



Monday 23 March, 2015

## Back to normal

The local market ended strongly last week and the Dow and S&P 500 headed higher over Friday night, so today I thought I'd share with you the seven important things all investors should know to ensure you make the right decisions. Worried about falling iron ore and oil prices? Read on.

And, keeping things consistent, James Dunn trawls the ASX to find seven stocks under 70 cents.

Also in today's *Switzer Super Report*, yield chasers won't want to miss Paul Rickard's review of the new hybrid securities issue from Crown Resorts. In *Buy, Sell, Hold – what the brokers say*, iiNet gets an upgrade and a downgrade while potential buyer TPG gets a downgrade along with Wesfarmers. *Shortlisted* looks at international shares including Facebook, and find out why auction clearance rates have been up over 70% for the past six weeks.



Sincerely,

Peter Switzer

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## 7 stocks under 70 cents

by James Dunn

If you're looking for a potentially cheap stock, here are seven interesting stories from the lists of the ASX, all priced under 70 cents.

### **RCG Corporation (RCG, 72 cents)** **Market capitalisation: \$193 million.**

OK, so footwear group RCG Corporation – owner of The Athlete's Foot Australia chain – is trading above 70 cents, but I'm still going to use it because the company's upcoming retail share purchase plan is expected to be priced at 70 cents a share. The share purchase plan is part of the \$200 million-plus funding RCG is raising for the "transformative" deal it announced this month, the purchase of New Zealand's Accent Group, owner of the retail chain Platypus Shoes and the distributor and retailer of some iconic footwear brands, including Vans, Skechers and Dr. Martens.

These will join RCG's brands, which include Caterpillar, Sperry and Saucony. The deal expands RCG's brand portfolio from six to 13 licences, with RCG and Accent selling each other's brands across Australia and New Zealand. The deal will take RCG's total store numbers from 174 to 269 and boost total group sales from \$268 million to \$450 million. Profit is expected to double, from \$12.3 million to \$26.3 million when Accent and RCG are combined. RCG does not expect the deal to affect its ability to pay dividends at or above historical levels: in fact, shareholders could realistically expect a lift. Prior to the deal announcement, RCG was expected to pay a fully franked dividend yield of 6.7% in FY15.

### **Yowie Group (YOW, 60 cents)** **Market capitalisation: \$83 million.**

Speaking of transformative deals, Australian confectionery company Yowie Group announced a beauty in February, with the news that its Yowie chocolate, which encases a toy animal, will go on

sale in 1507 Walmart stores and 1318 Safeway stores throughout the US. Walmart is the largest company in the world and the largest grocery retailer in the United States.

Why the deal is so good is that the company has got around a US ban on selling confectionery with embedded toys, because of choking risks. Yowie has designed a special capsule for the toy, and last year was granted the only patent for a chocolate-encased toy by the US Food and Drug Administration (FDA). Yowie's much bigger global rival, the Italian-based Ferrero Group, which makes the Kinder Surprise chocolate egg, does not have this and cannot sell the Kinder Surprise in the US.

Yowie also sells in the 1900 North American convenience stores of the Valero Corner Store chain. Yowie is also expanding into Asia, where the product was sold until eight years ago – before Yowie Group owned the rights to the product – and Europe and the Middle East are the priorities for the "second-stage" brand roll-out. The company has created the online presence of yowieworld.com to build brand engagement.

The major caveat with Yowie Group – which has been listed since 2012 – is that it made a loss of \$6.4 million in FY14, and a loss of \$996,000 for the December half-year. It does not pay a dividend. But cracking the huge US market ahead of its rivals at least gives shareholders some confidence that profitability is not too far away.

### **Praemium (PPS, 34 cents)** **Market capitalisation: \$130 million.**

Investment 'platform' provider Praemium has also struck an excellent deal recently. Praemium provides separately managed account (SMA) systems for bankers, brokers and financial planners in Australia and the UK, and moved earlier this month to acquire

UK-based financial planning software provider Plum Software. Praemium operates its SMA investment platform in the UK, and is integrating that platform with its WealthCraft customer relationship management (CRM) and financial planning suite. This system needs third-party data feeds and product provider interfaces, and that is precisely what Plum Software will bring.

Apart from dominating the Australian SMA sector Praemium has also positioned itself well to offer exposure to Australia's massive self-managed superannuation fund (SMSF) industry, by rolling out new functionality that keeps track of SMSF transactions and allows accountants and SMSF advisers to reduce instances of breaches by fund trustees. This is especially important now that the ATO has been given extra regulatory compliance powers to punish breaches of contribution caps or pension limits.

The Australian business is already highly profitable, but the UK has been a loss-maker: the Plum acquisition should solve this over the next few years, giving Praemium scope to boost overall earnings quite nicely.

### **Pacific Energy Limited (PEA, 44.5 cents)** **Market capitalisation: \$164 million.**

Energy supplier PEA has a good niche business delivering low-cost, tailored 'off-grid' power supply to the Australian resources sector, and 'grid-connected' renewable hydro power. PEA owns and operates 19 power stations, with a total power generation capacity approaching 211MW, using gas, diesel, dual-fuel or water to generate electricity, which is supplied to customers under long-term contracts.

The core business division, Kalgoorlie Power Systems (KPS), has been delivering its resource sector clients, including some of the world's biggest mining companies, 'off-grid' power supply solutions more than 25 years. The hydro assets also have long-term power purchase agreements.

Despite obvious challenges in the resources sector, PEA has a very strong business. In February it won a contract from AngloGold Ashanti to convert its 44 megawatt Tropicana Gold Mine power station from

diesel to gas-fuelled by 2016, which will improve the company's future earnings. Similarly, the company's Carosue Dam power station – which serves Saracen Gold Mines' Carosue Dam project – is to be converted from 100% diesel to an 11 MW dual-fuelled (70% gas, 30% diesel) operation, and the contract extended.

While brokers don't see much in the way of earnings growth in FY15, FY16 is considered likely to show a big improvement. According to Thomson Reuters, analysts have a consensus target price on the stock of 61 cents, with a forecast fully franked dividend yield of 5.62% in FY15 and 6.74% in FY16 also contributing to return.

### **Spring FG Limited (SFL, 45.5 cents)** **Market capitalisation: \$105 million.**

New listing Spring FG is an Australian retail financial services company, offering financial education, financial planning, investment, insurance and tax advisory services, and direct share trade and execution services, mainly to SMSFs.

Established in 2010, Spring has been profitable since inception, and has operations in Sydney, Brisbane, Canberra and Melbourne. It has expanded both organically and through acquisitions. Moneytree Partners and Pink Diamond. More than half of earnings come from providing real estate investment advice, which is a specialisation. (Some investors see that sensitivity to the property market as a potential risk for Spring.) The other main specialisation is advising on the establishment, structuring and administration of SMSFs.

Spring has found a good reception on the sharemarket, moving quickly from its issue price of 30 cents to 45.5 cents. Spring forecasts revenue of \$15.2 million in FY15 and net profit of \$5.03 million. The company expects to pay a fully franked dividend \$2.6 cents a share in October 2015: at the issue price of 30 cents that represented a fully franked yield of 8.8%, but at 45.5 cents currently, that prospective yield has come down to a still-attractive 5.7%.

**Indoor Skydive Australia Group (IDZ, 50 cents)**  
**Market capitalisation \$69 million**

When IDZ was listed in January 2013, many people would have dismissed it as a gimmick float: the company operates the iFly Downunder indoor skydiving simulator at Penrith, New South Wales, which opened in May 2014. But those who scoffed at Indoor Skydive Australia have watched in amazement as it has turned its issue price of 20 cents into a 50-cent share price (IDZ shares shot as high as 92 cents in March 2014).

The point that people may have missed is that the skydiving simulator – what the company calls a “vertical windfall” facility – is not solely a fun-park attraction: parachute clubs and the military also use it for parachute training.

IDZ is building its second facility at Surfers Paradise – which will be aimed mainly at the tourism market – and this facility is expected to open in the second half of calendar 2015. Construction of the third facility, in Perth, will begin this year: it is expected to be fully operational by mid 2016. ISA Group has signed a construction contract for the fourth iFLY facility, in Adelaide, and is in the process of completing the site identification and selection process for the iFLY Melbourne facility. The company sees its market opportunity as stretching to about seven facilities (including Penrith) in Australia and up to two in New Zealand. IDZ is also exploring opportunities in Asia.

IDZ certainly has a unique business. But it does not make a profit yet. However, Veritas Securities analyst Brent Mitchell rates the company a buy and has a 12-month price target of 82 cents, citing the popularity of tunnels globally and the success of the Penrith facility among military groups and professional skydivers.

**Billabong International (BBG, 60 cents)**  
**Market capitalisation \$594 million**

Lifestyle apparel company Billabong International is definitely being turned around – the December 2014 half-year profit of \$25.7 million was the first profit for the company in three years, and was a big improvement on the loss of \$126.3 million in the corresponding period in 2013.

That is very cold comfort to someone who paid more than \$11 for the stock in 2007 – before Billabong's

near-death corporate experience – but it might interest some investors today, at 60 cents.

There is a long way to go – Billabong has not paid a dividend since 2012 – but analysts were generally pleased with the half-year result. Billabong appears to have stabilised, and the company managed to lift its gross margin in both Australia and Europe. The turnaround opportunity at Billabong is a big one, but analysts see the stock recovering to at least 70 cents as further progress becomes apparent.

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## 7 important things all investors should know

by Peter Switzer

It's often said that a little bit of knowledge can be a dangerous thing. Too little information can lead to inept, ill-timed investment decisions. To ensure you're well-equipped to make the right decisions, let me tell you seven things you might not know but need to know.

1. Many seem stressed about the oil price. In fact, this has been beaten up and it's out of proportion. The drama was captured by Brent Crude topping out at US\$139.83 a barrel on 30 June 2008. It then plunged 67% to US\$46.59 on January 13 this year!

But Ruchir Sharma at Morgan Stanley Investment Management Inc. put the oil story into perspective in an interview with Bloomberg.

"The price of oil is returning to normal in its long-term 100-year history," Sharma explained. "We tend to have a short memory and we tend to forget that the price of oil breached the \$50 a barrel level only a decade ago."

OK, move on.

2. We're really worried about BHP and Rio, with iron prices now around US\$60 a tonne. Once again, there's a lot of short termism in this story.

The chart below explains why we're so worried about iron ore prices and companies such as BHP and Rio because in 2011 the price was over US\$180 a tonne but now it's \$63! And experts say economic gravity is still pulling it down.

However, this is what *The Economist* magazine pointed out on 9 September 2014:

"Indeed, the recent fall in price should be kept in perspective. A decade ago, the price for iron ore was only \$20 a tonne. Even adjusting for inflation, prices

are, even now, triple that level. The iron-ore boom may have come to an end, but the big miners have so far managed to remain profitable."



I agree with my colleague Paul Rickard that a stock like BHP is now looking more like a dividend play and especially so with the South32 split and the 'gifting' of one share per BHP share.

3. There are whingers out there who think our top 200 companies paying back close to \$90 billion in dividends this year is a sign that they don't have any good investment ideas and it will hurt the companies' future performances and bottom lines. I like the view of Paul Taylor, who oversees the Fidelity Australian Equities Fund, who pointed to academic work that shows companies that have high payout ratios invest more shrewdly than those companies that hang on to their earnings. In fact, these companies are seen as non-wasters because they have less to play around with.

Next...

4. These falling interest rates not only make dividend stocks more attractive they also raise what fair value



is for our overall stock market. I pointed out on Saturday that the chief economist at Morgans Michael Knox says, on current numbers, fair value for the S&P/ASX 200 index is 6150. Right now, IG's Chris Weston says financial markets say there's a 90% chance of a rate cut in May, which will push fair value higher. (I don't know why the RBA would wait but these guys and gals on the Board have been nonplussing me for years!)

5. On Saturday, I talked about how long bear markets last. There's a bit of disagreement but *Morningstar* argued it's 97 months and the S&P 500 goes up 440 points on average. Another study says 67 months. There has to be a time period difference in the studies to explain this.

The important point for me is — what's the percentage increase of the S&P 500 in those bull markets that followed the Great Depression and World War II? As our bull market follows what the US calls the Great Recession and because monetary policy is so historically loose, I expect a longer bull market.

In the 1930s, the market gained a whopping 815.2%, while the WWII bull market put on, wait for it, 935.8%! What has the S&P 500 gone up by since 6 March 2009? Around 217% and that makes me a more relaxed bull-runner!

6. If you're long dividend stocks and you're looking for a stock that has the potential to deliver over 10% in a year but you don't want to play with companies that have too many question marks over them, then you could simply play an ETF for S&P/ASX 200 index. The history of markets that have not gone through something like a bubble shows they will pass their old all-time highs. Given that our all time high was 6828.7 and we're now at 5975, potentially that's a 14.2% gain. Then there are dividends and, for many, franking credits as well. Even if it took two years to happen, it wouldn't be all that heartbreaking!

7. Even if you're late to the party chasing foreign earnings, especially in Europe, it's still likely to be a successful investment strategy. Given a lot of market experts still think the Oz dollar will slip below the 70 US cent range, that means there could be even some decent returns in the US. However, maybe the ETF

for the Russell 2000 index might be the better way to go because, with the greenback rising, companies that earn most of their income in the US should do better than those that are big export earners. Smaller US companies tend to be Uncle Sam centric.

The ETF to have a look at might be iShares Russell 2000 ETF (IRU).

Mind you, don't feel compelled to play overseas. I think our local market still has a lot of upside. Also, be aware if the euro falls faster than our dollar, then the currency gain might not show up in the shorter term. Go into this with your eyes open. This chart from Yahoo! shows you what has happened to the Aussie-euro cross, where there has been a small downturn with the euro — but a small downturn is not a trend.

(See chart below)



Source: Yahoo! Finance

Remember, a trend is your friend, until it bends!

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## Buy, Sell, Hold – what the brokers say 23.3.15

by Rudi Filapek-Vandyck

It would appear price action during the week ending Friday 20 March 2015 was characterised by disappointing out of season reports from local retailers and at the same time short covering in the wake of a more dovish than expected Federal Reserve in the US. As expected, the first was matched by negative revisions in ratings, price targets and forecasts. The second, however, goes hand-in-hand with the observation that forecasts and targets are no longer falling for resources stocks. No doubt, many a patient investor is keeping fingers crossed we may be witnessing a reversal in trend for resources stocks, finally!

### Upgrades

**BHP Billiton (BHP) upgraded to Buy from Neutral by Citi.** Citi has upgraded to Buy from Neutral following share price weakness and on the estimate that investors looking for yield can have 5.5% if they buy now, or 6% if they wait until South32 has become a separately listed entity, which should happen by late May/June. Price target remains \$35. Making this story even more about dividends, Citi believes South32 post separation can become a high yielding stock in its own right, estimating a yield of circa 6% for the spin-off.

Upgrades				
Order	Company	Old Rating	New Rating	Broker
1	BHP Billiton	Neutral	Buy	Citi
2	Bluescope Steel	Neutral	Buy	Macquarie
3	iiNet	Neutral	Buy	Credit Suisse
4	iiNet	Sell	Neutral	Morgan Stanley
5	Mincor Resources	Neutral	Buy	Macquarie
6	Oz Minerals	Neutral	Buy	Macquarie
7	Regis Resources	Neutral	Buy	Citi
8	Senex Energy	Sell	Neutral	Credit Suisse
9	Washington H Soul Pattinson & Company	Neutral	Buy	Morgans

**BlueScope Steel (BSL) upgraded to Outperform from Neutral by Macquarie.** Macquarie has updated FX forecasts, assuming a lower Australian dollar and euro versus the US dollar over the next couple of years. The broker has also made material cuts to near-term iron ore price forecasts. In the steel sector, BlueScope is the largest beneficiary of the changes to forecasts and the broker expects steel spreads to improve. Macquarie upgrades to Outperform from Neutral. Target is raised to \$6.80 from \$5.40.

**iiNet (IIN) upgraded to Outperform from Neutral by Credit Suisse and to Equal-weight from Underweight by Morgan Stanley.** TPG Telecom (TPM) has launched a takeover offer for iiNet at \$8.60 a share. Credit Suisse notes iiNet may declare a special dividend to pay out excess franking credits to shareholders. The broker upgrades iiNet to Outperform from Neutral on the basis that iiNet is trading below terms and offers a 16% annualised return through to deal completion. Credit Suisse believes there is limited risk of the deal being blocked on competition grounds. Target is lifted to \$9.82 from \$7.00. Morgan Stanley raises the target price to \$8.60 from \$6.00 to reflect the bid price. Rating is upgraded to Equal-weight from Underweight. Industry view is In-Line. The broker does not believe the ACCC is likely to block the bid and notes the new company would have a 27% retail broadband share, well behind the leader Telstra (TLS) which has 45%.

See also IIN downgrade.

**Mincor Resources (MCR) upgraded to Outperform from Neutral by Macquarie.** The broker has lowered its A\$ forecasts which leads to earnings upgrades for nickel miners. The broker is bullish nickel and bases its valuations upon this stance, acknowledging that valuations would be materially different were the broker to assume current spot nickel pricing. Mincor's target rises to 80c from 75c Upgrade to Outperform.





**OZ Minerals (OZL) upgraded to Outperform from Neutral by Macquarie.** The broker has lowered its A\$ forecasts which leads to earnings upgrades for copper miners. The broker is bullish copper and bases its valuations upon this stance, acknowledging that valuations would be materially different were the broker to assume current spot copper pricing. OZ Minerals' target rises to \$5.30 from \$4.30, upgrade to Outperform.

**Senex Energy (SXY) upgraded to Neutral from Underperform by Credit Suisse.** After a volatile period for mid cap oil producers the stock is down almost 20%. At the current price the broker can envisage the value potential in Senex, as its large gas resources may be called on to supply the east coast market. The broker upgrades to Neutral from Underperform. That said, Credit Suisse is still uncertain about the economics of both Hornet and Surat CSG and the capability of the balance sheet to deal with this uncertainty. Target is raised to 35c from 32c.

**Washington H S Pattinson (SOL) upgraded to Add from Hold by Morgans.** The broker does not believe the share price reflects the value being ascribed to TPG Telecom (TPM) following that company's bid for iiNet (IIN). Soul Pattinson holds a 27% stake in TPG. While normal transaction risks exist, the TPG share price appears to suggest it will be successful. As such, Soul Pattinson should benefit. Morgans upgrades the rating to Add from Hold and raises the target to \$16.08 from \$14.25.

## Downgrades

**Affinity Education (AFJ) downgraded to Hold from Add by Morgans.** The timing around the company's \$75m raising to acquire \$25m in acquisitions and pay back \$45m in debt surprised the broker. FY15 earnings per share will be diluted by 13%. Morgans finds it strange that such a large equity raising was needed given it is dilutive and expensive versus debt alternatives. The rating is downgraded to Hold from Add and the target is reduced to \$1.34 from \$1.80.

## Downgrades

Order	Company	Old Rating	New Rating	Broker
1	BC Iron	Neutral	Sell	Macquarie
2	Dulux Group	Buy	Neutral	Credit Suisse
3	iiNet	Buy	Neutral	Morgans
4	Kathmandu	Buy	Neutral	Credit Suisse
5	Myer	Neutral	Sell	Citi
6	Myer	Neutral	Sell	Deutsche Bank
7	TPG Telecom	Neutral	Sell	Citi
8	Wesfarmers	Buy	Neutral	Morgan Stanley

**Dulux (DLX) downgraded to Neutral from Outperform by Credit Suisse.** The company will construct a new paint factory in Melbourne and a distribution centre in Sydney. The investment should be positive for valuation once fully operational, in Credit Suisse's view. The relocating of the water-based paint manufacture to Melbourne, away from the risk of flood and fire interruptions in Queensland, is considered a good measure. Despite raising the target to \$6.70 from \$6.20, Credit Suisse downgrades to Neutral from Outperform, hastening to add this is neither a reflection of the investment nor a reflection of asset quality and management's track record. It is simply that, following a period of outperformance, the valuation gap has closed with the good news reflected in the price.

**iiNet (IIN) downgraded to Hold from Add by Morgans.** Morgans only recently upgraded to Add but has now pulled the rating back to Hold following the bid by TPG Telecom (TPM) at \$8.60 a share. The broker now sets the target at \$8.60, from \$7.52. The broker notes iiNet board has the potential to distribute retained profits as a special dividend and the offer price would go down by whatever the cash component is.

See also IIN upgrade.

**Kathmandu (KMD) downgraded to Neutral from Outperform by Credit Suisse.** Credit Suisse will be looking for clarification on trading conditions over Christmas when the company reports its first half results on March 24. The broker is also interested in the strategic plans around store roll-outs, particularly given sales growth is not corresponding with the increases in rent and other variable costs. Credit Suisse takes the opportunity to downgrade to Neutral from Outperform in light of the recent rally and retains a target of NZ\$1.80.



**Myer (MYR) downgraded to Sell from Hold by Deutsche Bank and to Sell from Neutral by Citi.**

First half results were below expectations as was guidance. Deutsche Bank believes the chairman needs to make substantial investment to have any chance of addressing the issues stemming from stagnant sales and a growing cost base. The broker downgrades to Sell from Hold, noting the latest earnings downgrade makes for limited head room to address the issues. Management could avoid an equity raising by adding less cost to the business but this will not fix the underlying problem, in Deutsche Bank's view. Target is lowered to \$1.10 from \$1.60.

**Citi analysts have pulled back their rating to Sell from Neutral, while cutting the price target to \$1.25 from \$1.60.**

EPS forecast for FY15 has been reduced by 15% which positions Citi below company guidance with the analysts explaining they anticipate less sales growth. Elsewhere in the report the analysts state they see "a good chance" Myer will be forced to raise fresh capital. This is yet another reason to downgrade to Sell. Under a worst case scenario, explain the analysts, their valuation would drop to no more than \$0.92. The strategic review by new CEO Richard Umbers may be determined by the end of July 2015. Citi analysts see it as a key catalyst event.

**TPG Telecom (TPM) downgraded to Sell from Neutral by Citi.**

TPG's offer for iiNet (IIN) has strong strategic logic, in the broker's view, and potential earnings accretion of 14% in year one. Still, the shares are priced for perfection while the deal is not yet completed, so the broker suggests it is better taking money off the table at current prices and downgrades to Sell from Neutral. Target is raised to \$8.20 from \$7.05.

**Wesfarmers (WES) downgraded to Equal-weight from Overweight by Morgan Stanley.**

Morgan Stanley is downgrading to Equal-weight from Overweight on the back of slower growth at Coles. While its strategies are considered more sustainable than rival Woolworths (WOW) the broker contends it is not immune to the weaker industry outlook. The broker now forecasts a flat 5.4% earnings margin for Coles. Target is lowered to \$43 from \$48 and the industry view remains In-Line.

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## A yield to gamble on

by Paul Rickard

Investors chasing yield may be attracted by the new hybrid securities issue from Crown Resorts. An indicative margin of 4.0% over the bank bill means that these subordinated notes will initially pay a headline-grabbing yield of over 6.0% pa.

However, before you rush off to place large sums in this offer, consider the following:

1. when Crown issued its first series of these subordinated notes in September 2012, it paid a margin of 5.0%. At that time, its balance sheet was also stronger (lower leverage ratio); and
2. government guaranteed term deposits are paying a margin of around 0.5% over the 90 day bank bill. Your effective margin (credit spread) for this Crown risk is 3.5%.

### Crown Notes II

Crown is raising at least \$600m through the issue of Crown Subordinated Notes II. The monies will be used for general corporate purposes, including financing Crown Sydney, Crown Towers Perth and other anticipated growth projects.

Crown is currently part way through a \$2.8bn capital expenditure program for Crown Melbourne and Crown Perth. Crown also plans to develop Crown Sydney (an iconic six star hotel resort), a casino resort in Las Vegas and a five star hotel and apartment complex adjacent to Crown Melbourne. It has also lodged a proposal for a site at Queen's Wharf in Brisbane.

Importantly, these Notes will be classified as 'equity credit' by the Ratings Agencies until July 2021, and possibly thereafter. This means that the Ratings Agencies will treat them as 50% equity and 50% debt when assessing Crown's credit worthiness. The

features that allow them to be counted as part capital include subordination, optional interest deferral, mandatory interest deferral (see below) and a very long maturity date (2075).

Notwithstanding the long maturity date, Crown can at its option redeem the Notes from July 21, and at every interest date thereafter. Given that this is the date that the classification as 'equity credit' may also be wound back, the market will initially price the Notes on the expectation that they will be redeemed in 2021.

The Notes will pay interest at a margin of 4.0% over the 90 day bank bill. Each quarter, the fixed margin will be applied to the then current 90 day bank bill rate to determine the interest rate for the next quarter.

For the first quarter, using the current 90 day bank bill rate of 2.27%, noteholders will be paid interest at a rate of 6.27% pa.

Details of the issue are as follows:

<b>Security Type</b>	Unsecured, subordinated notes
<b>Listing</b>	ASX code CWNHB, expected 24 April
<b>Maturity Date</b>	23 April, 2075
<b>Optional Redemption Date</b>	23 July 2021, and each interest date thereafter
<b>Interest</b>	Paid quarterly, 14 Jun, 14 Sept, 14 Dec and 14 Mar
<b>Interest Rate</b>	90 Day Bank Bill + Margin
<b>Margin</b>	4.00%
<b>Interest Deferral</b>	Interest payments can be deferred at Crown's sole discretion. Mandatory deferral if key ratios breached.
<b>Deferred Payments</b>	Cumulative and compounding
<b>Step Up Margin</b>	5.00% (if Crown does not redeem following change of control event)
<b>Ranking</b>	Subordinated, ranking only in priority to Crown's Ordinary Shares. Rank equally with CWNHA
<b>Offer Opens</b>	25 March
<b>Offer Closes (scheduled)</b>	14 April (Security-holder), 21 April for Broker Firm
<b>Minimum Subscription</b>	\$5,000

## Mandatory Deferral of Interest

An important feature is that Crown must mandatorily defer the payment of interest if its interest cover ratio is less than 2.5 times, or its leverage ratio exceeds 5.0 times on two consecutive reporting dates.

Crown's leverage ratio is effectively its gross debt divided by its normalised EBITDA (ie the number of years of earnings it would take to pay off its debt). To get a sense of these numbers, the following table shows Crown's ratios on a pro-forma basis compared to the deferral levels.

	Note Deferral Level	Crown Proforma 31 Dec 14
<b>Interest Cover Ratio</b>	< 2.5 times	8.8 times
<b>Leverage Ratio</b>	> 5.0 times	2.5 times

While these ratios look pretty comfortable, a 51% decline in Crown's EBITDA (over two consecutive half year periods) would trigger the leverage ratio, while the interest cover ratio would be triggered by a decline in EBITDA of 72%.

## Bottom line

One of the positive features surrounding this issue is that Mr Packer's private company and major Crown shareholder, Consolidated Press Holdings, has said that it will invest \$50m in the Notes – certainly a sign of confidence.

Another positive is that Crown as an entity is considered to be investment grade by the Ratings Agencies. Under an ASIC regulation that I will never understand, Crown is prohibited from promoting its ratings to retail investors. For the record, Crown is rated Baa2 by Moodys, and BBB by each of S&P and Fitch.

Now, the ratings above refer to the overall credit worthiness of the issuer, and not this particular issue. These Notes are subordinated – the bottom of the pile when it comes to repayment upon liquidation. Further, it is not that inconceivable that Crown could see a drop in EBITDA of 51% which would trigger a mandatory deferral of interest.

Invest with your eyes “wide open”. An attractive margin and yield, however not a huge premium for the risk. Investing in these Notes makes more sense when it is within a diversified portfolio of securities.

Existing Crown ordinary shareholders and CWHNA holders can apply as security-holders. Broker firm offers may be available from CommSec, UBS, Deutsche Bank, NAB, Westpac and ANZ.

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## Shortlisted – international shares including Facebook

by Penny Pryor

We've been getting a lot of subscriber interest lately about international shares. With the Australian economy looking a little depressed of late, it's no surprise that investors are looking at the performance of global markets like the US.

An allocation to international shares is a responsible investment for a self managed superannuation fund and we provide regular updates on how you should and can do it, like [this story](#) last January.

James Dunn also wrote about it [earlier this year](#).

We cover the big international share news – like the IPO of Facebook – and try and help you invest in these big ideas. Back in February 2012, Paul Rickard explained that although it might be difficult to get into the IPO of Mark Zuckerberg's baby, you could always [buy it after](#).

And if you had bought it then, you certainly would be pretty happy today as you can see from its share price chart below.

### Facebook



Source: Yahoo! Finance

Earlier this year Peter also gave you some ideas of [how to buy Europe](#) and we're always answering your reader questions about the [best way to do this](#).

One little whisper Peter heard quite loudly was on his show last week when S.T. Wong from Prime Value and Ben Griffiths from Eley Griffiths followed each other and both liked APN Outdoor. This came on the same day that Peter bumped into Pierce Cody who started Cody Outdoor, which was bought by APN and then was sold to the private equity group Quadrant. Cody is back into the Outdoor space with Cody Live — a private company — and he said to Peter when he bumped into him in Double Bay that the digital sign boards are doing really well. In fact he was surprised that vandals aren't tampering with them and was thinking about downgrading his insurance! By the way both S.T. and Ben pointed to the positive impact of digitization on outdoor advertising. These, excuse the pun, look like positive signs!

**Important:** *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*



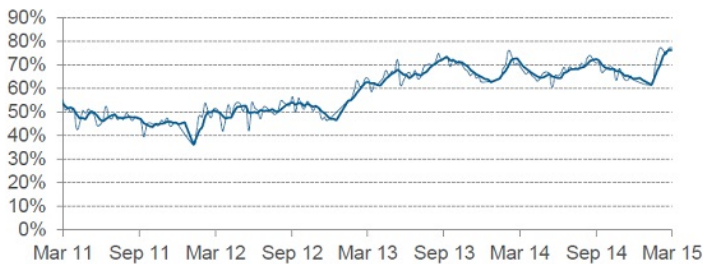


## Auction clearance rates over 70% by Switzer Super Report

It has been a good period for those wanting to sell at an auction, with six weeks of clearance rates in the mid to high 70's across Melbourne, Sydney, Canberra and Adelaide.

This week, the preliminary weighted clearance rate across the combined capital cities came in at 77.4%, compared to 77.2% last week, and 69.4% this time last year.

### Weekly clearance rate, combined capital cities



Research house CoreLogic RP Data says Sydney's demand "continues to outpace supply at auction," with solid results of 84.7% this week, up from last week's result of 83.9%.

Melbourne is also delivering the goods to sellers, with a preliminary clearance rate of 78.1% this week, which is right on par with last week's 78%.

### Capital city auction statistics (preliminary)

City	Clearance rate	Total auctions	RP Data auction results	Cleared auctions	Uncleared auctions
Sydney	84.7%	1,042	843	714	129
Melbourne	78.1%	1,332	1,152	900	252
Brisbane	52.1%	180	71	37	34
Adelaide	73.8%	108	61	45	16
Perth	17.4%	44	23	4	19
Tasmania	55.6%	21	9	5	4
Canberra	71.1%	70	45	32	13
<b>Weighted Average</b>	<b>77.4%</b>	<b>2,797</b>	<b>2,204</b>	<b>1,737</b>	<b>467</b>

But how are prices fairing across the capitals?

For those sales made at private treaty, it's no surprise prices are highest in Sydney – and by quite a margin – with a median house price of \$835,000. That compares to Melbourne's median house price of \$545,000.

The difference between unit prices is smaller between Sydney and Melbourne – Sydney's median unit price stands at \$647,750, while Melbourne's is \$455,000. Across the combined capitals, the median house price stands at \$622,658, while the median unit price is \$531,103.

### Rate stimulus – how long can it last?

CoreLogic RP Data's Head of Research, Tim Lawless, says the property market seems to have responded almost immediately following the cash rate being cut from 2.50% to 2.25%, with flow on effects to mortgage lenders, but questions how long this stimulus will last.

Lawless says consumer confidence, economic growth, employment numbers, and political uncertainty are among the list of factors that could impinge on the stimulus we are currently experiencing in the property market.

Tougher lending conditions are also expected on the back of APRA's vigilance on growth in lending to investors and warnings made by the RBA on the speculative nature of investors, particularly in the Sydney and Melbourne market.

"The wash up of all this is that the rate of capital gain is likely to continue to drift lower over 2015, even in the face of lower mortgage rates. We saw the rate of capital gain across our combined capital city index peak in April last year, at 11.5%. At the end of

February, the rate of growth had moderated to 8.3%. If this scenario does play out, it will be a welcome trend for the Reserve Bank, which has become increasingly uncomfortable with the pace of house value appreciation,” [says Lawless](#).

“Although there are concerns about the pace of growth in the capital city market, it is important to remember that it is largely Sydney and Melbourne where the bulk of growth is occurring.”

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