10.0	8.0	6.6	5.5
Price/NTA (x)	-10.5	-16.3	-36.0	163.8	23.9
Price/Cash/Flow per Share (x)	24.6	15.9	14.3	13.2	14.2
<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Growth (% pcp)	139%	53%	22%	4%	5%
EBIT Growth (% pcp)	105%	65%	24%	4%	6%
Norm.NPATA Growth (% pcp)	79%	69%	27%	4%	6%
<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Design & Development Costs/Rev.%	12%	11%	13%	13%	13%
EBITDA Margin (%)	33%	38%	38%	37%	37%
EBIT Margin (%)	23%	28%	29%	28%	28%
NPBT Margin (%)	18%	24%	26%	25%	25%
ROE (%)	30%	41%	42%	35%	31%
ROA (%)	9%	13%	16%	14%	14%
Effective Tax Rate (%)	31%	31%	31%	31%	31%
<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt (A\$m)	1,451	1,005	580	115	-268
Net Debt/Equity (%)	158%	93%	43%	7%	Neg
Int. Cover (x) - EBITDA/Net Int.	6.4	8.9	12.7	13.1	13.8
Cash Conversion (GOCF/EBITDA) %	104%	104%	107%	110%	100%
Days Debtors	101	74	76	75	75
Days Inventory	24	21	19	19	19
Days Creditors	115	93	114	131	132
<b>OPERATIONAL DATA</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Divisional Sales</b>					
Australia & New Zealand	314.1	412.7	507.8	514.8	549.8
Americas	980.4	1255.2	1552.5	1605.8	1688.1
International Class III/ROW	140.3	181.1	202.3	206.1	212.3
Lotteries & Digital	147.6	279.7	331.3	421.7	447.4
<b>Total Operating Revenue</b>	<b>1582.4</b>	<b>2128.7</b>	<b>2593.9</b>	<b>2748.4</b>	<b>2897.6</b>
<b>Divisional EBIT</b>					
Australia & New Zealand	113.8	169.1	213.3	211.1	225.4
Americas	451.3	600.3	764.7	775.3	815.0
International Class III/ROW	51.7	80.5	93.1	94.8	97.7
Lotteries & Digital	50.2	118.1	145.8	185.6	196.9
<b>Total Divisional EBIT</b>	<b>667.0</b>	<b>968.0</b>	<b>1216.8</b>	<b>1266.7</b>	<b>1334.9</b>
<b>Sales Assumptions (no)</b>					
Australia.NZ - Platform Sales	10,537	13,784	16,500	15,675	15,675
Australia/NZ - Conversions	2,703	4,682	6,000	5,700	5,700
Nth Am-Class III Plat.Sales	9,636	11,503	16,250	15,600	16,011
Nth Am-Class III Conversions	3,210	2,487	7,500	7,200	7,200
Nth Am-Class III Participation Base	9,808	13,675	14,100	14,500	14,900
Nth Am-Class II Participation Base	20,681	21,427	21,900	22,300	23,500
<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Cash at Start</b>	<b>285.9</b>	<b>329.0</b>	<b>283.2</b>	<b>707.8</b>	<b>1172.4</b>
<b>Cash Flow from Ops</b>	<b>437.6</b>	<b>680.5</b>	<b>758.6</b>	<b>820.7</b>	<b>761.2</b>
Cash Flow per Share (cps)	68.8	106.7	118.8	128.5	119.2
<b>Cash Flow from Invest. Act.</b>					
Acquisitions	-1446.4	-30.2	0.0	0.0	0.0
Payments for PPE	-121.6	-182.5	-155.6	-164.9	-173.9
Other	-24.3	3.4	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>-1592.3</b>	<b>-209.3</b>	<b>-155.6</b>	<b>-164.9</b>	<b>-173.9</b>
<b>Cash Flow From Financing</b>	<b>1190.3</b>	<b>-506.4</b>	<b>-178.4</b>	<b>-191.1</b>	<b>-203.9</b>
Net Cash Flow	35.6	-35.2	424.5	464.6	383.4
Other Adj	7.4	-10.6	0.0	0.0	0.0
<b>Cash At End</b>	<b>329.0</b>	<b>283.2</b>	<b>707.8</b>	<b>1172.4</b>	<b>1555.8</b>

#### RECOMMENDATIONS

Rating **BUY ▲**  
Risk Low  
Price Target **\$12.50**  
Share Price \$11.36

#### SNAPSHOT

Monthly Turnover \$100.1mn  
Market Cap \$726mn  
Shares Issued 63.8mn  
52-Week High \$12.00  
52-Week Low \$8.03  
Sector Financials

#### BUSINESS DESCRIPTION

Austbrokers Holdings Limited (AUB) operates a network of insurance broking and financial service firms, focusing on Australian SME clients. Austbrokers operates an "owner driver" model, whereby it takes equity stakes in broking firms. Its services include general insurance broking, underwriting agency, life insurance and investment products.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in AUB.

## AUB Group (AUB)

### COMPANY REPORT

#### Tide is turning

- Overall:** AUB's recent interim result just beat our forecast and contained a modest ~3% upgrade to FY17F guidance. Although only modest, we see this as confirmation the premium rate cycle is turning and that organic growth conditions should improve over the next 12 months. The company also increased its interim dividend for the first time in three years, adding further confidence on the outlook. Reiterate BUY.
- 1H17 result recap:** AUB reported adjusted NPAT of \$14.5m, up 12.7% on the pcp and a touch ahead of our \$14.0m forecast. Group revenue increased 15%. The company declared an interim dividend of 12.5cps (fully franked), just ahead of our 12.2cps forecast.
- Drivers/surprises:** In terms of profit contribution by division, Australian Broking profit was flat on the pcp at \$19.1m, with organic growth of 5.3% offset by a business divestment. Profit from New Zealand Broking was up strongly to \$2.5m given acquisitions. Profit from Underwriting Agencies was up 21% to \$4.3m with a 12% increase in the policy count (organic growth was 28%). Profit from Risk Services was up 11% to \$3.5m, reflecting acquisitions and an expanded footprint. Net corporate expenses were flat on the pcp at \$8.3m.
- Key takeaways:** AUB is saying that there is evidence of premium rates stabilising in selected portfolios. To reflect increased confidence in the outlook, AUB has upgraded its earnings guidance. It now expects underlying NPAT to be up 3-8% in FY17F, up from 0-5% previously. Our revised forecasts are at the top end of that range with 8.3% growth. Meanwhile, gearing at Dec-16 was largely unchanged from Jun-16 at 20%, with net debt at \$49.0m and undrawn facilities of \$24.0m
- Investment view:** We maintain a BUY rating. We believe the worst has now passed in the premium rate cycle and the next two years should see increasing rates as underwriters rebuild profitability. We also believe AUB has invested a substantial amount into the business over the last four years and should be well placed to see upside from premium rates in reported profits. In our view, broker valuations aren't onerous given we are firmly at the bottom of the cycle and face an improving growth outlook over the next two years.

#### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	367	362	388	419	450
EBITDA	\$mn	58.5	59.2	64.2	71.3	76.8
EBIT	\$mn	56.3	57.0	62.0	69.1	74.6
Reported Profit	\$mn	34.9	42.0	36.5	40.6	44.5
Adjusted Profit	\$mn	36.3	37.6	40.7	44.6	48.5
EPS (Reported)	¢	56.7	66.5	56.7	63.1	69.2
EPS (Adjusted)	¢	59.1	59.4	63.2	69.4	75.4
EPS Growth	%	-0.5	0.5	6.4	9.7	8.7
PER (Reported)	x	20.0	17.1	20.0	18.0	16.4
PER (Adjusted)	x	19.2	19.1	18.0	16.4	15.1
Dividend	¢	39.7	40.0	41.0	45.0	49.0
Yield	%	3.5	3.5	3.6	4.0	4.3
Franking	%	100	100	100	100	100

## Financial summary

Code: AUB  
Analyst: Nicolas Burgess  
Date: 03 March, 2017  
Share Price: \$11.36  
Market Capitalisation: \$718m  
Year End: 30 June

Rating: **BUY**  
Price Target: **\$12.50**  
Upside/downside: 10.0%  
Valuation: \$12.50  
Valuation method: DCF / PE blend  
Risk: Low

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Commission & fees	304.9	297.4	322.3	349.5	375.9
Other revenue	50.9	54.7	55.2	59.6	63.9
Interest	9.1	7.5	7.3	7.3	7.3
Operating revenue	364.9	359.5	384.9	416.3	447.2
Operating expenses	-260.0	-258.8	-276.5	-296.7	-318.0
Minorities	-44.0	-50.3	-55.7	-61.5	-66.1
Net corporate costs	-7.2	-9.2	-9.7	-10.2	-10.7
EBITDA	58.5	59.2	64.2	71.3	76.8
Depreciation	-2.1	-2.2	-2.2	-2.2	-2.2
<b>EBITA</b>	<b>56.3</b>	<b>57.0</b>	<b>62.0</b>	<b>69.1</b>	<b>74.6</b>
Interest expense	-4.3	-3.2	-3.9	-5.3	-5.3
Underlying PBT	52.0	53.8	58.1	63.8	69.3
Tax	-15.7	-16.2	-17.4	-19.1	-20.8
<b>Underlying cash NPAT</b>	<b>36.3</b>	<b>37.6</b>	<b>40.7</b>	<b>44.6</b>	<b>48.5</b>
Amortisation	-4.3	-4.1	-4.0	-4.0	-4.0
Non-recurring (net tax)	2.9	8.5	-0.2	0.0	0.0
Reported NPAT	34.9	42.0	36.5	40.6	44.5

<b>BALANCE SHEET (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	50.5	70.9	86.2	105.7	128.4
Cash - Trust	105.5	87.5	87.5	87.5	87.5
Receivables	165.1	165.8	192.7	231.1	272.3
PPE	6.5	9.8	9.8	9.8	9.8
Intangibles	199.8	246.7	246.7	246.7	246.7
Other Assets	147.6	140.3	158.3	158.3	158.3
Total Assets	675.0	721.1	781.3	839.2	903.1
<b>Liabilities</b>					
Payables	252.4	239.5	261.6	285.1	307.9
Loans & Borrowings	57.4	84.2	102.2	102.2	102.2
Provisions	12.8	15.1	15.1	15.1	15.1
Other Liabilities	41.1	31.0	40.1	60.9	85.9
Total Liabilities	363.7	369.9	419.0	463.3	511.2
<b>Equity</b>					
Contributed Capital	128.9	141.7	142.7	144.7	147.7
Reserves	6.1	6.0	6.0	6.0	6.0
Retained Earnings	128.2	146.5	156.6	168.2	181.2
Minority Interests	48.2	57.0	57.0	57.0	57.0
Total Equity	311.3	351.2	362.3	375.9	391.9

BV per share (cps)	506	556	563	584	609
NTA Per Share (cps)	181	165	180	201	226

<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash at Start	152.2	156.0	158.4	173.7	193.2
Cash Flow from Ops	44.3	34.0	44.2	48.4	52.4
Capex	-2.7	-5.0	-5.3	-5.7	-6.0
Free cash flow	41.6	29.0	38.9	42.8	46.5
Free cash per share (cps)	67.7	45.9	60.4	66.4	72.2
Cash Flow from Investing	-42.1	-25.4	-23.3	-5.7	-6.0
Cash Flow from Financing	1.6	3.1	-5.6	-23.2	-23.8
Cash At End	156.0	158.4	173.7	193.2	215.9

<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS - Underling cash (diluted)	59.1	59.4	63.2	69.4	75.4
EPS Growth - underlying	-0.5%	0.5%	6.4%	9.7%	8.7%
EPS - Reported (diluted)	56.7	66.5	56.7	63.1	69.2
Diluted shares (m)	61.5	63.2	64.3	64.3	64.3
DPS (cps)	39.7	40.0	41.0	45.0	49.0
Payout Ratio	67%	67%	65%	65%	65%
Franking	100%	100%	100%	100%	100%

<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
P/E (x)	19.2	19.1	18.0	16.4	15.1
EV/EBITA (x)	13.0	12.9	11.9	10.4	9.3
EV/EBITDA (x)	12.5	12.4	11.5	10.1	9.1
Dividend Yield (%)	3.5%	3.5%	3.6%	4.0%	4.3%
Price/Book (x)	2.2	2.0	2.0	1.9	1.9
Price/NTA (x)	6.3	6.9	6.3	5.7	5.0
Price/FCF per Share (x)	16.8	24.8	18.8	17.1	15.7

<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue growth	6.2%	-1.5%	7.0%	8.2%	7.4%
Operating cost growth	7.8%	-0.4%	6.8%	7.3%	7.2%
EBITDA growth	4.4%	1.2%	8.5%	11.0%	7.8%
EBITA growth	4.2%	1.1%	8.8%	11.4%	8.0%
PBT growth	2.6%	3.3%	8.0%	9.7%	8.7%
Underlying NPAT growth	2.5%	3.3%	8.3%	9.7%	8.7%
Reported NPAT growth	0.7%	20.4%	-13.2%	11.4%	9.6%

<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	16.0%	16.5%	16.7%	17.1%	17.2%
EBITA Margin	15.4%	15.8%	16.1%	16.6%	16.7%
NPBT Margin	14.3%	15.0%	15.1%	15.3%	15.5%
ROIC (pre-tax)	19.7%	17.3%	18.0%	19.9%	21.5%
ROE	14.8%	13.5%	13.6%	14.3%	14.8%
ROA	8.7%	8.2%	8.3%	8.5%	8.6%
Effective Tax Rate	30.2%	30.2%	30.0%	30.0%	30.0%

<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt (A\$m)	15.6	17.7	20.5	0.9	-21.8
Enterprise value	734	736	738	719	696
Net Debt/Equity (%)	NA	NA	NA	NA	NA
EBITDA/Gross interest	13.6	18.6	16.4	13.4	14.4

#### RECOMMENDATIONS

Rating **BUY ▲**  
Risk Medium  
Price Target **\$8.00**  
Share Price \$6.01

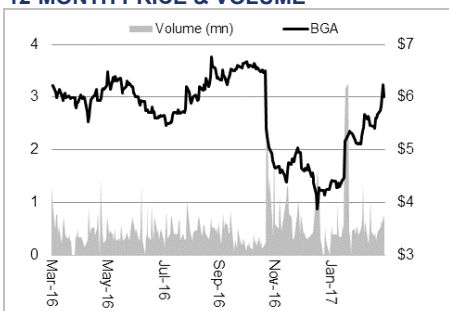
#### SNAPSHOT

Monthly Turnover \$61.9mn  
Market Cap \$917mn  
Shares Issued 152.6mn  
52-Week High \$6.84  
52-Week Low \$3.82  
Sector Consumer Staples

#### BUSINESS DESCRIPTION

Bega Cheese Limited (BGA) is engaged in the processing, manufacturing and distribution of dairy and associated products to both Australian and international markets. BGA has five production facilities across Victoria and New South Wales.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in BGA.

## Bega Cheese (BGA)

### COMPANY REPORT

#### Happy Vegemites

- Overall:** BGA is a vertically integrated global dairy processor and manufacturer. Through its pending acquisition of the Mondelez (MDLZ) Grocery business, BGA will become the owner of the iconic Vegemite brand as well as a portfolio of other brands and manufacturing capabilities.
- 1H17 result recap:** BGA reported a solid 1H17 result in-line with our expectations. Underlying NPAT of \$20.6m was up 39.2% on the pcp, above our estimate of \$19.5m and reflected a strong 1H skew. Reported NPAT of \$15.7m included a \$7.1m inventory impairment related to the nutritional business. An interim dividend of 5.0cps fully franked has been declared, ahead of our estimate of 4.5cps.
- Strong acquisition:** 1) The acquisition of the MDLZ business and favourable recent \$200m asset sale (with no earnings dilution) leads to a highly accretive transaction for BGA. We estimate 40% EPS accretion across FY18F and FY19F based on pre-deal earnings; 2) BGA expect the MDLZ business to generate between \$40m to \$45m EBITDA in its first full year of operation. Products under the KRAFT brand, of which brand use expires in December 2017, will undergo a transition strategy (i.e. new brands on existing products). We believe minimal contribution has been forecast in BGA's estimates for these brands and thus we see upside risks if BGA's brand transition strategy is successful.
- Asset sale:** BGA's \$200m asset sale (+\$149m cash impact) and subsequent 10-year service and access agreement with Mead Johnson (MJ) for a spray dryer and infant formula finishing plant is an outstanding deal. Earnings impact is neutral given BGA will earn a fee for managing the assets on behalf of MJ, whilst also maintaining its current revenue streams from use of those assets.
- Dairy market conditions:** Dairy market supply-demand dynamics have reverted back into alignment and commodity prices are favourable.
- Financial position:** Debt post the asset sale remains high (leverage ratio 3x) but manageable and is expected to come down markedly in FY19F.
- Investment view:** We are buoyed by the earnings potential from existing and recently acquired businesses and remain comfortable with the financial position post the extraordinary asset sale deal (leverage ratio of 3x dropping to 2.5x in FY19F). The stock remains attractive at current levels, trading on an FY18F PE of 19.1x with 46% p.a. EPS CAGR across 18/19F. Maintain BUY with an \$8.00 target price.

#### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	1,113	1,196	1,221	1,572	1,639
EBITDA	\$mn	55.7	66.0	69.0	119.4	131.3
EBIT	\$mn	33.5	44.1	38.6	85.1	96.5
Reported Profit	\$mn	12.0	29.2	20.9	162.0	55.4
Adjusted Profit	\$mn	22.0	29.2	25.9	48.0	55.4
EPS (Reported)	¢	7.9	19.1	13.7	106.1	36.3
EPS (Adjusted)	¢	14.4	19.1	17.0	31.4	36.3
EPS Growth	%	-25.9	32.6	-11.4	85.3	15.5
PER (Reported)	x	76.3	31.4	43.8	5.7	16.6
PER (Adjusted)	x	41.6	31.4	35.4	19.1	16.6
Dividend	¢	8.5	9.5	8.0	8.0	10.0
Yield	%	1.4	1.6	1.3	1.3	1.7
Franking	%	100	100	100	100	100



## Financial summary

### Bega Cheese Ltd

**Analyst:** Josh Kannourakis  
**Date:** 03-March-2017  
**Share Price (\$A):** \$6.01  
**Market Capitalisation (\$Am):** \$917.1  
**Year End:** 30 June

**Rating:** **BUY**  
**Price Target:** \$8.00  
**Upside/(Downside):** 33%  
**Risk:** Medium

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Sales Revenue	1112.6	1196.0	1221.3	1572.5	1639.4	EPS - Basic	14.4	19.1	17.0	31.4	36.3
Cost Of Sales	977.8	1042.7	1084.3	1368.0	1426.3	EPS - Diluted	14.4	19.1	17.0	31.4	36.3
<b>Gross Profit</b>	<b>134.8</b>	<b>153.2</b>	<b>137.1</b>	<b>204.4</b>	<b>213.2</b>	EPS - Reported	8.1	18.9	13.7	106.1	36.3
Other Income	6.8	6.1	-24.1	11.0	11.0	EPS Growth (%)	-26%	33%	-11%	85%	16%
<b>Total Revenue</b>	<b>1119.8</b>	<b>1202.9</b>	<b>1197.7</b>	<b>1584.3</b>	<b>1651.2</b>	DPS	8.5	9.5	8.0	8.0	10.0
Total Cash Operating Expenses	1056.9	1130.0	1152.4	1453.1	1508.2	Franking (%)	100	100	100	100	100
<b>EBITDA</b>	<b>55.7</b>	<b>66.0</b>	<b>69.0</b>	<b>119.4</b>	<b>131.3</b>	Payout Ratio (%)	59%	50%	47%	25%	28%
Depreciation & Amortisation	22.2	21.9	30.3	34.4	34.8						
<b>EBIT</b>	<b>33.5</b>	<b>44.1</b>	<b>38.6</b>	<b>85.1</b>	<b>96.5</b>	<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Interest Expense	3.3	3.6	2.6	16.5	17.3	P/E (x)	41.6	31.4	35.4	19.1	16.6
<b>Net Profit Before Tax</b>	<b>30.2</b>	<b>40.5</b>	<b>36.0</b>	<b>68.5</b>	<b>79.1</b>	EV/EBIT (x)	21.0	27.2	25.3	15.1	12.9
Income Tax Expense	8.1	11.3	10.1	20.6	23.7	EV/EBITDA (x)	12.9	14.7	14.2	10.7	9.5
<b>Net Profit After Tax</b>	<b>22.0</b>	<b>29.2</b>	<b>25.9</b>	<b>48.0</b>	<b>55.4</b>	Dividend Yield (%)	1.4%	1.6%	1.3%	1.3%	1.7%
<b>NPAT Reported</b>	<b>12.0</b>	<b>29.2</b>	<b>20.9</b>	<b>162.0</b>	<b>55.4</b>	Price/Book (x)	2.9	2.8	2.8	1.9	1.7
						Price/NTA (x)	3.0	2.9	2.9	2.0	1.8
<b>BALANCE SHEET (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash	10.3	9.7	23.6	22.0	23.8	Total Rev. Growth (% pcp)	4.0%	7.5%	2.1%	28.8%	4.3%
Receivables	119.5	143.7	134.3	173.0	180.3	Cash Op. Exp. Growth (% pcp)	6%	7%	2%	26%	4%
Inventories	194.9	192.4	207.6	235.9	245.9	EBITDA Growth (% pcp)	-21%	18%	5%	73%	10%
Other	3.9	0.5	1.3	1.3	1.3	EBIT Growth (% pcp)	-29%	32%	-12%	120%	13%
<b>Total Current Assets</b>	<b>328.6</b>	<b>346.3</b>	<b>366.9</b>	<b>432.2</b>	<b>451.4</b>	NPBT Growth (% pcp)	-28%	34%	-11%	90%	16%
Financial Assets	0.0	0.0	0.0	0.0	0.0	NPAT Growth (% pcp)	-26%	33%	-11%	85%	16%
Property, Plant & Equipment	209.7	219.9	219.9	311.5	312.7						
Deferred Tax	11.2	10.3	11.1	11.1	11.1	<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Other	2.9	10.1	21.9	361.9	361.9	EBITDA Margin (%)	5.0%	5.5%	5.8%	7.5%	8.0%
<b>Total Non Current Assets</b>	<b>223.8</b>	<b>240.4</b>	<b>252.9</b>	<b>684.5</b>	<b>685.7</b>	EBIT Margin (%)	3%	4%	3%	5%	6%
Total Assets	552.4	586.7	619.8	1116.7	1137.1	NPBT Margin (%)	3%	3%	3%	4%	5%
Payables	139.1	156.0	158.8	204.4	213.1	ROIC (%)	7%	9%	8%	11%	11%
Loans & Borrowings	11.5	15.2	24.1	24.1	24.1	ROE (%)	7%	9%	8%	11%	11%
Other	28.7	38.0	41.3	41.3	41.3	ROA (%)	4%	5%	4%	5%	5%
<b>Total Current Liabilities</b>	<b>179.3</b>	<b>209.3</b>	<b>224.3</b>	<b>269.9</b>	<b>278.6</b>	Effective Tax Rate (%)	27%	28%	28%	30%	30%
Loans & Borrowings	57.5	47.5	61.0	361.0	331.0						
Other	3.0	2.1	1.9	1.9	1.9	<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Total Non Current Liabilities</b>	<b>60.5</b>	<b>49.6</b>	<b>62.9</b>	<b>362.9</b>	<b>332.9</b>	Net Debt (A\$m)	59	53	62	363	331
<b>Total Liabilities</b>	<b>239.8</b>	<b>258.8</b>	<b>287.2</b>	<b>632.8</b>	<b>611.5</b>	Net Debt/Equity (%)	19%	16%	18%	75%	63%
Contributed Capital	103.9	103.9	103.9	103.9	103.9	Int. Cover (x) - EBITDA/Net Int.	16.7	18.4	26.1	7.2	7.6
Reserves	20.9	21.1	20.2	20.2	20.2	Net debt to EBITDA	1.05	0.80	0.89	3.04	2.52
Retained Earnings	187.8	202.8	208.5	359.8	401.4	<b>SEGMENTALS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Total Equity</b>	<b>312.7</b>	<b>327.8</b>	<b>332.6</b>	<b>483.9</b>	<b>525.6</b>	<b>Revenue</b>					
<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	Bega Cheese	725.0	759.2	798.4	818.1	842.6
<b>Cash at Start</b>	<b>28.6</b>	<b>10.3</b>	<b>9.7</b>	<b>23.6</b>	<b>22.0</b>	Tatura Milk	432.1	479.0	446.5	457.2	484.6
EBITDA	55.7	66.0	69.0	119.4	131.3	MDLZ Grocery				310.0	325.5
Working Capital	-48.6	-4.7	-3.2	-21.2	-8.7	Eliminations	-44.5	-42.2	-23.6	-12.8	-13.3
Interest Paid	-3.4	-3.8	-3.1	-17.3	-18.1	<b>Total Revenue</b>	<b>1112.6</b>	<b>1196.0</b>	<b>1221.3</b>	<b>1572.5</b>	<b>1639.4</b>
Income Tax Paid	-9.9	-3.3	-7.5	-20.6	-23.7	<b>EBITDA</b>					
Other	-11.1	4.8	-9.8	0.0	0.0	Bega Cheese	35.7	32.0	34.9	42.5	48.0
<b>Cash Flow From Operating</b>	<b>-17.3</b>	<b>59.0</b>	<b>45.3</b>	<b>60.3</b>	<b>80.7</b>	Tatura Milk	20.0	34.0	34.1	35.4	38.7
<b>Cash Flow From Investing</b>	<b>-36.4</b>	<b>-39.6</b>	<b>-38.5</b>	<b>-351.2</b>	<b>-35.2</b>	MDLZ Grocery				42.5	45.6
<b>Cash Flow From Financing</b>	<b>35.4</b>	<b>-20.0</b>	<b>7.1</b>	<b>289.3</b>	<b>-43.7</b>	Eliminations	0.0	0.0	0.0	-1.0	-1.0
Movement In Cash Flow	-18.3	-0.6	14.0	-1.6	1.8	<b>Total EBITDA</b>	<b>55.7</b>	<b>66.0</b>	<b>69.0</b>	<b>119.4</b>	<b>131.3</b>
Adjustments											
<b>Cash At End Of Period</b>	<b>10.3</b>	<b>9.7</b>	<b>23.6</b>	<b>22.0</b>	<b>23.8</b>						

## Credit Corp Group (CCP)

### RECOMMENDATIONS

Rating **BUY ▲**  
Risk Medium  
Price Target **\$19.70**  
Share Price \$16.91

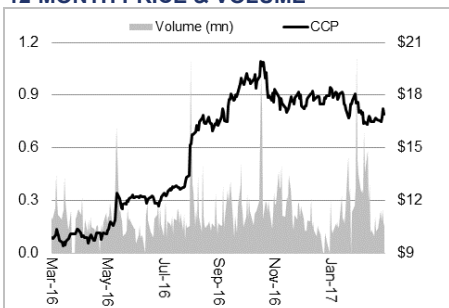
### SNAPSHOT

Monthly Turnover \$94.3mn  
Market Cap \$816mn  
Shares Issued 47.4mn  
52-Week High \$20.16  
52-Week Low \$9.31  
Sector Financials

### BUSINESS DESCRIPTION

Credit Corp Group Limited (CCP) is a receivables management company, specialising in debt purchase and debt collection services, primarily focusing on the acquisition of purchased debt ledgers comprised of distressed consumer debt from Australian, New Zealand and US financial institutions. It also provides consumer lending to people with an impaired credit history.

### 12-MONTH PRICE & VOLUME



### RESEARCH ANALYST

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### Disclosure

The author owns no shares in CCP.

### COMPANY REPORT

#### Eight of the best

- The business:** CCP listed on the ASX in 2000. The core business is to purchase debt ledgers (PDL's) of past due debts from financial institutions and telecommunication companies at a discounted value and then collect the debt from the debtor by typically agreeing a repayment schedule over time. CCP's business has evolved to focus on two major areas: 1) PDL's – the purchase and collection of impaired debt in Australia and the US; and 2) Consumer Lending (not payday lending) to borrowers with an impaired credit history but have shown capacity to repay debt – this business commenced in 2012.
- 1H17 result recap:** 1) Reported NPAT of A\$25.2m (+19% pcp) was in line with our expectations; 2) interim dividend of A27cps (1H16: A23cps) with a payout ratio of 52%; 3) CCP continue to back improvements in its collection efficiency with a material increase in PDL purchasing both in Australia and the US, although it does expect to add collection headcount from here; 4) for Australian PDL's, CCP continues to cite competition, although it also noted some signs of rates easing and limited contested purchasing for the balance of 2H17; and 5) CCP is now clearly upbeat about the US market, citing an up-tick in credit card delinquency rates, an easing in PDL pricing, a material improvement in its own collection efficiency and the expectation of regulatory clarity from June 2017.
- Outlook:** 1) 1H17 NPAT represented 45-46% of full year FY17 guidance of A\$53-\$55m, which was reaffirmed; 2) strong 2H17 expected from lower seasonal growth in Consumer Lending, which eases provisioning strain, and increased PDL collection from strong 1H17 purchasing – this raises potential for further upgrade at May update; and 3) F17 PDL purchasing guidance has been upgraded to A\$225-\$235m (prev. A\$195-\$215m).
- Investment view:** BUY call retained with DCF valuation of A\$19.68 and price target of A\$19.70. CCP's commentary suggests the planets are starting to align in all businesses. The US market now looks much more encouraging and the high-growth consumer lending business is on-track to achieve its target book of A\$200m and attain a target ROE of 16-18% on a run-rate basis in FY18. Our only caveats today are that gearing has increased significantly to fund record PDL purchasing and the growth of the consumer lending book. However, our points of comfort are that reduced funding requirements in 2H17 will significantly ease cash requirements, whilst record PDL purchasing in FY16/17 will fuel out year collections. CCP is on target to deliver its eighth consecutive year of profit growth under the current management team in FY17.

### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	191	227	269	294	310
EBITDA	\$mn	57.3	71.1	90.3	104.3	112.3
EBIT	\$mn	56.3	69.2	88.0	101.9	109.8
Reported Profit	\$mn	38.4	45.9	56.5	65.1	69.6
Adjusted Profit	\$mn	38.4	45.9	56.5	65.1	69.6
EPS (Reported)	¢	83.0	98.5	119.8	137.5	147.1
EPS (Adjusted)	¢	83.0	98.5	117.3	134.7	144.1
EPS Growth	%	10.1	18.6	19.2	14.8	7.0
PER (Reported)	x	20.4	17.2	14.1	12.3	11.5
PER (Adjusted)	x	20.4	17.2	14.4	12.6	11.7
Dividend	¢	44.0	50.0	58.0	65.0	71.0
Yield	%	2.6	3.0	3.4	3.8	4.2
Franking	%	100	100	100	100	100

## Financial summary

Credit Corp Group Ltd											
<b>Analyst:</b>	Nick Caley					<b>Rating:</b>	BUY				
<b>Date:</b>	03-March-2017					<b>Price Target:</b>	\$19.70				
<b>Market Cap (A\$m)</b>	\$816					<b>Valuation:</b>	\$19.68				
<b>Share Price (A\$):</b>	\$16.91					<b>Risk:</b>	Medium				
<b>Year End:</b>	30 June										
<b>PROFIT &amp; LOSS (A\$m)</b>	FY15A	FY16A	FY17E	FY18E	FY19E	<b>EARNINGS</b>	FY15A	FY16A	FY17E	FY18E	FY19E
Purchased Debt Ledger Collections	152.5	171.1	197.3	213.5	220.5	EPS - Basic	83.0	98.5	119.8	137.5	147.1
Consumer Loan Book Interest	35.9	53.4	65.8	77.2	86.6	EPS - Diluted	83.0	98.5	117.3	134.7	144.1
Other Interest Received	0.1	0.0	0.1	0.1	0.1	EPS Growth (%)	10%	19%	19%	15%	7%
Other Revenue	2.6	2.2	5.9	2.8	2.8	DPS	44.0	50.0	58.0	65.0	71.0
<b>Total Revenue</b>	<b>191.0</b>	<b>226.7</b>	<b>269.0</b>	<b>293.6</b>	<b>310.0</b>	Franking (%)	100	100	100	100	100
Total Cash Operating Expenses	133.7	155.6	178.6	189.2	197.6	Payout Ratio (%)	53%	51%	49%	48%	49%
<b>EBITDA</b>	<b>57.3</b>	<b>71.1</b>	<b>90.3</b>	<b>104.3</b>	<b>112.3</b>	<b>VALUATION</b>	FY15A	FY16A	FY17E	FY18E	FY19E
Dep, Amortisation & Impairment	0.9	1.9	2.3	2.3	2.5	P/E (x)	20.4	17.2	14.4	12.6	11.7
<b>EBIT</b>	<b>56.3</b>	<b>69.2</b>	<b>88.0</b>	<b>101.9</b>	<b>109.8</b>	EV/EBIT (x)	11.0	10.2	12.0	10.5	10.1
Net Interest Expense	1.2	3.5	7.1	8.9	10.3	EV/EBITDA (x)	10.9	9.9	11.7	10.3	9.9
<b>Net Profit Before Tax</b>	<b>55.1</b>	<b>65.7</b>	<b>80.9</b>	<b>93.0</b>	<b>99.5</b>	Dividend Yield (%)	2.6%	3.0%	3.4%	3.8%	4.2%
Income Tax Expense	16.7	19.8	24.4	27.9	29.8	Price/Book (x)	4.3	3.7	3.2	2.8	2.5
<b>NPAT - Continuing</b>	<b>38.4</b>	<b>45.9</b>	<b>56.5</b>	<b>65.1</b>	<b>69.6</b>	Price/NTA (x)	4.4	3.7	3.3	2.8	2.5
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	Price/Cash/Flow per Share (x)	4.1	3.4	3.2	3.1	3.0
<b>NPAT - Reported</b>	<b>38.4</b>	<b>45.9</b>	<b>56.5</b>	<b>65.1</b>	<b>69.6</b>	<b>GROWTH</b>	FY15A	FY16A	FY17E	FY18E	FY19E
<b>BALANCE SHEET (A\$m)</b>	FY15A	FY16A	FY17E	FY18E	FY19E	Total Rev. Growth (% pcp)	10%	19%	19%	9%	6%
Cash	6.3	2.5	11.3	15.7	19.2	Cash Op. Exp. Growth (% pcp)	10%	16%	15%	6%	4%
Receivables	40.7	74.9	100.7	113.0	129.4	EBITDA Growth (% pcp)	10%	24%	27%	15%	8%
Purchased Debt Ledgers	65.7	115.2	125.7	146.3	168.5	EBIT Growth (% pcp)	10%	23%	27%	16%	8%
Other	1.6	1.5	1.7	4.4	8.0	NPBT Growth (% pcp)	11%	19%	23%	15%	7%
<b>Total Current Assets</b>	<b>114.3</b>	<b>194.2</b>	<b>239.3</b>	<b>279.4</b>	<b>325.0</b>	NPAT Growth (% pcp)	10%	20%	23%	15%	7%
Purchased Debt Ledgers	99.2	138.1	183.0	213.1	245.4	<b>MARGINS &amp; RETURNS</b>	FY15A	FY16A	FY17E	FY18E	FY19E
Property, Plant & Equipment	1.9	6.3	5.9	5.6	5.1	EBITDA Margin (%)	30%	31%	34%	36%	36%
Deferred Tax Assets	17.6	20.1	22.4	22.4	22.4	EBIT Margin (%)	29%	31%	33%	35%	35%
Intangibles	0.8	0.8	0.8	0.8	0.8	NPBT Margin (%)	29%	29%	30%	32%	32%
Other	40.2	36.6	37.8	37.8	37.8	ROIC (%)	23%	23%	25%	25%	23%
<b>Total Non Current Assets</b>	<b>159.7</b>	<b>201.9</b>	<b>250.0</b>	<b>279.7</b>	<b>311.5</b>	ROE (%)	22%	23%	25%	25%	23%
<b>Total Assets</b>	<b>274.0</b>	<b>396.1</b>	<b>489.3</b>	<b>559.0</b>	<b>636.5</b>	ROA (%)	16%	14%	12%	12%	12%
Payables	12.8	19.3	14.4	23.4	24.4	Effective Tax Rate (%)	30%	30%	30%	30%	30%
Payables Under Contract of Sale	5.3	0.0	0.0	0.0	0.0	<b>GEARING</b>	FY15A	FY16A	FY17E	FY18E	FY19E
Loans & Borrowings	0.0	0.0	10.0	35.0	74.0	Net Debt (A\$m)	59	140	204	225	260
Other	5.4	15.6	28.7	28.7	28.7	Net Debt/Equity (%)	33%	65%	83%	80%	81%
<b>Total Current Liabilities</b>	<b>23.5</b>	<b>35.0</b>	<b>53.1</b>	<b>87.1</b>	<b>127.1</b>	Net Debt/PDL & Loan Carrying Value (%)	24%	38%	46%	44%	45%
Loans & Borrowings	64.9	142.1	205.2	205.2	205.2	Int. Cover (x) - EBITDA/Net Int.	46.4	20.3	12.7	11.7	10.9
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0	<b>SEGEMENTAL/OPERATING</b>	FY15A	FY16A	FY17E	FY18E	FY19E
Other	5.5	4.9	4.6	4.6	4.6	<b>Revenue</b>					
<b>Total Current Liabilities</b>	<b>70.4</b>	<b>147.1</b>	<b>209.8</b>	<b>209.8</b>	<b>209.8</b>	Debt Ledgers (Inc Int. & Other Rev.)	155.2	173.2	203.2	216.4	223.4
<b>Total Liabilities</b>	<b>93.9</b>	<b>182.0</b>	<b>262.9</b>	<b>296.9</b>	<b>336.9</b>	Consumer Lending	35.9	53.5	65.8	77.2	86.6
Contributed Capital	48.7	55.6	55.6	55.6	55.6	<b>Total Revenue</b>	<b>191.0</b>	<b>226.7</b>	<b>269.0</b>	<b>293.6</b>	<b>310.0</b>
Reserves	0.0	2.2	3.4	3.4	3.4	<b>EBITDA</b>					
Retained Earnings	131.4	156.3	187.4	223.1	260.6	Debt Ledgers	55.9	62.4	76.1	83.8	87.6
<b>Total Equity</b>	<b>180.1</b>	<b>214.1</b>	<b>246.4</b>	<b>282.1</b>	<b>319.6</b>	Consumer Lending	1.4	8.7	14.3	20.5	24.7
<b>CASH FLOW (A\$m)</b>	FY15A	FY16A	FY17E	FY18E	FY19E	<b>Total EBITDA</b>	<b>57.3</b>	<b>71.1</b>	<b>90.3</b>	<b>104.3</b>	<b>112.3</b>
<b>Cash at Start</b>	<b>2.8</b>	<b>6.3</b>	<b>2.5</b>	<b>11.3</b>	<b>15.7</b>	<b>EBITDA Margins %</b>					
<b>Cash Flow from Ops</b>	<b>189.1</b>	<b>229.0</b>	<b>257.4</b>	<b>265.8</b>	<b>268.7</b>	Debt Ledgers	36%	36%	37%	39%	39%
<b>Cash Flow From Investing</b>	<b>-191.3</b>	<b>-293.5</b>	<b>-274.9</b>	<b>-257.0</b>	<b>-272.0</b>	Consumer Lending	4%	16%	22%	27%	29%
<b>Cash Flow From Financing</b>	<b>5.7</b>	<b>60.7</b>	<b>26.2</b>	<b>-4.4</b>	<b>6.8</b>	<b>Operating</b>					
Net Cash Flow	3.5	-3.8	8.7	4.4	3.5	Gross Debt Ledgers A\$m	4,900	5,300	6,000	6,200	6,400
Adjustment	0.0	0.0	0.0	0.0	0.0	Ledger Acquisition Cost A\$m	139	236	233	240	250
<b>Cash At End</b>	<b>6.3</b>	<b>2.5</b>	<b>11.3</b>	<b>15.7</b>	<b>19.2</b>	Gross Consumer Loan Book A\$m	100	135	165	180	200

#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Speculative
Price Target	<b>\$1.02</b>
Share Price	\$0.78

#### SNAPSHOT

Monthly Turnover	\$7.0mn
Market Cap	\$174mn
Shares Issued	226.2mn
52-Week High	\$0.82
52-Week Low	\$0.21
Sector	Materials

#### BUSINESS DESCRIPTION

Danakali is developing the Colluli sulphate of potash project in Eritrea. The aim is to produce 425kt of SOP per annum in the first phase and then expand to 850ktpa. The project is expected to be one of the lowest costs SOP project in the world. Colluli is a 50/50 joint venture with the Eritrean government's mining company.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in DNK.

## Danakali (DNK)

### COMPANY REPORT

#### Breaking new ground

- Overview:** DNK is proposing to develop Colluli, the lowest cost sulphate of potash (SOP) project in the world. Located in Eritrea, the project will be developed in two stages – firstly at 425ktpa, before expanding to 850ktpa. We forecast that the project should be able to generate an operating margin of US\$300+/t of product, excluding any co-products which may be produced. Colluli has the potential to disrupt the SOP market and displace high cost capacity.
- A unique development:** SOP is typically produced by utilising the Mannheim process, which converts potassium chloride to SOP using sulphuric acid or through the evaporation of potassium rich brines. Danakali, on the other hand, will mine potassium rich ore which has 20-30 times the concentration of typical potassium rich brines. The other differentiating factor is that mining of the ore will be via an open pit starting at 16 metres instead of highly capital intensive underground operations or via solution mining.
- The market:** The price of SOP has been much more resilient than potash fertilisers which in part attribute to the value in use and the cost of production. SOP is a chloride free nutrient which is ideally suited to high value salt intolerant agricultural produce and in areas where salt has become a problem in soils. Industry expectations are for SOP demand to increase by 30% in the period 2015 to 2023 and DNK is well placed to help fill the expected 2mtpa increase in demand. The price of SOP has managed to hold at around US\$540-550/t at a time when muriate of potash prices have fallen from US\$500/t to 300/t.
- Share price drivers:** DNK and its JV, ENAMCO (the government mining company), have recently had the mining agreement and license granted by the Eritrean Government. The next news should be on offtake agreements (backing up the MOU's already in place), more definition following the FEED optimisation and bidding process, and the progress of financing discussions.
- Investment view:** DNK has been largely overlooked by the broader market because of the product it intends to produce and the location of the development. After visiting the proposed development site and having discussions with government representatives, we feel that the development risk is somewhat overplayed. Our valuation for DNK is \$1.49ps and we have taken into account the potential dilution from an equity issue to derive our target price of \$1.02ps.

#### INVESTMENT SUMMARY

Year End: 31 December		2014 (A)	2015 (A)	2016 (A)	2017 (E)	2018 (E)
Revenue	\$mn	0	2	2	2	2
EBITDA	\$mn	-1.2	-7.6	-2.8	0.3	0.3
EBIT	\$mn	-4.5	-7.6	-2.8	0.3	0.3
Reported Profit	\$mn	-4.4	-6.8	-2.7	0.5	10.8
Adjusted Profit	\$mn	-4.4	-6.8	-2.7	0.5	10.8
EPS (Reported)	¢	-2.6	-3.5	-1.1	0.1	2.2
EPS (Adjusted)	¢	-2.6	-3.5	-1.1	0.1	2.2
EPS Growth	%		N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	804.8	35.6
PER (Adjusted)	x	N/A	N/A	N/A	804.8	35.6
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

## Financial summary

### DANAKALI

**Analyst:** Warren Edney  
**Date:** 03-Mar-17  
**Share Price (\$A):** \$0.78  
**Market Cap (A\$m):** \$175.9  
**EV (A\$m):** \$175.9  
**Year End:** December 31

**Rating:** Buy  
**Price Target:** \$1.02  
**Valuation:** \$1.49  
**Upside/(Downside):** 31%  
**Risk:** Speculative

#### KEY RATIOS

	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
<b>NPAT - Reported</b>	-6.8	-2.7	0.5	10.8	4.8	42.2
<b>NPAT - Attributable</b>	-6.8	-2.7	0.5	10.8	4.8	42.2
EPS - Adjusted	-3.5	-1.1	0.1	2.2	1.0	8.6
EPS Growth (%)	N/A	N/A	N/A	2,162%	(55%)	779%
P/E (x)	(22.5)	(69.8)	804.8	35.6	79.8	9.1
CFPS (A Cents)	-3.9	-1.2	0.1	2.3	1.0	6.1
P/CF (x)	-20.1	-65.3	780.0	34.5	77.4	12.8
DPS (A Cents)	-	-	-	-	-	2.0
Franking (%)	0%	0%	0%	0%	0%	100%
Dividend Yield (%)	-	-	-	-	-	2.6%
Payout Ratio (%)	-	-	-	-	-	23%
FCF Yield (%)	-1%	-1%	0%	-32%	-64%	-2%
EV/EBIT (x)	(29.7)	(81.7)	724.6	724.6	724.6	7.5
EV/EBITDA (x)	(29.7)	(81.8)	724.6	724.6	724.6	5.2

ASSUMPTIONS	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
Australian Dollar (AUD/USD)	0.75	0.74	0.73	0.73	0.75	0.75
MOP (US\$/t)	304	275	250	250	250	250
MOP (A\$/t)	404	369	341	344	336	333
SOP (US\$/t)	667	575	550	550	550	550
SOP (A\$/t)	886	773	750	756	738	733

PRODUCTION & COSTS	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
Colluli- SOP prodn (kt)	0.0	0.0	0.0	0.0	0.0	212.2
Colluli - C1 cost US\$/t of SOP	0	0	0	0	0	53
Colluli - FOB Cost US\$/t of SOP	0	0	0	0	0	266
Colluli - FOB margin US\$/t of SOP	0	0	0	0	0	284
Colluli - AISC US\$/t	0	0	0	0	0	294
Colluli - AISC Margin US\$/t	0	0	0	0	0	256

PROFIT & LOSS (A\$m)	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
Operating Revenue	0.0	0.0	0.0	0.0	0.0	71.4
Other Revenue	1.8	1.8	1.8	1.8	1.8	1.8
<b>Total Revenue</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>73.2</b>
Operating Expenses	0.0	0.0	0.0	0.0	0.0	-28.2
Corporate/Other Expenses	-9.3	-4.6	-1.5	-1.5	-1.5	-1.5
<b>EBITDA</b>	<b>-7.6</b>	<b>-2.8</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>43.5</b>
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0	-13.2
Exploration/write-offs	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-7.6</b>	<b>-2.8</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>30.2</b>
Net Interest / (Expense)	0.1	0.1	0.2	10.5	8.3	15.0
<b>NPBT</b>	<b>-7.5</b>	<b>-2.6</b>	<b>0.5</b>	<b>10.8</b>	<b>8.6</b>	<b>45.2</b>
Income Tax Expense	0.0	-0.1	-0.1	-0.1	-3.8	-3.0
<b>NPAT - Adjusted</b>	<b>-6.8</b>	<b>-2.7</b>	<b>0.5</b>	<b>10.8</b>	<b>4.8</b>	<b>42.2</b>
<b>Significant Items</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>NPAT - Reported</b>	<b>-6.8</b>	<b>-2.7</b>	<b>0.5</b>	<b>10.8</b>	<b>4.8</b>	<b>42.2</b>

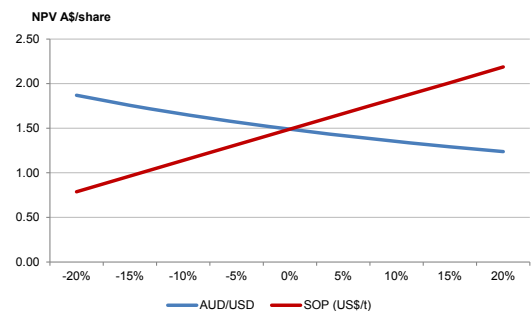
CASH FLOW (A\$m)	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
Cash Flow from Ops	-2.2	-2.4	0.4	5.8	8.0	20.1
Capex - Development & Sustaining	0.0	0.0	0.0	-61.4	-120.0	-23.9
Free Cash Flow	-2.2	-2.4	0.4	-55.6	-112.0	-3.8
Cash Flow From Investing	-10.1	-6.3	0.0	-31.0	-90.8	-71.5
Cash Flow From Financing	7.9	5.3	0.0	272.5	10.7	-8.6
Net Cash Flow	-4.4	-3.5	0.4	247.3	-72.1	-60.1

BALANCE SHEET (A\$m)	CY15A	CY16A	CY17E	CY18E	CY19E	CY20E
Cash	2.8	5.4	273.9	233.2	123.0	135.1
PP&E/Development/Exploration	0.0	0.0	0.0	61.5	181.5	192.1
<b>Assets</b>	<b>24.9</b>	<b>27.1</b>	<b>27.5</b>	<b>336.3</b>	<b>384.2</b>	<b>334.7</b>
Debts	0.0	0.0	143.9	152.8	157.8	138.3
<b>Liabilities</b>	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>148.0</b>	<b>158.4</b>	<b>149.8</b>
<b>Equity</b>	<b>24.3</b>	<b>26.7</b>	<b>21.9</b>	<b>152.6</b>	<b>161.0</b>	<b>177.5</b>
Net Debt / (Cash)	-2.8	-5.4	-130.0	-80.4	34.8	3.2
Gearing (%) - ND / (ND + Eq)	-13%	-25%	120%	-111%	18%	2%

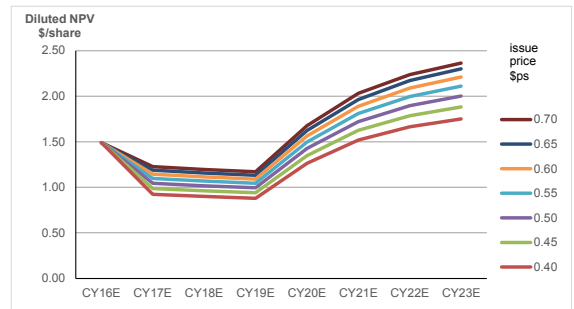
#### VALUATION SUMMARY

	WACC	10.4%	A\$m	A\$/Share
Colluli			340	1.52
Exploration			0	0.00
Corporate			-11	-0.05
Equity Project debt			0	0.00
Cash			5	0.02
<b>Total Valuation</b>			<b>334</b>	<b>1.49</b>
Diluted for equity issue at	0.50cps			

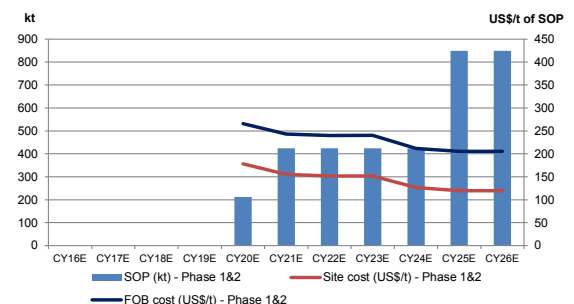
#### VALUATION SENSITIVITY



#### VALUATION SENSITIVITY TO EQUITY ISSUE PRICE AND TIME



#### PRODUCTION AND COSTS



#### RECOMMENDATIONS

Rating **BUY ▲**  
Risk Medium  
Price Target **\$20.50**  
Share Price \$18.00

#### SNAPSHOT

Monthly Turnover \$0.9mn  
Market Cap \$344mn  
Shares Issued 20.1mn  
52-Week High \$20.61  
52-Week Low \$12.91  
Sector Financials

#### BUSINESS DESCRIPTION

EQT Holdings (EQT) is a financial services company that provides private client, trustee, estate administration and funds management services. The company has four business units: Funds Management; Private Client Services; Fund Services; and Superannuation.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in EQT.

## EQT Holdings (EQT)

### COMPANY REPORT

#### Improving outlook

- Overall:** FY18 looks to be the first “clean” earnings year for some time, with new management doing a good job in turning the business around. In particular, the cost performance has been vastly improved recently and should get better given recent savings initiatives. We recently upgraded our call to BUY and remain comfortable in the turnaround progressing.
- 1H17 result re-cap:** EQT reported NPAT of \$7.2m, up 2.9% on the pcp. On an underlying basis (pre restructuring costs and amortisation) the company reported NPAT of \$9.3m, down 8% on the pcp but in line with our \$9.4m forecast. EQT declared an interim dividend of 35cps (fully franked), just below our 36cps forecast.
- Drivers/surprises:** Group revenue of \$39.5m was down 7.3% on the pcp and a touch below our \$41.0m forecast. Revenue was impacted by the superannuation restructure and fund distribution exit. The company is citing underlying growth of 6.8% excluding those factors. By segment, Trustee & Wealth Services reported revenue of \$26.6m, just below our forecast, and Corporate Trustee Services reported revenue of \$12.5m, in line with our forecasts. Underlying operating costs of \$25.2m (pre amortisation) were down 10.5% on the pcp.
- Key takeaways:** EQT is most of the way through its cost initiatives. The company spent a further \$2.1m on cost savings in 1H17 (\$1.2m project costs, \$0.9m redundancies) bringing the total cost of the operating model review and restructuring projects to \$9.9m. EQT stated it achieved annualised productivity gains of \$2.7m. Phase 2 is now underway and further incremental improvements are expected. Meanwhile, EQT has confirmed the previously announced details on the Sandhurst Trustees acquisition – \$5.0m purchase price to be funded from existing capital resources, \$2m of revenue and \$1m of EBITDA post integration. ASIC approval expected in Mar-16.
- Investment view:** We reiterate a BUY rating and \$20.50 price target. We believe the new management regime has made strong steps to refocus and streamline the business. The growth outlook is improving for FY18F given the cost saving initiatives and the Sandhurst Trustees acquisition. As investors begin to focus on FY18F, we believe there is scope for the valuation multiple to expand.

#### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	85	84	80	86	92
EBITDA	\$mn	31.4	30.3	29.6	33.5	37.7
EBIT	\$mn	29.6	28.1	27.5	31.2	35.4
Reported Profit	\$mn	17.0	13.3	16.1	20.4	23.0
Adjusted Profit	\$mn	21.2	20.1	19.1	21.7	24.3
EPS (Reported)	¢	87.2	66.7	79.9	101.0	113.4
EPS (Adjusted)	¢	109.0	100.9	95.2	107.5	119.8
EPS Growth	%	16.3	-7.4	-5.6	12.9	11.4
PER (Reported)	x	20.7	27.0	22.5	17.8	15.9
PER (Adjusted)	x	16.5	17.8	18.9	16.7	15.0
Dividend	¢	94.0	68.0	70.0	80.5	90.0
Yield	%	5.2	3.8	3.9	4.5	5.0
Franking	%	100	100	100	100	100

## Financial summary

Code: EQT  
Analyst: Nicolas Burgess  
Date: 3 March, 2017  
Share Price: \$18.00  
Market Capitalisation: \$376m  
Year End: 30 June

Rating: **BUY**  
Price Target: **\$20.50**  
Upside/downside: 13.9%  
Valuation: \$20.50  
Valuation method: Blended DCF / PE  
Risk: Medium

<b>PROFIT &amp; LOSS (\$Am)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Operating revenue	84.9	83.7	80.3	85.8	92.3
Investment revenue	0.0	0.0	0.0	0.0	0.0
Group revenue	84.9	83.7	80.3	85.8	92.3
Operating costs	-53.5	-53.4	-50.7	-52.3	-54.6
EBITDA	31.4	30.3	29.6	33.5	37.7
Depreciation & Amortisation	-1.8	-2.2	-2.1	-2.3	-2.3
<b>EBIT</b>	<b>29.6</b>	<b>28.1</b>	<b>27.5</b>	<b>31.2</b>	<b>35.4</b>
Interest expense	0.0	-0.1	-0.5	-0.7	-0.8
Underlying PBT	29.6	28.0	27.0	30.6	34.7
Tax	-8.4	-7.9	-7.8	-8.9	-10.4
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Underlying cash NPAT</b>	<b>21.2</b>	<b>20.1</b>	<b>19.1</b>	<b>21.7</b>	<b>24.3</b>
One-off restructuring costs	-2.9	-5.5	-1.8	0.0	0.0
Intangible amortisation	-1.3	-1.3	-1.3	-1.3	-1.3
Reported profit	17.0	13.3	16.1	20.4	23.0
<b>BALANCE SHEET (\$Am)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	25.0	48.7	61.4	69.8	77.8
Receivables	9.7	11.3	11.1	12.2	13.5
Other current assets	11.8	11.8	11.8	11.8	11.8
Fixed Assets	1.2	1.5	1.5	1.5	1.5
Financial assets	10.5	0.0	0.0	0.0	0.0
Intangibles	188.9	185.5	184.2	182.9	181.6
Other non-current assets	5.3	-0.9	5.3	5.3	5.3
Total Assets	252.3	257.8	275.4	283.5	291.5
<b>Liabilities</b>					
Debt	0.0	8.0	13.0	13.0	13.0
Payables	1.2	1.0	1.6	1.7	1.8
Current tax liabilities	2.3	0.2	0.2	0.2	0.2
Provisions	7.4	7.0	7.0	7.0	7.0
Other liabilities	0.4	0.9	23.6	27.4	30.4
Total Liabilities	11.3	17.1	45.4	49.4	52.5
<b>Equity</b>					
Share capital	227.7	231.8	218.9	218.9	218.9
Retained earnings	11.2	8.1	10.2	14.4	19.2
Other equity	2.1	0.8	0.8	0.8	0.8
Total shareholders equity	241.0	240.8	229.9	234.1	238.9
BV per share (cps)	1238.8	1207.5	1143.4	1158.6	1179.5
NTA per share (cps)	267.8	277.3	227.5	253.6	283.2

<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash at start	170.2	25.0	48.7	61.4	69.8
Cash flow from Ops	15.3	12.0	22.5	23.7	26.2
Capex	-0.5	-0.9	-1.0	-1.0	-1.1
Free cash flow	14.8	11.1	21.5	22.6	25.1
<i>Free cash flow per share (cps)</i>	<i>75.9</i>	<i>55.4</i>	<i>107.0</i>	<i>112.0</i>	<i>123.8</i>
Cash flow from investing	-153.6	16.2	0.0	0.0	0.0
Cash flow from financing	-6.5	-3.4	-8.8	-14.3	-17.1
Cash at end	25.0	48.7	61.4	69.8	77.8
GOCF / EBITDA	66%	63%	90%	90%	90%
FCF / Underlying cash NPAT	70%	55%	112%	104%	103%

<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS - Underling cash (diluted)	109.0	100.9	95.2	107.5	119.8
EPS Growth - underlying	16.3%	-7.4%	-5.6%	12.9%	11.4%
EPS - Reported (diluted)	87.2	66.7	79.9	101.0	113.4
Diluted shares (m)	19.5	19.9	20.1	20.2	20.3
DPS (cps)	94	68	70	81	90
Payout Ratio	86%	67%	74%	75%	75%
Franking	100%	100%	100%	100%	100%
<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
P/E (x)	16.5	17.8	18.9	16.7	15.0
EV/EBITDA (x)	11.2	11.1	11.1	9.5	8.2
EV/EBITA (x)	11.9	11.9	11.9	10.2	8.8
Dividend Yield (%)	5.2%	3.8%	3.9%	4.5%	5.0%
Price/Book (x)	1.5	1.5	1.6	1.6	1.5
Price/NTA (x)	6.7	6.5	7.9	7.1	6.4
Price/FCF per Share (x)	23.7	32.5	16.8	16.1	14.5
<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue growth	59.3%	-1.4%	-4.1%	6.9%	7.6%
Operating cost growth	42.5%	-0.2%	-5.0%	3.0%	4.5%
EBITDA growth	99.5%	-3.5%	-2.4%	13.5%	12.5%
EBIT growth	105.6%	-4.9%	-2.4%	13.8%	13.5%
PBT growth	105.6%	-5.4%	-3.8%	13.5%	13.3%
Underlying NPAT growth	103.8%	-5.1%	-4.8%	13.5%	11.7%
Reported NPAT growth	74.8%	-21.6%	20.8%	27.1%	12.5%
<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBIT Margin	34.9%	33.6%	34.2%	36.4%	38.4%
NPBT Margin	34.9%	33.5%	33.6%	35.7%	37.5%
ROIC	16.3%	10.5%	11.0%	13.3%	15.0%
ROE	9.0%	8.3%	8.1%	9.4%	10.3%
ROA	12.8%	11.9%	11.1%	12.0%	13.1%
Effective Tax Rate	28.4%	28.2%	29.0%	29.0%	30.0%
<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt / (cash) (A\$m)	-25.0	-40.7	-48.4	-56.8	-64.8
Enterprise value	351	335	328	319	311
Net Debt/Equity (%)	-10.4%	-16.9%	-21.1%	-24.2%	-27.1%
EBITDA/Net interest	-	-	-	-	-

#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	High
Price Target	<b>\$0.81</b>
Share Price	\$0.48

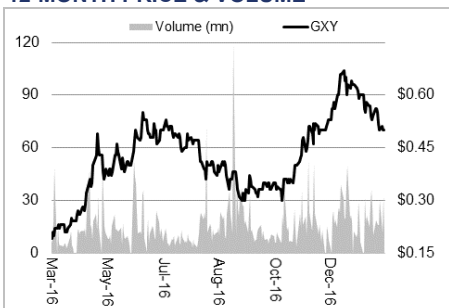
#### SNAPSHOT

Monthly Turnover	\$194.1mn
Market Cap	\$1,005mn
Shares Issued	1,970.5mn
52-Week High	\$0.70
52-Week Low	\$0.21
Sector	Materials

#### BUSINESS DESCRIPTION

Galaxy Resources is a developer and explorer of lithium minerals. The company started in the lithium industry in 2011 with production from Mt Cattlin and conversion of lithium in China at Jiangsu, production problems and costs led to its closure and subsequent divestment. GXY also acquired Lithium One in 2012 which led to it getting control of Sal de Vida and James Bay.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in GXY.

## Galaxy Resources (GXY)

### COMPANY REPORT

#### Options a plenty

- Overview:** Like many players in the lithium space, GXY had a false start in 2011 when it had ambitions to rapidly become a major player in the lithium market. It has since been recapitalised and management have taken a more considered approach to building a sustainable business with a number of growth options.
- Production and development options:** The Mt Cattlin spodumene operation has now made its second shipment and the quality of the concentrating is improving which smooths the way to increase plant capacity to 1.6mtpa of ore (or 220tpa + of concentrate). The Sal da Vida brine project offers an alternative product exposure ( $\text{Li}_2\text{CO}_3$ ) and is well positioned with an experienced team to learn from the mistakes made by Orocobre (ORE). It will start with a pilot plant and could be producing 25ktpa in late 2019. James Bay in Canada could duplicate Mt Cattlin, and the potential to source hydropower could provide GXY with an option to produce 20-25ktpa of battery grade  $\text{LiOH/Li}_2\text{CO}_3$  in the North American market.
- Market supply may be bumpy:** GXY & ORE are prime examples of why the surge in lithia supply it will take time to bring capacity on to meet battery and industrial demand. The ability for GXY to negotiate an increase in concentrate prices from US\$600/t FOB in 2016 to US\$830-905/t FOB for 2017 contracts is indicative of interest in feedstock. ORE has also reported a rise in  $\text{Li}_2\text{CO}_3$  equivalent prices from US\$8,000/t to US\$10,000/t during the first quarter of 2017. Our estimates are based on a US\$8,000/t LCE and a LT price of US\$10,000/t LCE should therefore reflect a base case.
- Share price drivers:** Production of spodumene concentrate in the 4Q16 and its shipment to China in January heralded the change in GXY's fortunes. The next will be the publication of costs for Mt Cattlin, the realised price for concentrate and the improved performance of the plant, most likely with the 1Q17 report at the end of April. Starting in 1Q17, the new Sal da Vida team will be responsible for building a demonstration plant, bringing two production wells on-line, constructing 45ha of evaporation ponds, and further exploration and technical studies. The revised James Bay DFS is due by the end of the year, but before then a reserve and resource update is expected.
- Investment view:** GXY offers investors exposure to the lithium market from production through to development and exploration. Our valuation for GXY is 84cps and our target price is 81cps.

#### INVESTMENT SUMMARY

Year End: 31 December	2014 (A)	2015 (A)	2016 (A)	2017 (E)	2018 (E)	
Revenue	\$mn	0	0	16	166	279
EBITDA	\$mn	-10.2	-9.4	7.0	94.6	173.1
EBIT	\$mn	-16.9	-9.8	3.5	86.8	165.0
Reported Profit	\$mn	-54.7	54.9	-0.4	58.5	114.5
Adjusted Profit	\$mn	-29.2	-15.6	-0.4	58.5	114.5
EPS (Reported)	¢	-5.1	4.3	0.0	3.0	6.0
EPS (Adjusted)	¢	-2.7	-1.2	0.0	3.0	6.0
EPS Growth	%	N/A	N/A	N/A	N/A	95.7
PER (Reported)	x	N/A	11.1	N/A	15.7	8.0
PER (Adjusted)	x	N/A	N/A	N/A	15.7	8.0
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0



## Financial summary

### Galaxy Resources

<b>Analyst:</b>	Warren Edney
<b>Date:</b>	03-Mar-17
<b>Share Price (\$A):</b>	\$0.48
<b>Market Cap (A\$m):</b>	\$867
<b>EV (A\$m)</b>	\$833
<b>Year End:</b>	30 June

<b>Rating:</b>	<b>Buy</b>
<b>Price Target:</b>	\$0.81
<b>Upside/(Downside):</b>	70%
<b>Valuation:</b>	\$0.84
<b>Risk:</b>	High

KEY RATIOS	FY16A	FY17E	FY18E	FY19E	FY20E
<b>NPAT - Reported</b>	-0.4	58.3	114.5	97.4	59.7
<b>NPAT - Attributable</b>	-0.4	58.3	114.5	97.4	59.7
EPS - Adjusted	-0.1	3.0	6.0	5.1	3.1
EPS Growth (%)	(96%)	(5,298%)	96%	(15%)	(39%)
P/E (x)	(821.8)	15.8	8.0	9.5	15.4
CFPS (A Cents)	0.4	3.6	6.5	5.9	7.0
P/CF (x)	131.4	13.3	7.4	8.2	6.8
DPS (A Cents)	-	-	-	-	-
Franking (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	-
Payout Ratio (%)	-	-	-	-	-
FCF Yield (%)	-3%	3%	10%	-27%	1%
EV/EBIT (x)	506.1	20.5	10.7	12.1	15.4
EV/EBITDA (x)	252.8	18.8	10.2	11.5	11.0

ASSUMPTIONS	FY16A	FY17E	FY18E	FY19E	FY20E
Australian Dollar (AUD/USD)	0.74	0.73	0.73	0.75	0.75
Spodumene conc (US\$/t)	600	773	791	770	699
Spodumene conc (A\$/t)	806	1,053	1,088	1,034	932
LiCO (US\$/t)	9,000	7,500	7,500	7,750	8,000
Tantalite (US\$/t)	60	65	70	75	80
Tantalite (A\$/t)	81	89	96	101	107

PRODUCTION & COSTS	FY16A	FY17E	FY18E	FY19E	FY20E
Mt Cattlin - spodumene (kt)	18	135	224	224	224
Mt Cattlin - tantalite (t)	9	97	167	167	167
Spodumene - FOB Cost A\$/t	474	525	469	507	444
Sal de Vida - LCE (kt)	0.0	0.0	0.1	0.8	7.5
LCE - FOB cost US\$/t after credits	0	0	0	0	6,680

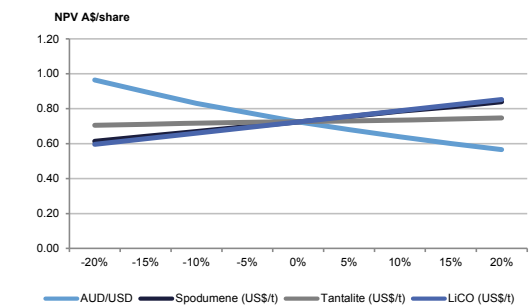
PROFIT & LOSS (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Operating Revenue	16.1	165.9	279.2	268.7	328.1
Other Revenue	-	-	-	-	-
<b>Total Revenue</b>	<b>16.1</b>	<b>165.9</b>	<b>279.2</b>	<b>268.7</b>	<b>328.1</b>
Operating Expenses	(9)	(71)	(105)	(114)	(166)
Corporate/Other Expenses	(1)	(1)	(1)	(1)	(1)
<b>EBITDA</b>	<b>7</b>	<b>94</b>	<b>173</b>	<b>154</b>	<b>161</b>
Depreciation & Amortisation	(4)	(8)	(8)	(8)	(46)
Exploration/write-offs	(0)	-	-	-	-
<b>EBIT</b>	<b>4</b>	<b>86</b>	<b>165</b>	<b>146</b>	<b>115</b>
Net Interest / (Expense)	(3)	(3)	(1)	(7)	(30)
<b>NPBT</b>	<b>0</b>	<b>83</b>	<b>164</b>	<b>139</b>	<b>85</b>
Income Tax Expense	(1)	(25)	(49)	(42)	(26)
<b>NPAT - Adjusted</b>	<b>(0)</b>	<b>58</b>	<b>115</b>	<b>97</b>	<b>60</b>
<b>Significant Items</b>	-	-	-	-	-
<b>NPAT - Reported</b>	<b>(0)</b>	<b>58</b>	<b>115</b>	<b>97</b>	<b>60</b>

CASH FLOW (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash Flow from Ops	7	69	124	112	135
Capex - Development & Sustaining	(32)	(41)	(33)	(350)	(124)
Free Cash Flow	(25)	29	91	(238)	11
Cash Flow From Investing	(292)	(40)	(29)	(342)	(117)
Cash Flow From Financing	267	67	15	227	24
Net Cash Flow	(18)	96	110	(2)	42

BALANCE SHEET (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash	-13.5	82.9	192.7	190.5	232.9
PP&E/Development/Exploration	154.1	187.0	212.3	554.3	633.2
<b>Assets</b>	<b>149.8</b>	<b>279.1</b>	<b>414.2</b>	<b>754.0</b>	<b>875.3</b>
Debts	38.3	48.3	68.9	311.2	412.8
<b>Liabilities</b>	<b>46.9</b>	<b>56.9</b>	<b>77.5</b>	<b>319.8</b>	<b>421.3</b>
<b>Equity</b>	<b>362.8</b>	<b>482.1</b>	<b>596.6</b>	<b>694.0</b>	<b>753.8</b>
Net Debt / (Cash)	51.8	-34.6	-123.8	120.7	179.9
Gearing (%) - Net Debt / (Net Debt + Equity)	12%	-8%	-26%	15%	19%

VALUATION SUMMARY	WACC	8.9%	A\$m	A\$/Share	Risked
Mt Cattlin			916	0.48	0.48
Sal de Vida			567	0.30	0.30
James Bay			109	0.06	0.03
<b>Operations</b>			<b>1,592</b>	<b>0.83</b>	<b>0.80</b>
Corporate			(9)	(0.00)	(0.00)
Exploration			-	-	-
Net Cash / (Debt)			35	0.02	0.02
<b>Total Valuation</b>			<b>1,618</b>	<b>0.84</b>	<b>0.81</b>

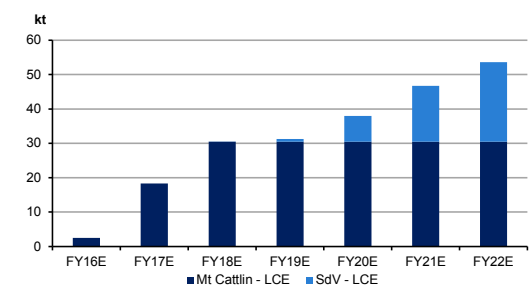
### VALUATION SENSITIVITY



### EARNINGS SENSITIVITY

AUD/USD		FY16A	FY17E	FY18E	FY19E
NPAT A\$m		-0.4	58.3	114.5	97.4
10%		-0.9	-9.6	-16.3	-15.5
+1c		-0.1	-1.3	-2.2	-2.1
<b>Spodumene</b>		<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
NPAT A\$m		-0.4	58.3	114.5	97.4
10%		0.9	9.3	15.8	15.4
\$100/t		1.5	12.1	19.9	20.0
<b>LiCO</b>		<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
NPAT A\$m		-0.4	58.3	114.5	97.4
10%		0.0	0.0	0.0	0.0
\$100/t		0.0	0.0	0.0	0.0

### LCE PRODUCTION - equity



#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Low
Price Target	<b>\$4.20</b>
Share Price	\$3.15

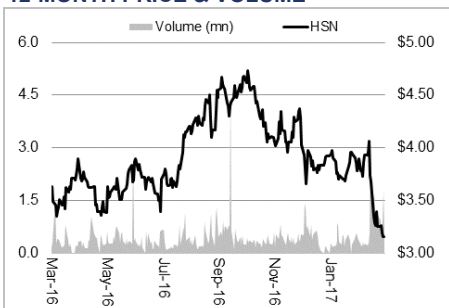
#### SNAPSHOT

Monthly Turnover	\$55.3mn
Market Cap	\$572mn
Shares Issued	181.7mn
52-Week High	\$4.75
52-Week Low	\$3.10
Sector	Information Technology

#### BUSINESS DESCRIPTION

Hansen Technologies Limited (HSN) is an information technology systems and services provider. It develops, integrates and supports billing system software for the utilities (electricity, gas and water) and telecommunications industries, and delivers innovative tailored outsourcing and facilities management solutions across a range of market segments.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in HSN.

## Hansen Technologies (HSN)

### COMPANY REPORT

#### Opportunistic

- Overall:** The recent pullback in HSN's share price offers investors an opportunity at a more reasonable valuation. HSN's revenue streams are largely defensive and sticky in nature. The company is well capitalised and has an impeccable track record on acquisitions.
- 1H17 result recap:** HSN reported EBITDA of \$23.8m, up 6.6% on the pcp and a touch below our \$24.5m forecast. Revenue growth was 17.5% on the pcp to \$86.9m, while the EBITDA margin decreased from 30.1% in 1H16 to 27.4% in 1H17 (due to the inclusion of the lower margin PPL Solutions business in the US). Underlying NPAT (before amortisation) of \$15.3m was up 9.6% on the pcp, in line with our forecast and aided by a lower tax rate (26% versus our forecast of 28% due to R&D rebates). Operating cash flow was again excellent, with GOCF/EBITDA of 110% in 1H17. The company declared an interim dividend of 3.0cps (fully franked).
- Drivers / surprises:** Organic revenue growth was 4.5% on a constant currency basis. Currency headwinds impacted revenue by \$4.4m (or ~6%), notably the weaker GBP/AUD. HSN also saw a \$1.6m (or ~2%) headwind from reduced non-core facilities management revenue. US-based PPL Solutions (acquired Jul-16) delivered a \$14.7m revenue contribution and UK-based HiAffinity (acquired Nov-16) delivered \$1.1m of revenue. HSN's operating margin of 27.4% was impacted by the inclusion of PPL Solutions (lower margins due to BPO/call centre operations). Excluding this, HSN advised the operating margin would have been "slightly above 30%".
- Key takeaways:** The company has left its FY17F guidance unchanged (revenue of \$165-175m and an EBITDA margin between 25-30%). Our revised forecasts are at the top end of the revenue range and at the midpoint of the margin range. Meanwhile, HSN has achieved two customer contracts of note over the period – MNC Media, Indonesia's largest Pay TV operator, and new work for Xcel Energy in the US.
- Investment view:** We maintain a BUY rating. HSN offers investors exposure to low risk, recurring revenue streams through long term, sticky customer relationships, excellent cash flow and a strong financial position (we expect a net cash position of \$20m by Jun-17). HSN also offers potential upside through M&A after a four year period of faultless acquisition execution and integration as well as value accretion.

#### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	107	149	175	191	203
EBITDA	\$mn	31.2	45.4	48.2	53.5	56.7
EBIT	\$mn	27.2	39.9	41.8	45.8	48.3
Reported Profit	\$mn	16.9	26.1	27.9	30.6	32.8
Adjusted Profit	\$mn	19.4	28.6	30.9	33.6	35.9
EPS (Reported)	¢	10.0	14.4	15.1	16.5	17.7
EPS (Adjusted)	¢	11.4	15.7	16.8	18.1	19.4
EPS Growth	%	18.9	37.7	6.6	8.0	6.7
PER (Reported)	x	31.6	21.9	20.8	19.1	17.8
PER (Adjusted)	x	27.5	20.0	18.8	17.4	16.3
Dividend	¢	6.0	7.0	7.2	7.3	7.8
Yield	%	1.9	1.9	1.9	2.3	2.5
Franking	%	83	93	60	50	50

## Financial summary

Code: HSN  
Analyst: Nicolas Burgess  
Date: 3 March, 2017  
Share Price: \$3.15  
Market Capitalisation: \$580m  
Year End: 30 June

Rating: **BUY**  
Price Target: **\$4.20**  
Upside/downside: 33.3%  
Valuation: \$4.20  
Valuation method: DCF / EV/EBIT  
Risk: Low

<b>PROFIT &amp; LOSS (\$Am)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Operating revenue	106.3	149.0	175.0	190.8	202.2
Other revenue	0.4	0.2	0.3	0.3	0.3
Group revenue	106.6	149.2	175.3	191.1	202.5
Operating costs	-75.4	-103.8	-127.1	-137.6	-145.8
<b>EBITDA</b>	<b>31.2</b>	<b>45.4</b>	<b>48.2</b>	<b>53.5</b>	<b>56.7</b>
Depreciation	-1.9	-2.5	-2.8	-3.5	-3.6
EBITA	29.4	42.9	45.4	50.0	53.1
Amortisation	-2.1	-2.9	-3.6	-4.2	-4.9
EBIT	27.2	39.9	41.8	45.8	48.3
Interest expense	-0.2	0.0	-0.1	0.3	0.9
Underlying PBT	27.0	40.0	41.8	46.1	49.2
Tax	-7.7	-11.4	-10.9	-12.4	-13.3
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPATA</b>	<b>19.4</b>	<b>28.6</b>	<b>30.9</b>	<b>33.6</b>	<b>35.9</b>
Non-recurring items (net tax)	-2.5	-2.5	-3.0	-3.0	-3.0
Reported profit	16.9	26.1	27.9	30.6	32.8

<b>BALANCE SHEET (\$Am)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	22.0	30.2	20.3	37.4	56.0
Receivables	20.0	21.5	26.3	28.9	30.9
Deferred tax assets	3.6	4.0	4.0	4.0	4.0
PPE	7.6	6.7	10.5	10.8	11.3
Intangibles	104.1	106.1	108.7	100.6	92.0
Other assets	5.2	6.9	6.9	6.9	6.9
Total Assets	162.4	175.5	176.6	188.7	201.1
<b>Liabilities</b>					
Payables	8.0	12.2	14.0	17.2	18.2
Debt	10.1	0.1	0.1	0.1	0.1
Provisions	12.9	14.3	14.3	14.3	14.3
Tax liabilities	3.8	2.2	2.2	2.2	2.2
Unearned income	13.6	11.2	11.2	11.2	11.2
Other liabilities	14.1	11.7	-3.8	-12.3	-19.7
Total Liabilities	48.9	40.5	26.8	21.5	15.1
<b>Equity</b>					
Share capital	75.1	78.7	78.7	78.7	78.7
Retained earnings	29.5	44.9	59.7	77.2	95.9
Other equity	8.9	11.4	11.4	11.4	11.4
Total shareholders equity	113.5	135.0	149.8	167.2	186.0

<b>BV per share (cps)</b>	<b>67.0</b>	<b>74.4</b>	<b>81.4</b>	<b>90.2</b>	<b>100.3</b>
NTA per share (cps)	5.6	15.9	22.4	35.9	50.7

<b>CASH FLOW (\$M)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash at Start	2.4	20.6	28.8	18.9	36.0
Cash from from ops	36.9	32.6	37.3	41.9	43.3
Capex	-3.0	-1.8	-3.5	-3.8	-4.1
R&D	-4.5	-5.5	-6.1	-6.7	-7.1
Free cash flow	29.4	25.3	27.7	31.3	32.2
Free cash flow per share (cps)	17.3	14.0	15.0	16.9	17.4
Cash flow from investing	-37.4	-7.3	-34.6	-10.5	-11.1
Cash flow from financing	18.7	-17.1	-12.6	-14.2	-13.6
Cash at end	20.6	28.8	18.9	36.0	54.6
GOCF / EBITDA	132%	97%	100%	100%	100%
FCF / Underlying cash NPAT	152%	89%	89%	93%	90%

<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS - Underling cash (diluted)	11.4	15.7	16.8	18.1	19.4
EPS Growth - underlying	18.9%	37.7%	6.6%	8.0%	6.7%
EPS - Reported (diluted)	10.0	14.4	15.1	16.5	17.7
Diluted shares (m)	169.4	181.5	184.1	185.4	185.4
DPS (cps)	6.0	7.0	7.2	7.3	7.8
Payout Ratio	52%	44%	43%	40%	40%
Franking	83%	93%	60%	50%	50%

<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
P/E (x) cash, underlying	27.5	20.0	18.8	17.4	16.3
EV/EBIT (x)	20.9	13.8	13.4	11.9	10.9
EV/EBITDA (x)	18.2	12.1	11.6	10.1	9.2
Dividend Yield (%)	1.9%	2.2%	2.3%	2.3%	2.5%
Price/Book (x)	4.7	4.2	3.9	3.5	3.1
Price/NTA (x)	56.6	19.8	14.1	8.8	6.2
Price/FCF	18.2	22.6	21.0	18.6	18.1

<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue growth	23.5%	39.9%	17.5%	9.0%	6.0%
Operating cost growth	21.1%	37.6%	22.5%	8.2%	6.0%
EBITA growth	29.9%	45.4%	6.2%	11.0%	6.0%
PBT growth	28.3%	47.8%	4.5%	10.3%	6.7%
Underlying NPAT growth	21.5%	47.6%	8.1%	8.8%	6.7%
Reported NPAT growth	14.2%	54.3%	6.9%	9.8%	7.4%

<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	29.3%	30.4%	27.5%	28.0%	28.0%
NPBT Margin	25.4%	26.8%	23.8%	24.1%	24.3%
ROIC	23.9%	29.4%	28.1%	27.7%	29.1%
ROE	21.6%	23.0%	21.7%	21.2%	20.3%
ROA	22.4%	25.1%	25.3%	27.0%	26.6%
Effective Tax Rate	28.4%	28.5%	26.0%	27.0%	27.0%

<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt / (cash) (A\$m)	-11.9	-29.8	-19.9	-37.1	-55.6
Enterprise value	568	550	560	543	524
Net Debt/Equity (%)	n/a	n/a	n/a	n/a	n/a
EBITDA/Net interest	179.4	-975.1	964.3	-195.4	-63.3

## Mantra Group (MTR)

### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Medium
Price Target	<b>\$4.35</b>
Share Price	\$2.76

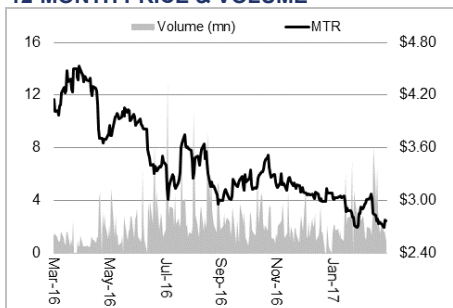
### SNAPSHOT

Monthly Turnover	\$146.8mn
Market Cap	\$826mn
Shares Issued	297.2mn
52-Week High	\$4.63
52-Week Low	\$2.65
Sector	Consumer Discretionary

### BUSINESS DESCRIPTION

Mantra Group Limited (MTR) is an Australian accommodation operator. MTR's portfolio consists of over 110 properties using the Mantra, Peppers and BreakFree brands across Australia, New Zealand and in Indonesia. Currently, MTR operates in three main business divisions which are CBD, Resorts and Central Revenue and Distribution.

### 12-MONTH PRICE & VOLUME



### RESEARCH ANALYST

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### Disclosure

The author owns no shares in MTR.

### COMPANY REPORT

#### Nowhere near the last Resort

- The business:** MTR was established in 2005 upon the acquisition of the BreakFree and Peppers hotel businesses and subsequently grew by the acquisition of further hotel portfolio management rights. MTR is the second largest hotel operator in Australia and has 127 properties with around 21k + rooms in Australia, New Zealand and more recently Bali and Hawaii. It operates three brands: 1) Mantra; 2) Peppers and 3) BreakFree.
- 1H17 result recap:** 1) NPATA (which normalises for acquired amortisation) of A\$33.1m (+14% pcp) – in line with our expectations; 2) 1H17 dividend of A5cps (flat v 1H16); 3) similar story to FY16 with patches of softness in the CBD division offset by strong organic growth in the Resort division; 4) MTR CEO is not yet prepared to call an upturn in the business market; 5) MTR's estimate of new industry supply to FY19 remains in the range of 2-3% in Australia; and 6) previous FY17 guidance has been reaffirmed.
- Revenue models:** MTR employs a range of operating models: 1) Lease (MTR leases a property and retains 100% of revenue); 2) Management Letting Rights (MTR acts as operator in exchange for a letting fee with costs shared with the property owner); 3) Management Agreements (MTR manages a property in exchange for a range of base fees and incentives); and 4) Marketing Services Agreement (property owner retains operator rights under a MTR branded property in exchange for a fee).
- Growth strategy:** Amongst a range of growth strategies we would highlight: 1) the use of a proprietary reservation platform (MG-Res) to maximise and manage occupancy and yield across the group; 2) seeking to continually build the property portfolio with a rough target of an additional 6-10 properties with 600-800 rooms per annum; and 3) MTR continues to cite a strong pipeline of new properties – a further 12 properties are scheduled to enter the portfolio by FY19 with 2.7k rooms in total, and a further 12 properties have also been targeted.
- Investment view:** BUY retained with revised DCF valuation and price target of A\$4.35. We continue to view MTR as one of the purer plays on the boom in domestic tourism which we believe is still in an early phase. The demand supply imbalance in the Australian hotel industry is unlikely to be addressed by new short to medium-term supply and will continue to support the MTR story. Further growth through acquisition(s), or MTR itself becoming an acquisition target, remain as wild cards. We remain perplexed about the current share price weakness.

### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	499	606	732	819	864
EBITDA	\$mn	73.1	82.6	105.8	121.4	128.6
EBIT	\$mn	54.8	61.4	81.7	91.8	97.7
Reported Profit	\$mn	36.2	37.1	53.6	61.3	65.5
Adjusted Profit	\$mn	38.9	46.5	55.3	64.8	69.0
EPS (Reported)	¢	14.2	13.7	18.0	20.6	22.0
EPS (Adjusted)	¢	15.3	17.2	18.6	21.8	23.2
EPS Growth	%	22.5	12.5	8.2	17.1	6.4
PER (Reported)	x	19.4	20.1	15.3	13.4	12.5
PER (Adjusted)	x	18.0	16.0	14.8	12.7	11.9
Dividend	¢	10.0	10.5	11.5	14.5	16.0
Yield	%	3.6	3.8	4.2	5.3	5.8
Franking	%	100	100	100	100	100



## Pacific Energy (PEA)

### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	High
Price Target	<b>\$0.82</b>
Share Price	\$0.71

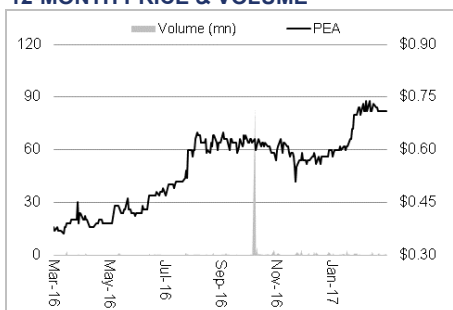
### SNAPSHOT

Monthly Turnover	\$3.3mn
Market Cap	\$263mn
Shares Issued	370.7mn
52-Week High	\$0.77
52-Week Low	\$0.36
Sector	Utilities

### BUSINESS DESCRIPTION

Pacific Energy builds, owns, operates and maintains remote power stations and generation-related infrastructure, primarily serving the mining sector. The vast majority of its assets are gas, diesel and dual fuel generators, with hydro facilities making up the remainder. The company is now looking to expand its activities into Africa and the renewable energy space.

### 12-MONTH PRICE & VOLUME



### RESEARCH ANALYST

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### Disclosure

The author owns no shares in PEA.

### COMPANY REPORT

#### Building momentum

- Low-risk expansion strategy:** PEA is leveraging its strong operating base into adjacent areas in search of additional growth. Its strategy includes: 1) expanding offshore into African projects with ASX-listed owners (recently had its first contract win there); 2) increasing its presence in renewable energy; and 3) reviewing opportunities for investment or acquisition in the broader energy infrastructure market.
- Another solid result:** PEA reported 1H17 Revenue of \$29.0m (Bhf \$28.0m), Underlying EBITDA of \$20.5m (Bhf \$20.2m) and NPAT of \$9.0m (Bhf \$7.7m). Revenue grew by 19% and EBITDA by 18% on the back of new capacity that came on stream over the previous 12 months. The interim dividend was 1.0cps (Bhf 1.4cps) fully franked. With another solid result, PEA remains on track to meet EBITDA guidance of \$40-41m.
- Strong cashflow conversion:** The EBITDA margin of 70.7% was down slightly from 2H16 (72.2%) but in line with 1H16 (70.8%). NPAT was \$9.0m (Bhf \$7.7m), with the main difference being lower interest costs (\$0.5m). Operating cashflow was a strong \$17m (Bhf \$14m), up 31% on pcp. Capex of \$8m was in line and down from \$27m in 1H16, when a number of projects were under construction. Surplus cashflow was used to reduce net debt to \$31m (from \$36m), lowering gearing to 27% (from 32%).
- First project win in Africa:** PEA also announced their first project win in Africa, subject to final contract negotiations and the customer securing funding. This would be a hybrid power station, under a long term contract, with 10MW of heavy fuel oil generators and 5MW of solar, delivered with their renewable energy partner Juwi. Commencement is expected in March 2018 and would take PEA's contracted capacity to 273MW (+6%).
- Pipeline remains full:** PEA recorded a number of capacity wins in 1H17, including 5MW with Aragon Resources, 8MW with Newmont Tanami and 16MW (extension) with St Barbara. Tendering activity for new projects remains strong, with PEA bidding on over 125MW of new capacity. PEA is also in discussions with existing customers on expansion opportunities.
- Investment view:** PEA continues to deliver on its growth plans while delivering a low-risk yield. It is currently trading at an undemanding FY18 P/E multiple of 12.7x and a solid FY18 yield of 4.6% (fully franked). PEA is good value at these levels and has a number of potential positive catalysts coming up as tender outcomes are announced, with any wins boosting our valuation further. BUY maintained.

### INVESTMENT SUMMARY

Year End: 30 June		2015A	2016A	2017E	2018E	2019E
Revenue	\$mn	46	51.3	58.1	63	67.0
EBITDA	\$mn	30.8	36.7	41.2	45.0	48.5
EBIT	\$mn	19.4	22.8	25.7	29.1	32.1
Reported Profit	\$mn	12.0	15.7	17.1	20.3	22.9
Adjusted Profit	\$mn	13.5	15.9	18.3	21.5	24.1
EPS (Reported)	¢	3.3	4.2	4.5	5.3	5.9
EPS (Adjusted)	¢	3.7	4.2	4.8	5.6	6.2
EPS Growth	%	-17.9	15.0	12.7	16.7	11.6
PER (Reported)	x	21.8	16.9	15.9	13.5	12.0
PER (Adjusted)	x	19.3	16.8	14.9	12.7	11.4
Dividend	¢	2.5	2.5	2.7	3.0	3.3
Yield	%	3.5	3.5	3.8	4.2	4.7
Franking	%	100	100	100	100	100

## Financial summary

### PACIFIC ENERGY

Code: PEA  
Analyst: Luke Macnab  
Date: 3 March, 2017  
Share Price: \$0.71  
Market Capitalisation: \$264m  
Financial Year End: June

Rating: **BUY**  
Price Target: **\$0.82**  
Upside/downside: 15%  
Valuation: \$0.82  
Valuation method: DCF/Multiple  
Risk: High

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Operating revenue	45.8	51.3	58.1	62.6	67.0
COGS	-3.4	-3.8	-4.4	-4.7	-5.0
Gross profit	42.4	47.5	53.7	58.0	62.0
Expenses	-11.6	-10.8	-12.4	-12.9	-13.4
<b>EBITDA</b>	<b>30.8</b>	<b>36.7</b>	<b>41.2</b>	<b>45.0</b>	<b>48.5</b>
Depreciation	-9.2	-11.9	-13.9	-14.3	-14.8
EBITA	21.6	24.9	27.3	30.7	33.8
Amortisation	-2.3	-2.0	-1.6	-1.6	-1.6
<b>EBIT</b>	<b>19.4</b>	<b>22.8</b>	<b>25.7</b>	<b>29.1</b>	<b>32.1</b>
Net Interest expense	-2.2	-1.9	-1.9	-1.7	-1.1
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	17.2	21.0	23.8	27.3	31.0
Tax	-5.2	-6.5	-6.6	-7.0	-8.1
<b>Underlying NPAT</b>	<b>12.0</b>	<b>14.5</b>	<b>17.1</b>	<b>20.3</b>	<b>22.9</b>
<b>Underlying NPATA</b>	<b>13.5</b>	<b>15.9</b>	<b>18.3</b>	<b>21.5</b>	<b>24.1</b>
Significant items (net of tax)	0.0	1.3	0.0	0.0	0.0
Reported profit	12.0	15.7	17.1	20.3	22.9

<b>BALANCE SHEET (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	16.3	5.7	9.8	12.2	16.2
Receivables	5.5	6.6	8.1	8.8	9.4
PPE	129.2	154.9	155.3	156.6	158.6
Goodwill & Intangibles	27.2	25.2	23.8	22.2	20.6
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	1.0	2.1	1.1	1.1	1.1
Total Assets	179.2	194.4	198.2	200.9	205.9
<b>Liabilities</b>					
Payables	2.0	3.1	2.2	2.3	2.4
Debt	36.6	42.0	35.9	29.7	23.6
Provisions	1.9	2.0	2.0	2.0	2.0
Tax payable	1.0	1.2	1.8	2.1	2.4
Deferred Revenue	1.0	0.7	0.7	0.7	0.7
Other liabilities	6.5	8.6	9.8	9.8	9.8
Total Liabilities	49.0	57.6	52.4	46.6	40.8
<b>Equity</b>					
Share capital	110.1	110.3	110.4	110.4	110.4
Retained earnings	20.9	26.3	32.4	41.3	51.6
Other equity	-0.9	0.2	0.3	0.3	0.3
Total shareholders equity	130.1	136.8	143.0	152.0	162.2
<b>BV per share (cps)</b>	<b>35.4</b>	<b>36.4</b>	<b>37.4</b>	<b>39.5</b>	<b>42.0</b>
NTA per share (cps)	28.0	29.7	31.2	33.7	36.6

<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash at Start	15.6	16.3	5.7	8.9	12.2
Cash from operations	25.2	30.9	31.2	35.6	38.7
Capex	-9.7	-37.5	-14.5	-15.7	-16.7
Free cash flow	15.5	-6.5	16.6	20.0	21.9
Cash flow from investing	-0.1	0.0	2.0	0.0	0.0
Cash flow from financing	-14.8	-4.0	-15.4	-16.7	-17.9
Cash at end	16.2	5.7	8.9	12.2	16.2
Free cash flow per share (cps)	4.2	-1.7	4.4	5.2	5.7
GOCF / EBITDA	106%	101%	103%	108%	108%
FCF / Underlying cash NPAT	129%	-45%	97%	98%	96%

<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS - Underlying (cps)	3.7	4.2	4.8	5.6	6.2
EPS Growth - Underlying	-18%	15%	13%	17%	12%
EPS - Reported (cps)	3.3	4.2	4.5	5.3	5.9
Diluted shares (m)	367.5	375.4	382.5	385.1	386.7
DPS (cps)	2.5	2.5	2.7	3.0	3.3
Dividend Yield	3.5%	3.5%	3.8%	4.2%	4.7%
Payout Ratio	77%	64%	59%	56%	50%
Franking	100%	100%	100%	100%	100%

<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
P/E - Underlying (x)	19.3	16.8	14.9	12.7	11.4
EV/EBIT (x)	14.7	13.2	11.3	9.7	8.5
EV/EBITA (x)	13.2	12.1	10.6	9.2	8.1
EV/EBITDA (x)	9.2	8.2	7.0	6.3	5.6
Price/Book (x)	2.0	1.9	1.9	1.8	1.7
Price/NTA (x)	2.5	2.4	2.3	2.1	1.9
Price/FCF	16.9	-40.7	16.3	13.7	12.5

<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue growth	-4%	12%	13%	8%	7%
COGS growth	29%	12%	15%	7%	7%
Expenses growth	6%	-7%	15%	4%	4%
EBITDA growth	-10%	19%	12%	9%	8%
PBT growth	-19%	22%	13%	15%	14%
Underlying NPAT growth	-19%	21%	18%	19%	13%
Reported NPAT growth	-19%	32%	9%	19%	13%

<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	67.3%	71.6%	71.0%	71.9%	72.4%
EBITA Margin	47.3%	48.4%	47.1%	49.0%	50.4%
NPBT Margin	37.5%	40.8%	40.9%	43.6%	46.3%
ROIC	9.9%	10.7%	11.1%	12.6%	13.9%
ROE	9.3%	10.8%	12.2%	13.8%	14.6%
ROA	12.0%	13.3%	13.9%	15.4%	16.6%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt	20.3	36.3	26.1	17.6	7.4
Enterprise value	284.8	300.8	290.6	282.0	271.8
Net Debt/EV (%)	7.1%	12.1%	9.0%	6.2%	2.7%
Net Debt/EBITDA (x)	0.7	1.0	0.6	0.4	0.2
EBITDA/Net Interest (x)	14.1	19.6	21.4	25.8	43.6

<b>SEGMENT REVENUES (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Kalgoorlie Power Systems	44.8	50.1	56.8	61.4	65.7
Other	1.0	1.3	1.2	1.3	1.3

#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	High
Price Target	<b>\$4.88</b>
Share Price	\$3.68

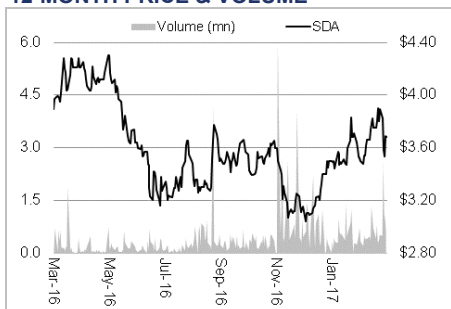
#### SNAPSHOT

Monthly Turnover	\$49.5mn
Market Cap	\$876mn
Shares Issued	237.5mn
52-Week High	\$4.48
52-Week Low	\$3.02
Sector	Telecommunication Services

#### BUSINESS DESCRIPTION

SpeedCast is a leading global provider of satellite-based communication networks and services. It operates predominantly with Very Small Aperture Terminal (VSAT) networks and has a dominant presence in the Asia-Pacific region. Key customer segments are Maritime, Energy and Enterprise & Emerging Markets (which includes government and NGOs, telecom and mining).

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

Associates of the author own 9,000 shares in SDA.

## SpeedCast International (SDA)

### COMPANY REPORT

#### Big year ahead

- The song remains the same:** SDA's FY16 result was a good one in the circumstances and highlighted the opportunity SDA now has ahead of it. This is to leverage: 1) a truly global network; 2) HCR's superior technology; 3) cost synergies; 4) cross-selling opportunities; and 5) a recovery in the energy sector, into strong earnings growth. To this end, a brand refresh aimed at highlighting these upgraded capabilities to customers is planned.
- Organic growth mixed:** Low single digit organic growth in service revenues disappointed at around 2% overall. This was impacted by weakness in the Energy sector and part of the Maritime sector. However, compared with competitors in the Energy sector, whose FY16 revenue was down by 25% on the pcp, this was a good result. The remainder of the portfolio recorded high single digit growth, driven by the rapidly expanding cruise ship sector and merchant shipping.
- Other metrics solid...:** EBITDA margin was flat on FY15 at 17.5% after adjusting for the capitalised bandwidth deal. This was due to higher underlying margins being offset by a greater proportion of lower-margin L-Band services (from the acquisition of WINS and SAIT). The integration of HCR has already achieved \$9m of actual FY17 cost savings and is on track to achieve the forecast run rate of \$15m pa by year end, with the full \$24m pa expected by the end of FY18. Underlying EPS grew by 9%, rising to 21% if the equity raising for HCR is excluded.
- And set to improve in FY17:** We expect continued cost rationalisations and improved operating efficiency to lead to improved margins over the next couple of years. This in turn should lead to improved earnings growth. Net debt is also set to reduce – it currently stands at \$359m, giving a FY17 ND/EBITDA ratio of 3.2x, reducing to 2.8x by year end on our conservative numbers (or 2.5x using SDA's numbers).
- Investment view:** SDA faced tough conditions during the year, but its key sectors are showing signs of picking up. We believe there is significant upside in SDA due to: 1) the non-energy maritime sector and Enterprise & Emerging markets continuing to grow strongly; 2) the energy sector stabilising; 3) cost synergies being realised; and 4) debt reducing. We are currently factoring in essentially a worst case scenario for FY17 and the stock is still good value at a P/E of 12x, compared to the ASX200 Industrials at over 15x. BUY maintained.

#### INVESTMENT SUMMARY

Year End: 31 December		2015A	2016A	2017E	2018E	2019E
Revenue	US\$m	168	218.0	523	568.1	595.6
EBITDA	US\$m	29.3	40.0	111.2	126.8	134.0
EBIT	US\$m	14.2	18.5	61.2	65.7	71.3
Reported Profit	US\$m	4.3	5.9	35.4	40.1	46.0
Adjusted Profit	US\$m	14.8	19.2	55.4	64.1	70.0
EPS (Reported)	US¢	3.5	4.1	14.9	16.9	19.3
EPS (Adjusted)	US¢	12.3	13.4	23.3	26.9	29.3
EPS Growth	%	32.6	9.0	72.4	15.5	8.8
PER (Reported)	x	78.6	66.8	18.7	16.5	14.4
PER (Adjusted)	x	22.2	20.3	12.0	10.4	9.5
Dividend	A¢	6.7	5.6	9.7	11.9	14.3
Yield	%	1.8	1.5	2.6	3.2	3.9
Franking	%	100	100	100	100	100



## Financial summary

### SPEEDCAST INTERNATIONAL

Code: SDA  
Analyst: Luke Macnab  
Date: 3 March, 2017  
Share Price: \$3.68  
Market Capitalisation: \$874m  
Financial Year End: December

Rating: **BUY**  
Price Target: **\$4.88**  
Upside/downside: 33%  
Valuation: \$4.88  
Valuation method: DCF/Multiple  
Risk: High

<b>PROFIT &amp; LOSS (US\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Operating revenue	167.6	218.0	522.5	568.1	595.6
COGS	-103.8	-134.6	-314.8	-339.1	-355.3
Gross profit	63.8	83.4	207.7	229.0	240.3
Expenses	-34.6	-43.3	-96.5	-102.2	-106.3
<b>EBITDA</b>	<b>29.3</b>	<b>40.0</b>	<b>111.2</b>	<b>126.8</b>	<b>134.0</b>
Depreciation	-7.4	-11.6	-25.0	-31.1	-32.7
EBITA	21.9	28.4	86.2	95.7	101.3
Amortisation	-7.7	-10.0	-25.0	-30.0	-30.0
<b>EBIT</b>	<b>14.2</b>	<b>18.5</b>	<b>61.2</b>	<b>65.7</b>	<b>71.3</b>
Net Interest expense	-3.2	-4.2	-13.9	-12.0	-9.9
Minorities	0.1	0.0	0.0	0.0	0.0
Underlying PBT	11.2	14.2	47.3	53.6	61.4
Tax	-2.4	-2.9	-11.8	-13.4	-15.3
<b>Underlying NPAT</b>	<b>8.7</b>	<b>11.3</b>	<b>35.5</b>	<b>40.2</b>	<b>46.0</b>
<b>Underlying NPATA</b>	<b>14.8</b>	<b>19.2</b>	<b>55.5</b>	<b>64.2</b>	<b>70.0</b>
Significant items (net of tax)	-4.4	-5.4	0.0	0.0	0.0
Reported profit	4.3	5.9	35.5	40.2	46.0

<b>BALANCE SHEET (US\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Assets</b>					
Cash	15.1	25.3	69.8	122.8	178.5
Receivables	43.3	77.2	116.1	126.1	132.2
PPE	26.2	44.8	111.1	108.3	105.4
Goodwill & Intangibles	96.7	171.4	521.4	521.4	521.4
Investments	-	-	-	-	-
Other assets	8.4	434.1	11.7	11.7	11.7
<b>Total Assets</b>	<b>189.8</b>	<b>752.8</b>	<b>830.1</b>	<b>890.4</b>	<b>949.2</b>
<b>Liabilities</b>					
Payables	50.7	64.4	131.6	141.2	147.7
Debt	99.4	381.2	381.2	381.2	381.2
Provisions	0.0	0.1	0.1	0.1	0.1
Tax payable	2.7	5.3	2.7	3.5	4.0
Deferred Tax Liability	6.2	8.6	8.6	8.6	8.6
Other liabilities	3.6	3.1	-5.7	23.9	53.2
<b>Total Liabilities</b>	<b>162.6</b>	<b>462.5</b>	<b>518.4</b>	<b>558.4</b>	<b>594.8</b>
<b>Equity</b>					
Share capital	84.9	361.4	361.4	361.4	361.4
Retained earnings	-56.5	-57.2	-35.8	-15.5	7.0
Other equity	-1.2	-13.9	-13.9	-13.9	-13.9
<b>Total shareholders equity</b>	<b>27.2</b>	<b>290.3</b>	<b>311.7</b>	<b>331.9</b>	<b>354.5</b>
<b>BV per share (cps)</b>	<b>22.6</b>	<b>203.0</b>	<b>131.2</b>	<b>139.4</b>	<b>148.6</b>
NTA per share (cps)	-57.7	83.1	-88.3	-79.6	-70.0

<b>CASH FLOW (US\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash at Start	10.1	15.1	25.3	69.8	122.8
Cash from operations	18.0	27.0	87.2	103.9	111.6
Capex	-6.9	-13.0	-26.1	-28.4	-29.8
Free cash flow	11.1	14.1	61.1	75.5	81.8
Cash flow from investing	-62.3	-516.3	-2.6	-2.6	-2.6
Cash flow from financing	55.8	524.2	-14.0	-20.0	-23.5
Cash at end	14.6	37.1	69.8	122.8	178.5
Free cash flow per share (cps)	9.2	9.9	25.7	31.7	34.3
GOCF / EBITDA	81%	95%	102%	102%	102%
FCF / Underlying cash NPAT	127%	124%	172%	188%	178%

<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
AUD/USD Exchange rate	0.74	0.74	0.76	0.76	0.76
EPS - Underlying NPATA (US¢)	12.3	13.4	23.3	27.0	29.4
EPS - Underlying NPATA (A¢)	16.6	18.1	30.7	35.5	38.6
EPS Growth - Underlying NPATA	33%	9%	74%	16%	9%
EPS - Reported NPAT (US¢)	3.5	4.1	14.9	16.9	19.3
Diluted shares (m)	120.4	143.0	237.6	238.1	238.6
DPS (US¢)	4.9	4.1	7.4	9.1	10.9
DPS (A¢)	6.7	5.6	9.7	11.9	14.3
Dividend Yield (%)	1.8%	1.5%	2.6%	3.2%	3.9%
Payout Ratio	40%	45%	33%	33%	37%
Franking	100%	100%	100%	100%	100%

<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Underlying P/E (x)	22.2	20.3	12.0	10.4	9.5
Underlying PEG (x)	0.7	2.2	0.2	0.7	1.1
EV/EBIT (x)	51.6	54.4	16.0	14.1	12.2
EV/EBITA (x)	33.4	35.4	11.3	9.7	8.6
EV/EBITDA (x)	25.0	25.1	8.8	7.3	6.5
Price/Book (x)	12.0	1.3	2.1	2.0	1.9
Price/NTA (x)	-4.7	3.3	-3.2	-3.5	-4.0
Price/FCF	29.6	27.6	10.9	8.8	8.2

<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue growth	38%	30%	140%	9%	5%
COGS growth	39%	30%	134%	8%	5%
Expenses growth	31%	25%	123%	6%	4%
EBITDA growth	41%	37%	178%	14%	6%
PBT growth	29%	28%	232%	13%	15%
Underlying NPATA growth	33%	30%	189%	16%	9%
Reported NPAT growth	-162%	38%	501%	13%	15%

<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	17.5%	18.4%	21.3%	22.3%	22.5%
EBITA Margin	13.0%	13.0%	16.5%	16.8%	17.0%
NPBT Margin	6.7%	6.5%	9.0%	9.4%	10.3%
ROIC	18.0%	5.5%	10.0%	11.6%	13.0%
ROE	31.2%	7.1%	11.8%	12.5%	13.4%
ROA	14.7%	6.0%	10.9%	11.1%	11.0%
Effective Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%

<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt (US\$m)	84.2	358.9	314.4	261.4	205.7
Net Debt (A\$m)	113.8	485.0	413.7	344.0	270.7
Enterprise value (A\$m)	987.5	1358.6	1287.3	1217.6	1144.3
Net Debt/EV (%)	11.5%	35.7%	32.1%	28.2%	23.7%
Net Debt/EBITDA (x)	2.9	9.0	2.8	2.1	1.5
EBITDA/Net Interest (x)	9.3	9.4	8.0	10.5	13.5

<b>SEGMENT REVENUES (US\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Service	139.9	185.8	486.4	531.0	557.6
Equipment	9.4	12.3	12.5	12.8	13.1
VOIP	18.3	19.9	23.6	24.3	25.0

#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Medium
Price Target	<b>\$4.75</b>
Share Price	\$3.55

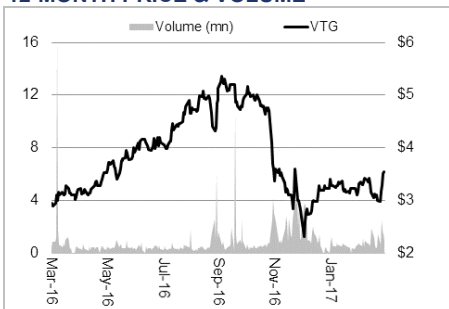
#### SNAPSHOT

Monthly Turnover	\$62.5mn
Market Cap	\$539mn
Shares Issued	152.0mn
52-Week High	\$5.47
52-Week Low	\$2.24
Sector	Consumer Discretionary

#### BUSINESS DESCRIPTION

Vita Group Limited (VTG) is an Australian electronics and telecommunications retailer, comprising six brands: Fone Zone, One Zero, Next Byte, iConcierge, Vita Networks and Sprout Accessories along with selected Telstra Shops and Telstra Business Centres.

#### 12-MONTH PRICE & VOLUME



#### RESEARCH ANALYST

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#### Disclosure

The author owns no shares in VTG.

## Vita Group (VTG)

### COMPANY REPORT

#### Dialled in

- About:** VTG is a specialty retailer operating over 100 Telstra branded retail stores (over a third of Telstra's retail footprint), Telstra Business Centres and its own enterprise solutions business.
- 1H17 result recap:** VTG reported a strong 1H17 result, in line with our expectations. Underlying EBITDA of \$35.0m was up 15% on the pcp, whilst NPAT of \$21.8m was up 40% on the pcp. Retail EBITDA LFL growth was 7% post cycling a strong 1H16. The interim dividend of 9.2cps fully franked was ~12% ahead of expectations.
- Key takeaways:** 1) We expect strong earnings growth from VTG (14% EPS CAGR 16-19F) and see upside risks from accelerated maturation of the SMB and enterprise segments, as well as additional acquisitions in retail; 2) VTG noted confidence in its ability to address the softening of unit economics in 3Q17 through continued optimisation of the physical footprint, improved productivity and reducing VTG's cost base across its network through technology and efficiency initiatives; and 3) strong cash flow conversion (>100%) supported growth in the net cash position to \$28.1m, which we view as a key enabler of acquisition led growth opportunities to support earnings medium-term.
- Attractive acquisitions:** VTG acquired three retail stores (\$5.7m) during 1H17 and five more (\$6.0m) post 31 December in the YTD (store count of 107). Annualising the impact of the three acquired stores during the period implies a \$2.1m EBITDA uplift into 2H17 (acquisition multiple of only 1.3x) and assuming the five stores acquired since were at historical multiples (~2x) the total acquisition impact is \$2.9m into the 2H and \$3.1m into FY18F. Remuneration changes may impact some of these earnings, however there remains a significant buffer given the attractive multiples and larger scale of the acquired stores.
- Investment view:** VTG exhibited a strong result, as expected, however market focus remains firmly on earnings visibility post noted remuneration changes. In light of the acquired stores and favourable network optimisation dynamics, we have a higher level of confidence around FY17F earnings and growing confidence around FY18+. VTG remains best positioned to offset any negative changes (as it has done historically) and continue to have line of sight on myriad earnings opportunities across the business (retail, SMB, enterprise). The stock remains deeply undervalued, trading on an FY17F EV/EBITDA of 7.3x (PE of 12.7x, PEG of 0.58) with a dividend yield of 5.1% fully franked. BUY with a \$4.75 price target.

#### INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	601	645	712	800	886
EBITDA	\$mn	39.2	62.0	71.3	79.8	87.5
EBIT	\$mn	27.4	50.8	60.0	66.1	72.8
Reported Profit	\$mn	25.4	35.4	42.8	46.4	51.6
Adjusted Profit	\$mn	18.1	34.8	42.4	46.4	51.6
EPS (Reported)	¢	17.4	23.4	28.2	30.5	33.9
EPS (Adjusted)	¢	12.4	23.0	28.0	30.5	33.9
EPS Growth	%	71.5	85.2	21.7	9.3	11.1
PER (Reported)	x	20.4	15.2	12.6	11.6	10.5
PER (Adjusted)	x	28.6	15.5	12.7	11.6	10.5
Dividend	¢	8.0	14.0	18.2	19.9	22.1
Yield	%	2.2	3.9	5.1	5.6	6.2
Franking	%	100	100	100	100	100

## Financial summary

### Vita Group (VTG)

**Analyst:** Josh Kanourakis  
**Date:** 03-March-2017  
**Share Price (\$A):** \$3.55  
**Year End:** 30 June

**Rating:** **BUY**  
**Price Target:** \$4.75  
**Upside/(Downside):** 34%  
**Risk:** Medium

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>EARNINGS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Total Revenue	601.4	645.4	711.8	800.4	885.6	EPS - Basic (Underlying)	12.4	23.0	28.0	30.5	33.9
Total Cash Operating Expenses	562.2	583.4	640.5	720.6	798.1	EPS - Diluted (Underlying)	12.4	23.0	28.0	30.5	33.9
<b>Underlying EBITDA</b>	<b>39.2</b>	<b>62.0</b>	<b>71.3</b>	<b>79.8</b>	<b>87.5</b>	EPS - Reported	17.4	23.4	28.2	30.5	33.9
Depreciation & Amortisation	11.8	11.2	11.3	13.7	14.7	EPS Growth (%)	72%	85%	22%	9%	11%
<b>Underlying EBIT</b>	<b>27.4</b>	<b>50.8</b>	<b>60.0</b>	<b>66.1</b>	<b>72.8</b>	DPS (ordinary)	8.0	14.0	18.2	19.9	22.1
Net Interest Expense	1.4	1.0	0.3	-0.2	-0.8	DPS (including special)	14.0	14.0	18.2	19.9	22.1
<b>Underlying NPBT</b>	<b>25.9</b>	<b>49.8</b>	<b>59.7</b>	<b>66.3</b>	<b>73.7</b>	Franking (%)	100	100	100	100	100
Income Tax Expense	7.8	15.0	17.3	19.9	22.1	Payout Ratio (%)	64%	61%	65%	65%	65%
<b>Underlying NPAT</b>	<b>18.1</b>	<b>34.8</b>	<b>42.4</b>	<b>46.4</b>	<b>51.6</b>						
Non-recurring items (incl. ESP)	7.3	0.6	0.3	0.0	0.0						
<b>Reported NPAT</b>	<b>25.4</b>	<b>35.4</b>	<b>42.8</b>	<b>46.4</b>	<b>51.6</b>						
<b>BALANCE SHEET (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>VALUATION</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Cash	15.6	24.4	23.1	29.3	44.9	P/E (x)	28.6	15.5	12.7	11.6	10.5
Receivables	29.3	33.8	35.6	40.0	44.3	PEG Ratio	0.40	0.18	0.58	1.25	0.94
Inventories	14.6	14.6	16.4	18.4	20.4	Price/ FCF	16.9	14.5	13.6	11.2	9.7
<b>Total Current Assets</b>	<b>59.5</b>	<b>72.8</b>	<b>75.1</b>	<b>87.7</b>	<b>109.6</b>	EV/EBIT (x)	19.5	12.1	8.7	7.7	6.8
Property, Plant & Equipment	17.3	13.9	15.7	19.1	21.4	EV/EBITDA (x)	13.6	9.9	7.3	6.4	5.7
Deferred Tax	9.7	9.7	6.3	6.3	6.3	Dividend Yield (%)	2.2%	3.9%	5.1%	5.6%	6.2%
Intangibles	54.9	70.2	79.3	83.3	87.3	Dividend Yield (including special) (%)	3.9%	3.9%	5.1%	5.6%	6.2%
<b>Total Non Current Assets</b>	<b>81.9</b>	<b>93.8</b>	<b>101.3</b>	<b>108.6</b>	<b>115.0</b>	Franking credits returned (cps)	6.0	6.0	7.8	8.5	9.5
Total Assets	141.4	166.6	176.4	196.3	224.5	Price/Book (x)	11.0	7.9	6.3	31.0	34.6
Payables	67.4	67.2	72.6	80.0	88.6	<b>GROWTH</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Loans & Borrowings	7.8	11.5	6.2	1.2	1.2	Total Rev. Growth (% pcp)	34%	7%	10%	12%	11%
Other	5.2	11.3	7.1	7.1	7.1	Cash Op. Exp. Growth (% pcp)	33%	4%	10%	13%	11%
<b>Total Current Liabilities</b>	<b>80.4</b>	<b>90.0</b>	<b>85.9</b>	<b>88.3</b>	<b>96.9</b>	EBITDA Growth (% pcp)	45%	58%	15%	12%	10%
Loans & Borrowings	5.6	4.2	0.8	0.8	0.8	EBIT Growth (% pcp)	69%	85%	18%	10%	10%
Other	6.4	4.4	3.6	3.6	3.6	NPBT Growth (% pcp)	77%	92%	20%	11%	11%
<b>Total Non Current Liabilities</b>	<b>12.0</b>	<b>8.6</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	NPAT Growth (% pcp)	76%	92%	22%	9%	11%
<b>Total Liabilities</b>	<b>92.4</b>	<b>98.7</b>	<b>90.4</b>	<b>92.8</b>	<b>101.3</b>	Reported NPAT Growth (% pcp)	n/a	39%	21%	9%	11%
Contributed Capital	24.5	25.7	28.7	31.6	34.8	<b>MARGINS &amp; RETURNS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Reserves	0.0	0.0	0.1	0.1	0.1	EBITDA Margin (%)	6.5%	9.6%	10.0%	10.0%	9.9%
Retained Earnings	24.5	42.3	57.2	71.8	88.3	EBIT Margin (%)	4.6%	7.9%	8.4%	8.3%	8.2%
<b>Total Equity</b>	<b>49.0</b>	<b>68.0</b>	<b>86.0</b>	<b>103.5</b>	<b>123.2</b>	NPBT Margin (%)	4.3%	7.7%	8.4%	8.3%	8.3%
<b>CASH FLOW (A\$m)</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	ROE (%)	37%	51%	49%	45%	23%
<b>Cash at Start</b>	<b>6.8</b>	<b>15.6</b>	<b>24.4</b>	<b>23.1</b>	<b>29.3</b>	ROA (%)	13%	22%	24%	25%	23%
EBITDA	39.2	62.0	71.3	79.8	87.5	Effective Tax Rate (%)	30%	30%	29%	30%	30%
Working Capital	-2.3	-4.7	1.8	1.0	2.3	<b>GEARING</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Interest Paid	-1.8	-1.4	-0.8	-0.2	-0.1	Net Debt (A\$m)	-2	-9	-16	-27	-43
Income Tax Paid	-7.5	-11.4	-18.0	-19.9	-22.1	Net Debt/Equity (%)	-5%	n/a	n/a	n/a	n/a
Other	7.3	0.0	0.0	0.0	0.0	Int. Cover (x) - EBITDA/Net Int.	27.2	64.4	256.5	-404.5	-104.5
<b>Cash Flow From Operating</b>	<b>35.3</b>	<b>49.1</b>	<b>48.4</b>	<b>61.1</b>	<b>68.5</b>	<b>SEGMENTALS</b>	<b>FY15A</b>	<b>FY16A</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Cash Flow From Investing</b>	<b>-16.0</b>	<b>-26.3</b>	<b>-16.1</b>	<b>-21.0</b>	<b>-21.0</b>	<b>EBITDA</b>					
<b>Cash Flow From Financing</b>	<b>-10.5</b>	<b>-14.0</b>	<b>-33.6</b>	<b>-33.9</b>	<b>-31.9</b>	Retail	39.2	58.9	65.8	71.4	75.0
Movement In Cash Flow	8.8	8.8	-1.3	6.2	15.7	SMB		3.1	4.1	6.3	9.2
<b>Cash At End Of Period</b>	<b>15.6</b>	<b>24.4</b>	<b>23.1</b>	<b>29.3</b>	<b>44.9</b>	Enterprise		0.0	1.4	2.1	3.3
						<b>Total</b>	<b>39.2</b>	<b>62.0</b>	<b>71.3</b>	<b>79.8</b>	<b>87.5</b>

## Listed Investment Companies (LICs)

### SECTOR REPORT

#### LIC update – top picks

- The table overleaf provides an update of the overall sector, as at 3 March 2017, with our estimated current NTAs derived from our model portfolios for the LICs.
- **Top picks:** Our top picks refer to preferred exposures within each sector based on numerous quantitative and qualitative factors. However, they should not be treated as official stock recommendations but merely as a guide to where we would apportion funds at this particular point in time.
- **Large capitalisation:** Large Cap LICs outperformed the broader market in January 2017 by 3.0%, on average. This outperformance is typical in the lead up to interim dividend payments. With all large cap LICs now ex-dividend, February-to-date has seen large cap LICs fall further than the cash-dividend (including franking) amount, providing attractive entry points on an absolute and relative basis, in our view. Top picks include AFIC (AFI), Milton Corporation (MLT) and Diversified United Investment (DUI), which are trading at 2.4%, 3.9% and 9.8% discounts to NTA respectively.
- **Mid-capitalisation:** We continue to favour those LICs that are currently ramping up respective dividend profiles, given the attractive trading levels on an absolute basis. Conversely, we are cautious on those LICs that are trading at significant premiums to NTA and that have cut dividend levels. We see potential upside risk for LICs ramping up dividend yields given the trend toward premium to NTA trading levels of peers with an above market dividend yield (ALF, CDM, MIR, and WAM). Pleasingly, our top picks Perpetual Equity (PIC) and WAM Leaders (WLE) both announced increases to 1H17 interim dividends at \$0.022 and \$0.01 respectively. On an annualised basis, PIC is now yielding 4.0% fully franked (1H17 payout ratio of 24.4%). PIC and WLE remain top picks, trading at an estimated 5.0% and 1.4% discount to NTA respectively.
- **Small capitalisation:** Acorn Capital remains our top pick within the small cap space, trading at an estimated 11.5% discount to NTA. The allocation to unlisted securities (22.0%) provides a natural hedge against market conditions, in our view. Elsewhere, post listing in December 2016, Forager Australia Shares (FOR) has been a top performer throughout our LIC universe (up 15.0%). We view the value investment style of FOR as complementary to an existing large and mid-cap bias portfolio and any reversion back to a mid-to-low single digit premium to NTA would provide an attractive entry point.
- **International:** PM Capital Global Opportunity Fund (PGF) remains a top pick within the international space, trading at an estimated 10.0% discount to NTA. MFF Capital Investment (MFF) continues to offer value, now trading at an estimated 19.3% discount to NTA. Despite this value, we are cognisant of the potential for short term volatility given: 1) portfolio allocation towards the US with ~95% of the underlying portfolio invested in US domiciled companies; and 2) the 70 million options outstanding (14.7% of total capital). Adjusting for the option dilution impact, MFF is trading at an estimated 12.8% discount to NTA and over the medium to long term we view MFF as a top value pick.
- **Specialty:** Blue Sky Alternative Access Fund (BAF) announced its maiden interim dividend in February, increasing its annualised dividend yield to 5.2%. We continue to look favourably upon the diversification appeal of BAF and Bailador Technologies (BTI) within this space; however we note on a monthly basis, news flow may be limited given the longer term nature of the underlying investments.

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#### Disclosure

*The author owns no shares in any of the mentioned companies.*

*Baillieu Holst Ltd has acted in a corporate advisory role for WLE and earned fees in relation to that activity in the past 12 months.*

BAILLIEU HOLST - EQUITY RESEARCH  
Listed Investment Companies Coverage by Sector

Figures as at: 3 March 2017

Large Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Feb 1	Current Est. NTA	Current Estimated Disc/Prem	Jan NTA	Jan Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Foundat.	AFI	5.71	6715.4	24.0	4.2%	6.0%	-1.9%	5.85	-2.4%	5.78	2.4%	2.8%	3.4%	0.16%
Argo Investments	ARG	7.52	5194.4	30.5	4.1%	5.8%	0.7%	7.66	-1.8%	7.60	0.1%	3.1%	3.4%	0.17%
Australian United In	AUI	7.79	962.5	34.0	4.4%	6.2%	2.8%	8.42	-7.5%	8.30	-6.9%	-5.9%	-5.7%	0.10%
BKI Investment Ltd	BKI	1.63	986.3	7.3	4.4%	6.4%	-2.6%	1.61	1.2%	1.58	8.2%	3.2%	1.3%	0.14%
Djerriwarrh	DJW	3.63	796.2	24.0	6.6%	9.4%	-2.7%	3.23	12.4%	3.15	18.4%	26.2%	26.8%	0.46%
Diversified United	DUI	3.52	732.8	14.0	4.0%	5.7%	1.8%	3.90	-9.8%	3.81	-7.6%	-6.3%	-6.5%	0.13%
Milton Corporation	MLT	4.33	2823.0	18.6	4.3%	6.1%	-1.0%	4.50	-3.9%	4.44	0.5%	0.3%	1.4%	0.13%
Mid Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Feb 1	Current Est. NTA	Current Estimated Disc/Prem	Jan NTA	Jan Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Australian Leaders	ALF	1.33	360.8	10.0	7.5%	10.7%	-7.0%	n.a	n.a	1.29	10.9%	9.7%	8.4%	1.00%
Aberdeen Leaders	ALR	1.15	68.7	5.0	4.4%	6.2%	2.2%	1.29	-11.1%	1.25	-10.4%	-9.5%	-4.5%	0.75%
AMCIL Limited	AMH	0.91	233.5	3.5	3.9%	5.5%	-3.7%	0.93	-3.1%	0.92	2.2%	0.8%	-0.7%	0.65%
Cadence Capital	CDM	1.27	344.1	9.0	7.1%	10.2%	5.9%	1.16	9.5%	1.14	5.0%	12.8%	6.6%	1.00%
Contango Inc Gen Ltd	CIE	0.95	77.0	3.5	3.7%	5.3%	2.1%	1.03	-7.5%	1.01	-5.1%	-4.0%	-3.1%	0.95%
Carlton Investments	CIN	31.60	836.6	121.0	3.8%	5.5%	-1.4%	36.20	-12.7%	37.93	-14.2%	-12.4%	-11.1%	0.09%
Future Gen Ltd	FGX	1.17	406.2	4.0	3.4%	4.9%	1.3%	n.a	n.a	1.15	0.4%	-1.3%	-1.6%	0.00%
Mirrabooka Invest.	MIR	2.86	448.0	15.0	5.2%	7.5%	2.5%	2.32	23.3%	2.30	21.3%	17.0%	14.4%	0.65%
Perpetual Equity Ltd	PIC	1.03	260.3	4.2	4.1%	5.8%	5.2%	1.08	-5.0%	1.10	-9.4%	-8.7%	-6.0%	1.00%
Qv Equities Limited	QVE	1.31	289.1	3.3	2.5%	3.6%	1.6%	1.18	10.9%	1.17	9.5%	-0.4%	-0.4%	0.90%
WAM Capital Limited	WAM	2.51	1505.7	14.5	5.8%	8.3%	5.0%	n.a	n.a	1.98	20.9%	14.8%	10.5%	1.00%
WAM Leaders Limited	WLE	1.14	422.1	n.a	n.a	n.a	-0.9%	1.16	-1.4%	1.14	0.8%	1.9%	na	1.00%
Wealth Def Equ Ltd	WDE	0.81	101.7	3.0	3.7%	5.3%	-4.2%	0.93	-13.7%	0.90	-7.1%	-11.5%	-7.3%	1.25%
Whitefield Ltd	WHF	4.46	373.8	17.0	3.8%	5.4%	3.2%	4.92	-9.3%	4.73	-8.7%	-8.7%	-7.1%	0.25%
Small Capitalisation	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Feb 1	Current Est. NTA	Current Estimated Disc/Prem	Jan NTA	Jan Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Acorn Cap Inv Fund	ACQ	1.00	49.1	1.8	1.8%	2.1%	-2.9%	1.13	-11.5%	1.17	-12.0%	-15.6%	-15.0%	0.95%
Barrack St Invest	BST	0.84	15.4	2.5	3.0%	3.5%	-6.5%	1.01	-17.2%	0.99	-12.4%	-16.4%	-14.4%	1.00%
Contango Microcap	CTN	1.01	169.3	6.4	6.3%	7.5%	-4.6%	1.13	-10.6%	1.17	-7.1%	-10.8%	-9.9%	1.25%
Forager Aust. Shares	FOR	1.97	172.7	n.a	n.a	n.a	2.6%	1.75	12.6%	1.72	n.a	n.a	n.a	1.00%
Glennon SML Co Ltd	GC1	0.93	43.4	3.8	4.1%	4.8%	-2.1%	1.01	-8.2%	1.01	-6.1%	-5.9%	-5.4%	1.00%
Naos Emerg Opp	NCC	1.38	65.1	6.8	4.9%	7.0%	3.0%	n.a	n.a	1.39	-3.6%	-10.9%	-10.5%	1.25%
Ozgrowth Limited	OZG	0.18	62.7	0.5	2.9%	4.1%	1.5%	0.21	-16.1%	0.22	-19.0%	-20.4%	-15.1%	1.00%
WAM Research Ltd	WAX	1.60	293.2	8.5	5.3%	7.6%	4.2%	n.a	n.a	1.26	22.0%	15.9%	9.2%	1.00%
Westoz Inv Ltd	WIC	1.02	131.7	6.0	5.9%	8.4%	0.0%	1.10	-7.5%	1.09	-4.0%	-14.2%	-10.3%	1.00%
8lp Emerg Co Ltd	8EC	1.01	41.4	n.a	n.a	n.a	-2.2%	1.17	-13.5%	1.15	-12.8%	-10.4%	-10.4%	1.25%
International	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Feb 1	Current Est. NTA	Current Estimated Disc/Prem	Jan NTA	Jan Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Argo Global Ltd	ALI	1.76	252.1	3.0	1.7%	1.7%	-10.1%	1.93	-8.8%	1.91	-12.8%	-8.8%	-7.2%	1.25%
Ellerston Asian	EAI	0.83	98.4	n.a	n.a	n.a	-1.4%	0.97	-14.4%	0.96	-11.1%	-10.6%	-8.6%	0.75%
Ellerston Global Inv	EGI	0.97	73.5	2.0	2.1%	2.9%	-1.0%	1.16	-16.7%	1.12	-12.7%	-10.6%	-3.1%	0.75%
Future Gb Invest Co	FGG	1.05	291.0	1.0	1.0%	1.4%	-0.9%	n.a	n.a	1.08	-1.9%	2.8%	2.7%	0.00%
Global Value Fnd Ltd	GVF	1.13	115.8	6.0	5.3%	7.6%	-3.0%	1.12	0.7%	1.09	5.9%	-5.0%	-5.8%	1.50%
Hunter Hall Global	HHV	1.19	288.6	6.5	5.5%	7.8%	-1.0%	1.28	-7.8%	1.24	-3.8%	-8.4%	-10.6%	1.50%
MFF Capital Invest.	MFF	1.89	895.2	2.0	1.1%	1.5%	3.3%	2.34	-19.3%	2.18	-16.2%	-7.7%	-6.2%	1.25%
Pm Capital Asian Ops	PAF	0.96	53.0	2.5	2.6%	3.7%	1.6%	1.07	-10.4%	1.06	-11.6%	-10.6%	-10.2%	1.00%
Platinum Asia Ltd	PAI	0.95	277.1	n.a	n.a	n.a	3.8%	1.02	-6.9%	1.00	-8.5%	-0.7%	0.1%	1.10%
Pm Capital Fund	PGF	0.99	343.5	3.0	3.0%	4.4%	-0.5%	1.09	-10.0%	1.10	-10.4%	-12.9%	-10.1%	1.00%
Platinum Capital Ltd	PMC	1.53	361.6	8.0	5.2%	7.5%	-2.0%	1.59	-3.5%	1.54	4.2%	9.5%	9.4%	1.10%
Templeton Global	TGG	1.24	285.4	4.5	3.6%	5.2%	0.4%	1.46	-15.3%	1.41	-12.4%	-11.9%	-8.4%	1.20%
Specialist	Code	Share Price	Market Cap. (\$m)	Dividend (cents)	Dividend Yield	Grossed Up Yield	TSR since Feb 1	Current Est. NTA	Current Estimated Disc/Prem	Jan NTA	Jan Disc/Prem	1 Yr Ave Disc/Prem	3 Yr Ave Disc/Prem	MER
Blue Sky Alt Access	BAF	1.13	193.3	5.0	4.4%	6.3%	-0.9%	1.09	3.5%	1.09	5.3%	1.2%	0.0%	1.20%
Bailador Tech Inv	BTI	0.98	117.8	n.a	n.a	n.a	-4.4%	1.18	-16.9%	1.18	-13.1%	-9.0%	-13.7%	1.75%
Lion Selection Grp	LSX	0.41	43.3	n.a	n.a	n.a	1.3%	n.a	n.a	0.41	-2.4%	-19.0%	-29.2%	1.50%
Monash Absolute	MA1	0.78	40.9	n.a	n.a	n.a	-13.3%	n.a	n.a	0.90	0.0%	-2.1%	na	1.50%
Sandon Capital Ltd	SNC	1.09	48.2	5.0	4.6%	6.6%	11.2%	n.a	n.a	1.08	-9.0%	-10.9%	-7.3%	1.25%
Thorney Opp Ltd	TOP	0.71	120.3	1.2	1.6%	2.3%	2.2%	n.a	n.a	0.74	-5.8%	-5.3%	-4.1%	0.75%
WAM Active Limited	WAA	1.16	41.4	5.0	4.3%	6.2%	0.9%	n.a	n.a	1.06	8.8%	2.5%	4.7%	1.00%
Watermark Fund Ltd	WMK	1.03	93.4	6.5	6.3%	9.0%	-1.9%	n.a	n.a	1.03	1.9%	-1.3%	-4.6%	1.00%

Source: Company releases, Bloomberg, Baillieu Holst estimates

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## Coverage Universe – Mid and Small Caps

Company	Code	ANALYST	Rec	Bal Date	Last Price	Target Price	Profit (\$M)			EPS (c)			P/E (X)			DPS (c)			Cash Yield (%)			FRK	GYLD	EPS Growth		
							16	17	18	16	17	18	16	17	18	16	17	18	16	17	18			17	18	
<b>Banks</b>																										
Auswide Bank	ABA	Nick Caley	Buy	Jun	5.35	6.20	14.0	14.9	18.2	37.5	36.8	44.8	14.3	14.5	11.9	30.0	30.0	34.0	5.6	5.6	6.4	100	8.01	-1.9	21.7	
MyState	MYS	Nick Caley	Hold	Jun	4.38	4.80	31.1	30.9	33.8	35.5	35.1	38.5	12.3	12.5	11.4	28.5	28.5	30.5	6.5	6.5	7.0	100	9.30	-1.1	9.7	
<b>Capital Goods</b>																										
Logicamms	LCM	Josh Kannourakis	Buy	Jun	0.38	0.45	-6.6	3.5	3.8	-9.6	5.1	5.5	-ve	7.5	6.9	-	1.0	3.0	-	2.6	7.9	-	2.63	n/a	7.8	
MaxiTRANS Industries	MXI	Josh Kannourakis	Buy	Jun	0.68	0.80	8.8	12.7	14.5	4.7	6.9	7.8	14.5	9.9	8.7	3.0	4.2	4.8	4.4	6.2	7.1	100	8.82	46.8	13.0	
Monadelphous	MND	Josh Kannourakis	Sell	Jun	12.93	9.00	67.0	57.5	55.0	71.8	61.5	58.8	18.0	21.0	22.0	60.0	46.3	44.1	4.6	3.6	3.4	100	5.12	-14.3	-4.4	
Silver Chef	SIV	Josh Kannourakis	Hold	Jun	7.05	8.00	23.4	24.5	28.3	72.0	68.8	78.6	9.8	10.2	9.0	42.0	30.9	49.0	6.0	4.4	7.0	100	6.26	-4.4	14.2	
<b>Commercial &amp; Professional Services</b>																										
Collection House	CLH	Nick Caley	Hold	Jun	1.37	1.50	18.6	19.6	23.8	15.7	14.4	17.4	8.7	9.5	7.9	7.8	7.9	8.8	5.7	5.8	6.4	100	8.24	-8.3	20.8	
Credit Corp Group	CCP	Nick Caley	Buy	Jun	16.91	19.70	45.9	56.3	63.4	98.5	119.8	134.9	17.2	14.1	12.5	50.0	58.0	63.0	3.0	3.4	3.7	100	4.90	21.6	12.6	
Envirosuite	EVS	Luke Macnab	Buy	Dec	0.05	0.12	-1.3	-	0.5	-0.9	-	0.2	-ve	-	25.0	-	-	-	-	-	-	-	-	n/a	n/a	
IPH	IPH	Nick Caley	Buy	Jun	4.55	6.10	46.9	54.2	59.5	26.5	28.3	30.8	17.2	16.1	14.8	21.0	23.5	26.5	4.6	5.2	5.8	90	7.16	6.8	8.8	
Millennium Services	MIL	Nicolas Burgess	Hold	Jun	1.60	1.70	6.7	8.4	9.0	15.2	18.2	19.6	10.5	8.8	8.2	4.4	8.5	9.8	2.8	5.3	6.1	100	7.59	19.7	7.7	
Tox Free Solutions	TOX	Josh Kannourakis	Hold	Jun	2.27	2.20	22.8	25.9	30.3	16.7	15.0	15.7	13.6	15.1	14.5	9.0	9.5	10.0	4.0	4.2	4.4	100	5.98	-10.2	4.7	
Veris	VRS	Josh Kannourakis	Buy	Jun	0.16	0.25	7.5	2.2	5.4	2.8	0.8	1.7	5.7	20.0	9.4	0.5	0.5	0.8	3.1	3.1	5.0	-	3.13	-71.4	112.5	
Wellcom Group	WLL	Nicolas Burgess	Buy	Jun	4.90	5.60	11.1	12.0	13.3	28.3	30.5	33.8	17.3	16.1	14.5	22.5	24.0	27.0	4.6	4.9	5.5	100	7.00	7.8	10.8	
Xenith IP Group	XIP	Nick Caley	Buy	Jun	2.17	3.15	6.0	10.4	18.6	18.9	17.1	20.7	11.5	12.7	10.5	7.0	9.6	15.0	3.2	4.4	6.9	100	6.32	-9.5	21.1	
<b>Consumer Services &amp; Durables</b>																										
Ainsworth Game Tech	AGI	Nick Caley	Buy	Jun	1.75	2.35	52.4	46.0	57.9	16.2	13.9	17.4	10.8	12.6	10.1	10.0	5.0	10.5	5.7	2.9	6.0	100	4.08	-14.2	25.2	
Ardent Leisure	AAD	Nick Caley	Hold	Jun	1.57	2.00	62.4	30.8	47.3	13.8	6.6	10.1	11.4	23.8	15.5	12.5	5.0	8.5	8.0	3.2	5.4	-	3.18	-52.2	53.0	
Aristocrat Leisure	ALL	Nick Caley	Buy	Sep	16.95	18.35	398.2	507.1	525.4	62.4	79.4	82.3	27.2	21.3	20.6	25.0	29.0	31.0	1.5	1.7	1.8	-	1.71	27.2	3.7	
Collins Foods	CKF	Josh Kannourakis	Hold	Apr	6.08	6.35	30.1	34.9	39.6	32.1	36.7	41.2	18.9	16.6	14.8	14.0	18.0	22.0	2.3	3.0	3.6	100	4.23	14.3	12.3	
Domino's Pizza	DMP	Josh Kannourakis	Hold	Jun	56.02	55.12	92.0	122.3	165.5	102.9	135.4	182.0	54.4	41.4	30.8	73.5	98.4	130.0	1.3	1.8	2.3	50	2.13	31.6	34.4	
Donaco International	DNA	Nick Caley	Buy	Jun	0.36	0.75	58.1	55.5	72.4	7.0	6.7	8.7	5.1	5.4	4.1	1.0	3.0	4.0	2.8	8.3	11.1	-	8.33	-4.3	29.9	
IMF Bentham	IMF	Nick Caley	Buy	Jun	1.845	2.05	20.9	27.9	64.3	12.4	16.5	37.9	14.9	11.2	4.9	7.5	10.0	15.0	4.1	5.4	8.1	80	7.28	33.1	129.7	
iSelect	ISU	Nick Caley	Buy	Jun	2.00	2.35	14.5	18.3	22.5	5.6	8.5	11.7	35.7	23.5	17.1	2.5	4.0	6.5	1.3	2.0	3.3	100	2.86	51.8	37.6	
Mantra Group	MTR	Nick Caley	Buy	Jun	2.76	4.35	46.5	55.3	64.8	17.2	18.6	21.8	16.0	14.8	12.7	10.5	11.5	14.5	3.8	4.2	5.3	100	5.95	8.1	17.2	
Retail Food Group	RFG	Josh Kannourakis	Buy	Jun	5.54	7.50	66.4	80.2	90.7	40.5	46.3	51.5	13.7	12.0	10.8	27.5	30.8	33.0	5.0	5.6	6.0	100	7.94	14.3	11.2	
Sealink Travel Group	SLK	Nick Caley	Buy	Jun	4.35	5.25	23.1	26.2	28.3	24.2	25.9	27.9	18.0	16.8	15.6	12.0	14.0	15.5	2.8	3.2	3.6	100	4.60	7.0	7.7	
Silver Heritage Group	SVH	Nick Caley	Hold	Dec	0.22	0.25	-3.7	0.8	9.5	-2.4	0.4	5.0	-ve	55.5	4.4	-	-	-	-	-	-	-	-	n/a	1167	
<b>Consumer Staples</b>																										
Bega Cheese	BGA	Josh Kannourakis	Buy	Jun	6.01	8.00	29.2	25.9	48.0	19.1	17.0	31.4	31.5	35.4	19.1	9.5	8.0	8.0	1.6	1.3	1.3	100	1.90	-11.0	84.7	
Select Harvests	SHV	Josh Kannourakis	Hold	Jun	6.00	5.90	27.9	24.6	36.4	37.9	33.3	48.9	15.8	24.0	31.0	46.0	26.0	34.0	7.7	4.6	6.0	100	6.19	-12.1	46.8	
<b>Diversified Financials</b>																										
BT Investment Mgmt	BTT	Nicolas Burgess	Hold	Sep	9.96	11.50	156.0	152.3	195.5	50.7	48.7	62.6	19.6	20.5	15.9	42.0	39.0	50.0	4.2	3.9	5.0	35	4.50	-3.9	28.5	
EML Payments	EML	Nick Caley	Buy	Jun	1.58	2.25	2.9	5.5	14.2	1.5	2.3	5.8	105	68.7	27.2	-	-	-	-	-	-	-	-	-	53.3	152.2
EQT Holdings	EQT	Nicolas Burgess	Buy	Jun	18.00	20.50	20.1	19.1	21.7	100.9	95.2	107.5	17.8	18.9	16.7	68.0	70.0	80.5	3.8	3.9	4.5	100	5.56	-5.6	12.9	

## Coverage Universe – Mid and Small Caps

Company	Code	ANALYST	Rec	Bal Date	Last Price	Target Price	Profit (\$M)			EPS (c)			P/E (X)			DPS (c)			Cash Yield (%)			FRK 17	GYLD 17	EPS Growth		
							16	17	18	16	17	18	16	17	18	16	17	18	16	17	18			17	18	
<b>Diversified Financials</b>																										
Henderson Group Plc	HGG	Nicolas Burgess	Buy	Dec	3.62	4.80	274.9	295.8	360.1	24.6	26.1	31.8	14.7	13.9	11.4	17.2	17.2	20.5	4.8	4.8	5.7	-	4.75	5.9	21.7	
IOOF Holdings	IFL	Nicolas Burgess	Hold	Jun	8.71	8.50	173.4	157.6	168.3	57.6	52.1	55.6	15.1	16.7	15.7	54.5	52.0	50.0	6.3	6.0	5.7	100	8.53	-9.5	6.7	
MainstreamBPO	MAI	Nicolas Burgess	Buy	Jun	0.50	0.80	1.4	2.4	2.9	1.8	2.7	3.1	27.8	18.5	16.1	1.0	1.5	1.6	2.0	3.0	3.2	100	4.29	50.0	14.8	
Perpetual	PPT	Nicolas Burgess	Sell	Jun	50.87	45.00	128.2	132.5	138.7	276.0	284.4	297.8	18.4	17.9	17.1	255.0	265.0	253.0	5.0	5.2	5.0	100	7.44	3.0	4.7	
<b>Diversified Metals &amp; Mining</b>																										
Danakali	DNK	Warren Edney	Buy	Dec	0.78	1.02	-2.7	0.5	10.8	-1.1	0.1	2.2	-ve	780	35.5	-	-	-	-	-	-	-	-	-	n/a	2100
Panoramic Resources	PAN	Warren Edney	Hold	Jun	0.39	0.23	-76.0	0.4	0.5	-17.7	0.1	0.1	-ve	390	390	-	-	-	-	-	-	-	-	-	n/a	-
<b>Energy</b>																										
Salt Lake Potash	SO4	Warren Edney	Buy	Jun	0.56	1.00	-4.2	-7.4	-9.5	-3.2	-5.4	-3.3	-ve	-ve	-ve	-	-	-	-	-	-	-	-	-	n/a	n/a
<b>Gold</b>																										
Doray Minerals	DRM	Warren Edney	Sell	Jun	0.325	0.15	16.5	0.6	4.7	5.4	0.2	1.3	6.0	163	25.0	-	-	-	-	-	-	-	-	-	-96.3	550.0
Gold Road Resources	GOR	Warren Edney	Hold	Jun	0.52	0.67	-9.2	251.7	1.9	-1.1	29.0	0.2	-ve	1.8	260	-	-	-	-	-	-	-	-	-	n/a	-99.3
Northern Star Res.	NST	Warren Edney	Hold	Jun	4.05	4.57	151.4	208.0	334.7	25.2	34.6	55.7	16.1	11.7	7.3	7.0	10.0	11.0	1.7	2.5	2.7	100	3.53	37.3	61.0	
Resolute Mining	RSG	Warren Edney	Hold	Jun	1.415	1.72	181.7	127.0	150.1	27.7	17.2	20.4	5.1	8.2	6.9	1.6	1.5	1.4	1.1	1.1	1.0	-	1.06	-37.9	18.6	
Saracen Mineral Holdings	SAR	Warren Edney	Sell	Jun	1.06	0.99	25.9	67.3	112.3	3.2	8.3	13.9	33.1	12.8	7.6	-	2.0	4.0	-	1.9	3.8	-	1.89	159.4	67.5	
Silver Lake Res.	SLR	Warren Edney	Hold	Jun	0.62	0.72	4.4	20.2	61.0	0.9	4.0	12.1	68.9	15.5	5.1	-	-	-	-	-	-	-	-	-	344.4	202.5
<b>Health Care Equipment &amp; Services</b>																										
1300 Smiles	ONT	Nick Caley	Buy	Jun	7.30	8.25	7.6	8.0	9.0	32.2	33.6	38.2	22.7	21.7	19.1	22.5	24.3	27.0	3.1	3.3	3.7	100	4.76	4.3	13.7	
Greencross	GXL	Josh Kannourakis	Hold	Jun	7.03	7.65	42.1	46.6	53.6	36.8	40.2	45.4	19.1	17.5	15.5	18.5	20.0	23.0	2.6	2.8	3.3	100	4.06	9.2	12.9	
Pacific Smiles Group	PSQ	Nick Caley	Hold	Jun	2.05	2.30	9.9	11.8	15.0	6.5	7.8	9.9	31.5	26.3	20.7	5.5	7.0	9.0	2.7	3.4	4.4	100	4.88	20.0	26.9	
<b>Information Technology</b>																										
Aconex	ACX	Luke Macnab	Buy	Jun	3.55	5.41	9.7	9.9	19.6	5.6	5.0	9.9	63.4	71.0	35.9	-	-	-	-	-	-	-	-	-	-10.7	98.0
Altium	ALU	Nicolas Burgess	Hold	Jun	7.24	8.40	30.4	35.7	42.9	23.6	27.3	32.9	30.6	26.5	22.0	20.0	23.0	27.3	2.8	3.2	3.8	-	3.18	15.6	20.3	
Animoca Brands	AB1	Nick Caley	Buy	Dec	0.036	0.45	-4.6	1.5	5.5	-2.4	0.7	2.5	-ve	5.1	1.4	-	-	-	-	-	-	-	-	-	n/a	257.1
Appen	APX	Josh Kannourakis	Hold	Dec	2.51	2.90	10.6	12.5	14.7	10.7	12.5	14.8	23.5	20.1	17.0	5.0	5.8	6.8	2.0	2.3	2.7	100	3.30	16.8	18.4	
BPS Technology	BPS	Nick Caley	Buy	Jun	0.945	1.60	7.3	10.8	13.8	11.7	14.2	14.9	8.1	6.7	6.3	4.0	5.3	7.5	4.2	5.6	7.9	100	8.01	21.4	4.9	
Catapult Group Intl	CAT	Nicolas Burgess	Buy	Jun	2.30	3.50	-3.6	1.2	8.0	-3.0	0.8	5.2	-ve	288	44.2	-	-	-	-	-	-	-	-	-	n/a	550.0
Class	CL1	Nicolas Burgess	Buy	Jun	3.02	3.75	5.2	8.2	11.8	4.6	7.0	10.0	65.7	43.1	30.2	3.8	4.2	6.0	1.3	1.4	2.0	75	1.84	52.2	42.9	
DTI Group	DTI	Nick Caley	Buy	Jun	0.285	0.40	-	-1.5	2.3	-	-1.4	1.9	-	-ve	15.0	-	-	-	-	-	-	-	-	-	n/a	n/a
Empired	EPD	Josh Kannourakis	Buy	Jun	0.465	0.65	0.6	4.6	7.2	0.5	3.9	6.0	93.0	11.9	7.8	-	-	2.0	-	-	4.3	100	-	680.0	53.8	
GBST Holdings	GBT	Nicolas Burgess	Hold	Jun	2.86	3.15	15.5	8.7	11.1	22.9	12.8	16.2	12.5	22.3	17.7	11.0	7.4	8.0	3.8	2.6	2.8	100	3.70	-44.1	26.6	
Hansen Tech	HSN	Nicolas Burgess	Buy	Jun	3.15	4.20	28.6	30.9	33.6	15.7	16.8	18.1	20.1	18.8	17.4	7.0	7.2	7.3	2.2	2.3	2.3	60	2.87	7.0	7.7	
Infomedia	IFM	Nicolas Burgess	Buy	Jun	0.77	0.95	10.3	12.3	14.0	3.3	3.9	4.5	23.3	19.7	17.1	2.7	3.2	3.6	3.5	4.2	4.7	30	4.69	18.2	15.4	
Mitula Group	MUA	Josh Kannourakis	Buy	Dec	0.89	1.30	8.6	13.1	15.7	4.0	6.0	7.2	22.3	14.8	12.4	-	-	-	-	-	-	-	-	-	50.0	20.0
NetComm Wireless	NTC	Luke Macnab	Buy	Jun	1.745	3.10	4.0	3.4	17.3	3.1	2.3	11.9	56.3	75.9	14.7	-	-	-	-	-	-	-	-	-	-25.8	417.4
Praemium	PPS	Nicolas Burgess	Buy	Jun	0.375	0.58	1.6	3.5	5.7	0.4	0.9	1.4	93.8	41.7	26.8	-	-	-	-	-	-	-	-	-	125.0	55.6
Senetas Corp	SEN	Luke Macnab	Buy	Jun	0.093	0.14	5.3	3.5	5.5	0.5	0.3	0.5	18.6	31.0	18.6	-	-	-	-	-	-	-	-	-	-40.0	66.7



## Coverage Universe – Mid and Small Caps

Company	Code	ANALYST	Rec	Bal Date	Last Price	Target Price	Profit (\$M)			EPS (c)			P/E (X)			DPS (c)			Cash Yield (%)			FRK 17	GYLD 17	EPS Growth	
							16	17	18	16	17	18	16	17	18	16	17	18	16	17	18			17	18
<b>Information Technology</b>																									
Smart Parking	SPZ	Nick Caley	Buy	Jun	0.30	0.40	-0.4	2.5	6.5	-0.1	6.5	8.0	-ve	4.6	3.8	-	-	-	-	-	-	-	-	n/a	23.1
Velpic	VPC	Luke Macnab	Buy	Jun	0.022	0.03	-3.4	-4.0	-3.2	-0.8	-0.7	-0.6	-ve	-ve	-ve	-	-	-	-	-	-	-	-	n/a	n/a
<b>Insurance</b>																									
AUB Group	AUB	Nicolas Burgess	Buy	Jun	11.36	12.50	37.6	40.7	44.6	59.4	63.2	69.4	19.1	18.0	16.4	40.0	41.0	45.0	3.5	3.6	4.0	100	5.16	6.4	9.8
Freedom Insurance	FIG	Nick Caley	Buy	Jun	0.67	1.00	3.9	14.9	19.4	1.6	6.2	8.1	41.9	10.8	8.3	-	-	-	-	-	-	-	-	287.5	30.6
Steadfast Group	SDF	Nicolas Burgess	Buy	Jun	2.45	2.65	82.0	90.2	99.2	11.0	12.1	13.3	22.3	20.2	18.4	6.0	6.7	7.3	2.4	2.7	3.0	100	3.91	10.0	9.9
<b>Media</b>																									
APN Outdoor Group	APO	Nicolas Burgess	Hold	Dec	5.69	6.50	51.8	56.3	60.5	31.0	33.8	36.3	18.4	16.8	15.7	19.0	20.5	22.0	3.3	3.6	3.9	100	5.15	9.0	7.4
Event Hosp. & Ent.	EVT	Nick Caley	Buy	Jun	12.19	15.15	126.0	115.6	136.0	78.4	71.2	83.8	15.5	17.1	14.5	51.0	54.0	61.0	4.2	4.4	5.0	100	6.33	-9.2	17.7
Over The Wire	OTW	Luke Macnab	Buy	Jun	2.35	3.23	3.1	4.2	6.9	6.9	9.3	15.2	34.1	25.3	15.5	1.0	1.5	2.0	0.4	0.6	0.9	100	0.91	34.8	63.4
QMS Media	QMS	Nicolas Burgess	Buy	Jun	1.095	1.60	16.1	21.3	26.7	5.8	6.9	8.3	18.9	15.9	13.2	1.5	2.6	3.4	1.4	2.4	3.1	100	3.39	19.0	20.3
Village Roadshow	VRL	Nick Caley	Hold	Jun	3.49	3.95	50.9	45.8	55.6	31.4	28.3	34.4	11.1	12.3	10.1	28.0	-	29.0	8.0	-	8.3	-	-	-9.9	21.6
<b>Other Metals &amp; Mining</b>																									
Galaxy Resources	GXY	Warren Edney	Buy	Dec	0.48	0.81	-0.4	58.5	114.5	-0.1	3.0	6.0	-ve	16.0	8.0	-	-	-	-	-	-	-	-	n/a	100.0
Heron Resources	HRR	Warren Edney	Buy	Jun	0.12	0.30	-2.5	-4.3	-0.2	-0.6	-0.5	-	-ve	-ve	-	-	-	-	-	-	-	-	-	n/a	n/a
Hillgrove Resources	HGO	Warren Edney	Hold	Dec	0.075	0.06	-5.7	-9.0	16.5	-3.1	-4.8	8.8	-ve	-ve	0.9	-	-	-	-	-	-	-	-	n/a	n/a
Pilbara Minerals	PLS	Warren Edney	Buy	Jun	0.485	0.71	-55.6	-10.1	10.2	-4.8	-0.8	0.8	-ve	-ve	60.6	-	-	-	-	-	-	-	-	n/a	n/a
<b>Pharmaceuticals &amp; Biotechnology</b>																									
Polynovo	PNV	Nick Caley	Buy	Jun	0.28	0.60	-3.3	-1.0	9.3	-0.7	-0.2	1.7	-ve	-ve	16.5	-	-	-	-	-	-	-	-	n/a	n/a
<b>Real Estate</b>																									
Villa World	VLW	Luke Macnab	Buy	Jun	2.50	2.66	33.7	37.9	40.6	30.6	33.3	35.2	8.2	7.5	7.1	18.0	18.5	19.0	7.2	7.4	7.6	100	10.57	8.8	5.7
<b>Retailing</b>																									
Vita Group	VTG	Josh Kannourakis	Buy	Jun	3.55	4.75	34.8	42.4	46.4	23.0	28.0	30.5	15.4	12.7	11.6	14.0	18.2	19.9	3.9	5.1	5.6	100	7.32	21.7	8.9
<b>Telecommunication Services</b>																									
MNF Group	MNF	Luke Macnab	Buy	Jun	4.73	5.56	10.0	13.9	17.9	14.8	20.0	24.5	32.0	20.0	24.6	7.0	8.0	9.5	1.5	1.7	2.0	100	2.42	35.1	22.5
<b>Telecommunication Services</b>																									
Speedcast Intl	SDA	Luke Macnab	Buy	Dec	3.68	4.88	25.4	73.2	84.7	17.8	30.8	35.5	20.6	12.0	10.4	5.6	9.7	11.9	1.5	2.6	3.2	100	3.77	72.6	15.5
<b>Telecommunication Services</b>																									
Vocus Comms	VOC	Luke Macnab	Buy	Jun	4.36	6.00	101.8	206.7	231.7	29.9	33.3	37.2	14.6	13.1	11.7	17.5	14.0	15.5	4.0	3.2	3.6	100	4.59	11.4	11.7
<b>Utilities</b>																									
Pacific Energy	PEA	Luke Macnab	Buy	Jun	0.71	0.82	15.9	18.3	21.5	4.2	4.8	5.6	16.9	14.8	12.7	2.5	2.7	3.0	3.5	3.8	4.2	100	5.43	14.3	16.7

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**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.

**Baillieu Holst Analysts' stock ratings distribution as of 3 March 2017:**

**Buy:** 66%

**Hold:** 29%

**Sell:** 5%

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