Switzer Super Report
Advice you can trust

Monday 8 February 2016

Ups and downs

The stock market is at a base level and it could go either way from here. So do you dump stocks or buy great stocks for a lower price? I look at this pertinent question in today's note.

Also in today's *Switzer Super Report*, Paul Rickard reveals how he's playing BHP stocks, while Gary Stone checks the charts to see what they say about the miner. Plus, James Dunn gives his overview of what to expect this reporting season. In *Buy, Sell, Hold – what the brokers say*, brokers put AGL in the good books, while Domino's is in the not-so-good books. And CBA and REA Group are among the likes in this *week's Super Stock Selectors*.

Sincerely,

Peter Switzer

Inside this Issue

The "small Australian" – how to play BHP
by Paul Rickard
04

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Here's why you dump stocks or load up on them!

by Peter Switzer

Right now, stock markets are at a base level from which they could take off or nosedive. So how do you make your bets? Should you sell everything, as RBS recommended a few weeks back, or do you hang tough and buy great companies at much lower prices?

Recently, I talked about a UK-based fund manager, who recommended that FANG was a good strategy for anyone wanting to play overseas stocks. I saw him last week and he corrected me saying it was (excuse the French) FAG because he thinks Netflix has too many rivals compared to Facebook, Amazon and Google.

Amazon is a crusher and doesn't care about earnings but about revenue and buying or crushing rivals. Let's look at its share price this year and particularly after a week when tech-stocks were beaten up. Here it is:

Source: Yahoo!7 Finance

Commentators point out how Amazon's share price has fallen about 25% since mid-January. However, they leave out that it climbed from about $370 to nearly $700 in the nine months from March to December! That was around a 90% spike, which makes the 25% pullback look a little more understandable!

Let's apply the same analysis to a great stock, such as Macquarie. In November, Macquarie was over $85 and many were expecting it to challenge the $100-mark but then it turned to mush. On Friday, the millionaires' factory was down to $63.74, so that too has slipped about 25%. The question you have to ask yourself is this: "Is this buy time or dump time for stocks?" The same should be asked of others such as Amazon, if you play overseas.

Source: Yahoo!7 Finance

So we get back to the key question: should we buy these once stellar stocks (and let's throw in the likes of CBA and other great quality dividend-paying stocks)?

I pointed out in last Saturday's Report, that Mary Ann Bartels of Merrill Lynch Wealth Management in the US told CNBC that morning that we were in the early stages of a secular bull market, which historically lasts over a decade!

Gary Stone of Sharewealth Systems said the same last week and my interview with him can be found here.

Against this, the Citi team has come out with this negative pearler that "the global economy seems trapped in a death spiral that could lead to further weakness in oil prices, recession and a bear market!"

Now death spiral could be an exaggeration for public relation effects but it could be that this possible cyclical bear market inside a bull market has some more time to run.

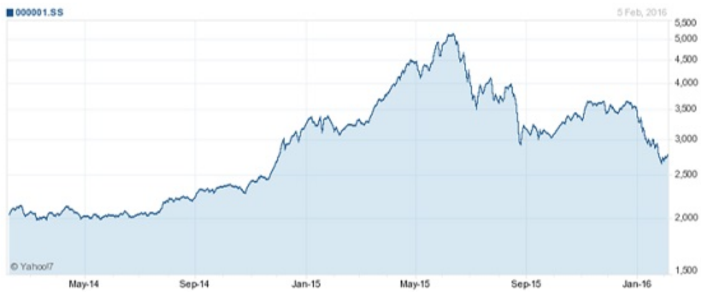
The drops we've seen since April (when the S&P/ASX 200 index nearly hit 6000) and what we've seen since November last year (for some stocks) and then January might be enough adjustment and we could be close to a bounce.

What adjustment? Answering this question and believing the answer will determine whether you're a buyer or seller now.

In April last year, it was thought that:

- The US economy was improving strongly.
- The Fed would soon raise rates.
- China was slowing but no hard landing was expected.
- The Chinese Shanghai stock market had spiked from 2000 to 5000 in one year!
- Japan was doing well enough to avoid negative interest rates.
- Commodity prices had fallen but no one expected the falls we've seen since that time.
- Europe and the UK were on the mend and this has been about the only view that has held right.

From the middle of 2015, it all went pear shape and positive views on the future that pushed share prices up were downgraded so stock prices had to be adjusted downwards.



Source: Yahoo!7 Finance

So we're now seeing the opposite of the excessive enthusiasm that pushed stock markets up, company valuations up and even that crazy Chinese stock market up to a new level.

The consensus of economists backs the fact that the world economy is not going to hell in a hand basket. That's my view too. The world's central banks are on board too, so I'm looking to buy great companies for the future at nicely lower prices. Sure, I could be wrong for six months but I bet I'm right in 12 months and even more right in 24 months.

The history of secular bull markets is on my side but I do have to hope we're seeing it correctly. Usually, secular bear markets, which ended around 2010-13, are followed by secular bull markets that come out of recessions and are powered by low interest rates and accommodating governments.

I'm seeing that so I'm happy to believe that we're going through a rough patch that will give way to a better patch. Are there any recent positive signs to support my contention?

Well, try the US job numbers. Here, non-farm payrolls (employment) rose by 151,000 in January (forecast: +190,000), but average hourly earnings rose by 0.5% (forecast +0.3%) and the jobless rate fell to an 8-year low of 4.9%. Meanwhile, consumer credit rose by US$21.27bn in December, against a forecast of US$16bn!

This doesn't sound like an economy heading towards recession! In fact, the Dow fell on Friday because the economic numbers say the US economy is good enough to see a rate rise in March! My case for believing that some good news will show up in 2016, which will turnaround stocks, looks stronger than last week and I like that kind of thing. That's why I'm loading up on stocks whenever I can.

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The “small Australian” – how to play BHP

by Paul Rickard

No longer the ‘big Australian’, BHP is now down to sixth place in the batting order of companies ranked by market capitalisation on the S&P/ASX 200. Its index weight is 4% — only marginally higher than CSL or Wesfarmers. And this is despite the rally over Thursday/Friday that saw BHP climb from a low on Wednesday afternoon of $14.17 to close on Friday at $16.20, a gain of 14.3% in two days.

For shareholders, owning BHP has become pretty ugly and the obvious questions are being asked. Do I average down and buy some more? Do I sell what I have? Or do I just sit it out? Here is what I think and am doing.

I have been wrong on BHP

Firstly, I have to admit that I have been wrong on the timing of BHP over the last two months. Like many private investors, I dabbled when they first hit the $20.00 mark (picking some up for $20.40), and then bought some more when they went below $17.00 in mid December (you may recall my earlier article on 16 November). In 2016, I haven’t been brave enough to add any more.

Commodity prices being crunched I get – and BHP has been copping it on all fronts. Oil going below US$30 a barrel, copper below US$2.00 a pound, and iron ore below US$40 a tonne. Interestingly, these have all recovered somewhat, and with the US dollar weakening, are possibly starting to find a floor.

What I didn’t expect was the belligerence – many would call it the sheer stupidity – of the BHP Board not being prepared to junk the progressive dividend policy. Until it does, questions about BHP’s long-term financial health will float around like a bad smell.

The other news has also been bad. While the write down of the US oil assets was predictable (another disastrous acquisition under the watch of Chairman Jac Nasser), the market was in no mood to be reminded of BHP’s oil folly. And so was the S&P credit downgrade, another reminder about BHP’s financial health.

Consequently, the market has trashed BHP’s share price and notwithstanding the rally at the end of last week, it has underperformed compared to the other major miners. While not directly comparable (due to commodity mix), the following table shows the change in prices of the major miners since 13 November:

	13-Nov	5-Feb	Change
BHP	$20.23	$16.20	-19.9%
Fortescue	$2.28	$1.90	-16.9%
RIO	$48.65	$41.62	-14.5%
South32	$1.30	$1.15	-11.6%

The progressive dividend must go

Apart from a bottoming of commodity prices, the best thing to help restore some confidence in the company would be for the BHP Board to shed the progressive dividend policy. If this policy is maintained, BHP will pay a dividend of 124 US cents per share for FY16 – about 172 Australian dollar cents – putting BHP on a prospective yield of 10.6%. With commodity prices where they are, it is very unlikely that BHP can pay this dividend without increasing borrowings. There is also a limit to how much it can prune capital expenditure, without impacting the long-term viability of the business.

Just because "our progressive dividend has withstood previous cycles" and "BHP was the only major not to cut the dividend during the Global Financial Crisis", these are not reasons to continue with the policy. The numbers simply don't stack up. The market wants a financially strong BHP.

Shareholders will, in the main, rejoice when this policy is abandoned – so the sooner the better. And if the Directors have a bit of egg on their faces, so be it. Hubris is never a strength.

What the brokers say

The brokers still remain relatively upbeat on BHP, but as is to be expected, all have slashed their target price. They also expect the progressive dividend policy to go, although some still expect that the first half dividend may match that paid in 2015. The consensus forecast dividend for FY16 is down to 84.4 US cents per share (compared to the 124 US cents per share paid for FY15), and for FY17, 86.8 US cents per share. Interestingly, as a group, they are more positive to RIO than they are to BHP.

These are the current forecasts and recommendations:

	Recommendation	Target Price
Citi	Buy	$17.00
Credit Suisse	Outperform	$20.00
Deutsche Bank	Hold	$20.00
Macquarie	Neutral	$15.50
Morgan Stanley	Overweight	$22.50
Ord Minnett	Lighten	$13.00
UBS	Buy	$22.00
Average		$18.57

Source: FN Arena

What can we expect from BHP's half yearly report?

BHP is due to report at 8.30am on Tuesday 23 February. It has already provided the market with its production data and said that it will book a US $4.9bn impairment (US $7.2bn pre tax), as it writes down some of its investment in US onshore oil and gas. It will also take a hit to underlying attributable profit of between US $300m and US $450m for redundancies, inventory write-offs and additional taxation costs.

So, what to look for?

While the market will have some interest in the underlying profit result for the past half, my sense is that it will pay much more attention to the following:

- the status of the progressive dividend policy. Does it get junked?
- the progress BHP is making on taking cost out of the business and any plans to cut back on marginal production;
- an update on the cost of the Samarco disaster; and
- capital expenditure plans.

All relate to the financial strength of the company and its ability to respond to the commodity cycle. Although BHP has some world-class assets, it is a price taker and has negligible control over its revenue. The game now is to manage cost and preserve capital, and make sure that the Company comes out of the cycle in a stronger competitive position than from where it went in.

How to play?

The first question I want to consider is whether BHP should be a core stock in my portfolio. With BHP now making up only 4% of the S&P/ASX 200 index – less than half the size (by market capitalization) of the Commonwealth Bank, this question – almost unthinkable three years ago – should be asked.

My answer remains "yes", as I want some exposure to the materials sector, which weighs in at around 12% of the index. With its diversification across multiple commodities, BHP has been my preference over companies such as RIO or Fortescue.

So as a "core stock" in my portfolio, and given that I don't believe I can predict commodity cycle peaks and troughs with accuracy, I am not selling. I am a patient, long-term holder.

Buy more? Well, my dabbles, as they have turned out, have been too early. I can't believe commodity prices (in particular oil) have dropped as far as they have and so quickly. Despite the uptick last week, I am also not prepared to call this the bottom yet. This is a supply driven led rout – I think the markets need more evidence that production has been curtailed.

But the US dollar showing signs of weakness is a positive, and if this has topped, then commodity prices will rise.

BHP's half-year report will be pretty critical to how I play it going forward. If the progressive dividend is junked and some good progress on cost and productivity initiatives is reported, then I will be inclined to add some more BHP to the portfolio.

If the Board says nothing about the policy and in the absence of a weakening US dollar, I think it is quite possible that BHP could retest its $14 lows again. If this plays out, my next dabble point will be in the $13 area.

See what our technical expert Gary Stone has to say about BHP's share price movements.

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Company show-and-tell – what to expect this reporting season

by James Dunn

The Australian December interim (half-year) profit reporting season starts to get into gear this week, but it is later in the month when the real action comes through.

Broking analysts are not looking for much joy in the season, following further downgrades made recently to earnings expectations on the back of the worsening outlook for the global economy and commodity prices, and pessimistic outlooks from the major central banks. Earnings expectations for the market deteriorated in November during a gloom annual general meeting (AGM) season – when few companies showed much optimism for the year ahead – and upgraded expectations have been few and far between.

Goldman Sachs is one of the few brokers or investment banks to give a prediction for the first-half reporting season: it expects overall earnings growth for the market of just 3.9%, the lowest since the Global Financial Crisis.

This is likely to be a precursor to a poor year for company earnings. According to the strategy team at Citi, the consensus estimates for earnings per share (EPS) growth in the 2015-16 financial year have fallen from –2% to –6% over the past two months.

Over at Morgan Stanley, the strategists expect EPS across the market to fall by 7.1% in FY16, down from a 6.1% contraction they expected at the end of 2015.

The main drag on the market is the struggling resources sector. For example, UBS sees "ongoing horrific conditions," resulting in 2015-16 earnings falling by about 52%. That will take the broad market into earnings-downturn territory, but the investment bank says the profit growth for the rest of the market will actually be reasonable, at about 6%, led by the healthcare, building materials, general industrials and discretionary retail sectors.

EPS growth for the banks is likely to be flat in FY16: there will be slight earnings growth, but the big capital raisings of 2015 – which saw $24 billion worth of new equity raised by the big four – means that the profits have to be spread across an increased share base, cancelling much of that out at the EPS level. If the resources and financial stocks are stripped out, UBS projects the industrial stocks as delivering 5%–6% earnings growth on a capitalisation-weighted basis, and on a median basis, slightly better at 6.6%.

Share investors will be praying for no surprises from their portfolio constituents. Companies have had plenty of time to own up to the market if business conditions are deteriorating further, and the share market will be savage on any further disappointments it was not expecting.

For example, last week, labour hire and maintenance firm Programmed downgraded 2015-16 and 2016-17 earnings guidance by about 10% each (its financial year ends in March), and took a $75 million goodwill impairment. In response, Programmed's market value was slashed 35% in a day, and the stock ended last week off 44%.

Likewise, protective equipment supplier Ansell was pummelled by 21% last week, after lowering its previous 2015-16 profit guidance of US$160 million–$183 million to a new range of US$145 million–$167 million – a 9% cut. Ansell gave a pointed warning about the danger of forecasting in the current economic and financial volatility.

However, the opposite also applies. On Friday, baby and toddler food company Bellamy's Australia issued upgraded guidance for its interim result that significantly beat market expectation, and the share price surged by 15%.

In yield-conscious times, dividends will be very closely watched this reporting season. In particular, BHP has flagged the abandonment of its “progressive” dividend policy – under which, since 2001, it has always paid a higher dividend than in the previous period – and Commonwealth Bank’s interim result will be the first indication of the pressure on the banks either for dividends to be reduced or payout ratios wound back.

CBA reports on Wednesday February 10. Most analysts expect CBA to boost its interim dividend from the $1.98 a share it paid last year, but again, even achieving that level of dividend per share (DPS) is more difficult because of the bank’s capital raising last year. Broker CLSA says the bank would be justified in cutting the interim dividend to $1.88, to boost its capital against increased regulatory requirements and weaker earnings growth.

BHP reports its December half-year profit on February 23. BHP is expected to cut its interim dividend, and repeat the dose for the full-year: BHP’s dividend currently costs $US6.5 billion (about $9 billion) a year, and to meet that commitment this year, it would have to borrow money.

While the other major banks do not report their interim dividends until May – ANZ, National and Westpac have a September balance date, and a March half-year – analysts’ consensus collated by FN Arena expects ANZ and NAB to cut their full-year FY16 dividends, by 2.7 cents (1.5%) and 5.3 cents (2.7%) respectively.

According to a Bloomberg survey, of 85 companies in the S&P/ASX 200 index that declare dividends in February, 56 are forecast to raise dividends, 19 will maintain and 10 will cut payouts. That will leave the S&P/ASX 200 on an historic dividend yield of 5.17%, the highest in five years.

Large companies expected to increase their dividend include: CBA, Telstra, Rio Tinto, CSL, Wesfarmers, Woolworths, Brambles, AMP, Suncorp and QBE.

Large companies expected to lower their dividends include: BHP, Woodside, Westfield, Oil Search, Origin Energy, Santos, Magellan Financial, JB Hi-Fi and Independence Group.

Large companies expected to maintain their dividend include: Amcor, Ramsay Healthcare, Crown Resorts, Sonic Healthcare, Coca-Cola Amatil, Computershare, Tatts Group, Cochlear and Fortescue.

In terms of large-cap companies capable of producing a positive earnings surprise this season, UBS nominates Harvey Norman, JB Hi-Fi, Bluescope Steel, Star Entertainment Group, Wesfarmers and Qantas Airways. However, potential large-cap negative surprises include Woolworths, Coca-Cola Amatil, Insurance Australia Group (IAG) and IOOF Limited.

Citi analysts are concerned about resources and related sectors (such as Origin Energy and Worley Parsons), overseas-focused businesses (Amcor and Ansell), capital markets (Macquarie Group), consumer staples (Coca-Cola Amatil) and insurance (IAG). But the flipside is the potential for positive surprises in areas such as retail (Wesfarmers and Harvey Norman), gaming (Crown), and infrastructure (Sydney Airport).

The weaker Australian dollar will also play a major role in the reporting season. Stocks with big US sales and earnings in US dollars will see a boost to earnings: in that category are building materials suppliers Boral and James Hardie – which are benefiting from the recovery in the US housing market – as well as the medical device heavyweights Cochlear and ResMed, and financial infrastructure company Computershare.

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Is BHP a buy yet?

by Gary Stone

The 32-year logarithmic chart below shows the channel in which BHP's share price has moved over this period. The black median trend line shows the controlling gradient. The two outer bold red trend lines are the upper and lower channel lines and the thinner red lines are support and resistance trend lines reached along the way.

The blue horizontal lines show support and resistance zones over the last 10 years or so. The lowest support zone between $14 and $14.50 is a weak support zone, but coinciding with the lower channel line adds more significance to this support zone. Having said that, there is no rule that says the lower channel line has to hold.

Furthermore, BHP's share price has already experienced a near 78.6% retracement of its 10-year share price run-up from 1998 to April 2008. This is a large Fibonacci retracement by any means.

One may conclude that there is far more upside for BHP's share price than downside.

Source: Beyond Charts

BHP's share price has bounced sharply off the low $14's, where the lowest support zone and lower channel line coincide. Technically, this was expected, at least for a few trading days. The questions are: is this the bottom and will this support zone hold if BHP falls back into the $14 range again, or will BHP continue to plummet lower?

Let's get the negative side out of the way first. If the $14 to $14.50 support zone doesn't hold, then the next support zone below the lowest displayed zone is $10.25 to $11.25. This is a long way away and probably constitutes a 'plummet'! Which best describes what has happened since the $22 area.

On his TV show last week, Peter Switzer asked whether I would be a buyer of BHP given these circumstances. To which I replied, "No, because I need to have some technical evidence that there is a high probability that the down trend has changed to an up-trend."

However, I can understand that contrarian investors might have a different view. One that determines that BHP is massively oversold, has more upside than downside, and is paying one of the highest yields that it has in decades, maybe ever! That may change in a month or so when BHP announces its much-anticipated dividend. Let's wait and see.

I am not a contrarian investor mainly because I am a medium-term investor, with an investing horizon of months, whereas contrarians, in the main, are prepared to take a position in an 'oversold' large cap stock for many years. Given BHP's current scenario, the case for this type of tactic probably looks better now than ever.

Regardless of your investing style, there is a risk/reward case for buying BHP at these levels, given the current technical setup. My investing style would demand that one also predefines the maximum risk that one is prepared to take in the position. Technically, the simplest approach would be to enter after a down day or two in the current price area, and predefine one's risk by having a stop loss marginally below the current support zone, perhaps somewhere between $13.50 and $13.75 (not placed in the market until the price is reached).

For myself, to answers Peter's question more specifically about when I would buy, currently that would be if BHP breaks above $16.89, based on my mechanical longer-term volatility momentum process. And I would have an unambiguous trailing stop loss for that position being the predefined risk that I would be prepared to take for the up-trend to prove itself and to limit my loss, should the market do what it does and BHP's share price falls. If BHP's share price falls below $14.20, which is its recent lowest close price, then that break out price of $16.89 to enter would also trail lower.

Gary Stone is the Founder and Managing Director of Share Wealth Systems.

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

In the good books

AGL ENERGY LIMITED (AGL) Upgrade to Accumulate from Hold by Ord Minnett B/H/S: 5/2/0

With heightened market volatility, driven by concerns about commodity prices, Ord Minnett is more favourably disposed towards Australian utilities, given predictable earnings and cash flow yields.

AGL is raised to Accumulate from Hold, as it enjoys leverage to improving retail margins and increasing wholesale electricity prices.

Target is raised to $20.00 from $15.60.

APA GROUP (APA) Upgrade to Buy from Hold by Ord Minnett B/H/S: 6/2/0

With heightened market volatility, driven by concerns about commodity prices, Ord Minnett is more favourably disposed towards Australian utilities, given predictable earnings and cash flow yields.

Hence, the broker upgrades APA to Buy from Hold as it is envisaged winning business from ongoing infrastructure development.

Target raised to $10.50 from $8.70.

Upgrades

Order	Company	New Rating	Old Rating	Broker
1	AGL Energy	Buy	N/A	Ord Minnett
2	APA Group	Buy	N/A	Ord Minnett
3	AusNet Services	Buy	N/A	Ord Minnett
4	Australia & New Zealand Banking Group	Buy	Neutral	JP Morgan
5	Downer EDI	Buy	Sell	Morgan Stanley
6	Duet Group	Neutral	N/A	Ord Minnett
7	Healthscope	Buy	Neutral	Deutsche Bank
8	Incitec Pivot	Buy	Neutral	Credit Suisse
9	Japara Healthcare	Neutral	Sell	Deutsche Bank
10	Magellan Financial Group	Buy	N/A	Ord Minnett
11	Ramsay Health Care	Buy	Neutral	Deutsche Bank
12	Regis Healthcare	Buy	Neutral	Deutsche Bank
13	UGL	Neutral	Sell	Morgan Stanley

AUSNET SERVICES (AST) Upgrade to Accumulate from Hold by Ord Minnett B/H/S: 4/4/0

With heightened market volatility, driven by concerns about commodity prices, Ord Minnett is more favourably disposed towards Australian utilities, given predictable earnings and cash flow yields. The broker upgrades its rating to Accumulate from Hold because of AusNet’s solid dividend coverage and attractive valuation. Target is raised to $1.62 from $1.40.

DUET GROUP (DUE) Upgrade to Hold from Lighten by Ord Minnett B/H/S: 2/5/1

With heightened market volatility, driven by concerns about commodity prices, Ord Minnett is more favourably disposed towards Australian utilities, given predictable earnings and cash flow yields. The broker upgrades DUET to Hold from Lighten and raises the target to $2.35 from $2.30.

MAGELLAN FINANCIAL GROUP LIMITED (MFG) Upgrade to Buy from Hold by Ord Minnett B/H/S: 2/1/1

Funds under management were maintained over January, despite the choppy markets and falling Australian dollar. Despite this, Ord Minnett observes the stock has declined around 20% in the year to date.

The broker continues to envisage upside risk from new retail relationships and new product launches and an increasing allocation to global equities by Australian investors. Headroom is now emerging relative to valuation, so the broker upgrades to Buy from Hold. Target is raised to $24.84 from $20.72. See also MFG downgrade.

In the not-so-good books

DOMINO'S PIZZA ENTERPRISES LIMITED (DMP) Downgrade to Hold from Add by Morgans B/H/S: 1/5/0

A review of the general retail sector ahead of results season has Morgans forecasting a solid Christmas period, giving way to a tougher time in 2016. The broker is a stock picker in the sector, looking for reliable earnings, strong market position and reasonable valuation.
Morgans expects another solid result from Domino's but no great surprises, given a recent update. Target rises to $61.58 from $60.60 but rating pulled back to Hold from Add on valuation.

MAGELLAN FINANCIAL GROUP LIMITED (MFG) Downgrade to Neutral from Outperform by Macquarie B/H/S: 2/1/1

Ahead of reporting season and in the wake of Dec Q funds flow data, Macquarie has reviewed wealth management stocks under coverage. Magellan downgraded to Neutral on valuation. Target rises to $21.91 from $21.53. See also MFG upgrade.

Downgrades

Order	Company	New Rating	Old Rating	Broker
1	Ansell	Neutral	Buy	UBS
2	Ansell	Sell	Neutral	Credit Suisse
3	Ansell	Sell	Neutral	Deutsche Bank
4	Cleanaway Waste Management	Neutral	Buy	Deutsche Bank
5	Domino's Pizza Enterprises	Neutral	Buy	Morgans
6	Magellan Financial Group	Neutral	Buy	Macquarie
7	Origin Group	Neutral	N/A	Ord Minnett
8	Perpetual	Neutral	Buy	Macquarie
9	Perseus Mining	Sell	Neutral	Macquarie
10	Programmed Maintenance Services	Neutral	Buy	Deutsche Bank
11	REA Group	Neutral	Buy	Deutsche Bank
12	Shine Corporate	Neutral	Buy	Morgans

ORIGIN ENERGY LIMITED (ORG) Downgrade to Hold from Accumulate by Ord Minnett B/H/S: 4/2/1

With heightened market volatility, driven by concerns about commodity prices, Ord Minnett is more favourably disposed towards Australian utilities, given predictable earnings and cash flow yields. However, the broker lowers the rating on Origin to Hold from Accumulate as most of its upside is considered to be leveraged to oil prices. Target is reduced to $5.45 from $6.40.

PERPETUAL LIMITED (PPT) Downgrade to Neutral from Outperform by Macquarie B/H/S: 1/7/0

Ahead of reporting season and in the wake of Dec Q funds flow data, Macquarie has reviewed wealth management stocks under coverage. Perpetual downgraded to Neutral, with the broker noting the global strategy has to deliver above benchmark performance. Target falls to $41.10 from $46.20.

PROGRAMMED MAINTENANCE SERVICES LIMITED (PRG) Downgrade to Hold from Buy by Deutsche Bank B/H/S: 1/3/0

The company's update, with FY16 guidance of $65m and FY17 of $100-110m, signals worse-than-expected conditions in some parts of the business. Deutsche Bank had assumed the shutdown and maintenance business would be more resilient. The broker believes the FY17 guidance is optimistic, given the pressures in mining and oil & gas. With no catalyst to close the valuation gap and given the short-term risks, Deutsche Bank downgrades to Hold from Buy. Target is reduced to $1.70 from $3.60.

Earnings Forecasts

Order	Symbol	Company	New EF	Previous EF	Change	Recs
Positive Change Covered by > 2 Brokers						
1	S32	South32	-6.33	-0.16	3956.41%	7
2	STO	Santos	-13.50	-4.81	180.49%	8
3	TEN	Ten Network Holdings	-0.58	-0.23	156.19%	7
4	SXY	Senex Energy	0.89	0.47	88.54%	6
5	MIN	Mineral Resources	50.18	44.02	14.00%	4
6	GMG	Goodman Group	43.83	39.66	10.51%	6
7	IGO	Independence Group NL	16.87	15.41	9.47%	7
8	MFG	Magellan Financial Group	110.08	101.37	8.60%	4
9	WOR	Worleyparsons	89.24	82.52	8.14%	6
10	DLS	Drillsearch Energy	7.89	7.49	5.37%	4
Negative Change Covered by > 2 Brokers						
Order	**Symbol**	**Company**	**New EF**	**Previous EF**	**Change**	**Recs**
1	WSA	Western Areas	-3.33	0.34	-1078.82%	7
2	PRU	Perseus Mining	-0.55	1.45	-137.97%	6
3	SGM	SIMS Metal Management	5.90	14.64	-59.69%	7
4	VIT	Vitaco Holdings	2.03	4.70	-56.91%	3
5	ARI	Arrium	0.39	0.81	-52.15%	6
6	NCM	Newcrest Mining	41.68	53.85	-22.60%	8
7	PRG	Programmed Maintenance Services	19.03	23.29	-18.30%	4
8	WHC	Whitehaven Coal	1.80	2.20	-18.18%	8
9	SFR	Sandfire Resources	40.00	47.64	-16.03%	8
10	BHP	BHP Billton	22.74	27.00	-15.77%	8

Super Stock Selectors – REA Group and CBA

by Staff Reporter

This week, Evan Lucas of IG Markets says he doesn't have a clear ''like'' or ''dislike'' call. Instead, he'll be closely watching CBA's earnings results (out on Wednesday) and Rio Tinto's results (released on Thursday).

"The question will be – is CBA's expected clean results enough to see the market piling back in?" says Lucas.

CBA's half-yearly cash profit is expected to be $4.7 billion, a 2% increase on the previous year's first-half, while the CET ratio is expected to come in at 10.5%.

"What I feel may create headaches is blurred guidance or even the mere mention of the current conditions being 'tough'."

He says he'll be watching the cost, CAPEX expectations and debt of Rio Tinto in the company's full-year numbers.

"Rio continues to get away from long-term planning initiatives to be concentrating on a short-term continual trading platform. I just can't get excited by Rio in the current market."

Chief Market Strategist at CMC Markets, Michael McCarthy, says despite suffering some pain after buying in at higher and lower levels, he likes BHP.

"…this is a rare opportunity to weight my portfolio towards one of the world's best operating miners. In my view, we have seen the low in commodity prices, and the charts are now suggesting a BHP bottom is in place."

He's less excited about gaming giant Tatts Group, which is trading on a "hefty premium."

Raymond Chan likes the BetaShares Crude Oil ETF (OOO), with oil entering into a seasonal strong period.

Ansell's profit downgrade put this company in Chan's dislikes list.

Elio D'Amato from Lincoln Indicators says REA Group's main driver of revenue and profits growth over the first half of FY16 was its premium listings growing strongly across the board.

"The growth in premium listing penetration in the domestic market and further product innovation should help deliver the growth and allow for the potential further expansion of margins," D'Amato says.

"Looking forward, the investment into the Asian (IPP) and US markets (Move) remain potential avenues for growth."

Expert	Stock I like	Stock I don't like
Raymond Chan, managing partner, Morgans	BetaShares Crud Oil ETF (OOO)	Ansell (ANN)
Elio D'Amato, CEO Lincoln Indicators	REA Group Ltd (REA)	Capitol Health Limited (CAJ)
Evan Lucas, IG Markets analyst	Commonwealth Bank of Australia (CBA)	Rio Tinto (RIO)
Michael McCarthy, Chief Market Strategist, CMC Markets	BHP Billiton (BHP)	Tatts Group (TTS)

Our Super Stock Selectors is a survey of prominent analysts, brokers and fund managers. Each week we ask them to name a stock they like, and one they don't like. We purposely ask for 'likes' and 'dislikes' instead of recommendations, so it provides an idea of what the market is looking at, rather than firm buys or sells.

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