Switzer Super Report
Advice you can trust

Monday 15 February 2016

A return to positivity?

Stock markets will remain skittish despite the recent Wall Street rally. And although recent good news could return us to some sort of positivity, commodity prices and expected Chinese data could derail any market upswing. In today's note, I examine some of the good (and potentially bad) news and implications for investors.

Also in today's *Switzer Super Report*, Paul Rickard looks at how to play AGL and Boral plus Roger Montgomery provides a detailed analysis on a stock holding in his portfolio, which has delivered a better-than-expected earnings result.

Sincerely,

Peter Switzer

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Switzer Super Report is published by Switzer Financial Group Pty Ltd AFSL No. 286 531
36-40 Queen Street, Woollahra, 2025
T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Answer this question and you will know whether you buy or sell stocks now!

by Peter Switzer

The only question investors have to ask today is: Do you believe in the Wall Street rally on Saturday morning, our time? The S&P 500 has actually spiked 50 points since Thursday, which is big considering it is now at 1864.78.

I have to say I loved the fun markets have been having with the S&P 500 where 1812 looks like a critical resistance point, which has given light to 1812 overture references!

The return of positivity started on Thursday, US time, when the United Arab Emirates oil minister alluded to a possible OPEC oil production cut. It helped Wall Street spike but there was not much credence given to the comment as we sold off horribly on Friday.

But the Yanks got up again on Friday, ahead of a three-day weekend and instead of playing it safe, which often happens before a long weekend, they bought big time.

The Dow was up 313 points (or 2%) and the S&P 500 rose 35 (or 1.95%). The loss for the week for the latter was 0.81% and that has given rise to questions like: “Can you trust this rally?” and “Is the worst of this sell off over?”

Helping the newfound positivity was Deutsche Bank saying it was going to buy back $5 billion worth of its bonds, which saw its share price spike close to 12%. This helped European stock markets.

DB started the banking crisis questions last week, so that show of strength was a nice move.

Meanwhile, oil continued to rise in price on Friday and it was a beauty, with West Texas Crude up 12%!

This is all good news, which should help our stock market rise but Monday has a few problems.

First, China comes back from its weeklong New Year holiday so investors there might want to dump some stocks. After all, our market was down 4.24% over the week, so let’s hope the US burst of optimism offsets the negativity that persisted for most of last week. It should be added that the S&P 500 was only off 0.81% for the week.

Second, the Yanks are on a public holiday so we won’t have a lead from them and us left to our own devices for two trading days can be a worry.

Third, the European Central Bank’s President, Mario Draghi speaks on Monday and while he has helped stock markets in the past, saying things such as “whatever it takes”, he could now be seen as a “too much talk and not enough effective action” Mario. If he does not impress the markets on Monday, then he could spook them even more.

On the plus side, for those optimists hoping the worst is behind us, is the growing number of experts who think oil, interest rates and stocks all set important lows on Thursday.

I liked this from Scott Redler of T3ive.com who told CNBC: “For the first time in a while, it’s just as hard to be short as it is to be long, while for most of 2016, the bears and sellers have been in control.”

And I liked this from Tobias Levkovich, the chief US equities strategist at Citigroup who thought out loud on CNBC with: “Do we have a global meltdown? I don’t think so. You need an exogenous shock to create it.

“We just don’t have the pieces of the puzzle that get you to recession. We would need credit to get much worse and more broadly. We would need hiring intentions to fall."

If more investors and key market players start to believe his analysis, as I do, we can see this market turnaround but we need a run of unambiguous good news — economic and earning data as well as smart things said by the likes of Mario Draghi and OPEC.

By the way, an OPEC symposium on energy outlooks happens on Tuesday and this could help or hurt this new market optimism.

This is my wish list, and it might be a pipedream but if it happens, this negativity will turn to positivity quick smart. And let me throw this in from Levkovich, who says the selling is "overdone" and his so-called panic/euphoria model shows a 97% chance the market will be higher a year from now.

I will run with that but I hope it's a damn lot higher!

If we are at a turning point with all of this negativity, it's buy-time for the banks, BHP and Rio but that still remains a brave call.

The careful investor waits for a trend to emerge before getting on board beaten up stocks, while the speculator might move today but he or she has to be prepared to cop a loss. This is the difference between investing and speculating but given how far these stocks have fallen, you could easily wait until the trend becomes your friend.

Against these good tidings, I should inform you that the Bank of America Merrill Lynch has cut its full-year target for the S&P 500 from 2200 to 2000, as they worry about growth in the US.

That said, from here that would still be a 7.2% rise and if we throw in dividends, then this is around a 10% rise. Hopefully, we can decouple from Wall Street this year and play a bit of catch up and then we might even do better than the Yanks with our higher dividends and franking credits.

What I am hoping for is a good reason for Wall Street to keep rising, albeit at a slower pace than us.

Be clear on this: we are in the hands of news flow and if good news can start offsetting bad news then we're off to the races but at this stage this outcome is no odds on certainty, unfortunately!

To be honest, I am in a buying mood but I know I'm letting my speculation tendencies win over my more careful investing side. Always be careful of that kind of thing.

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Take profits on AGL, buy Boral in dips

by Paul Rickard

AGL Energy (AGL) and Boral (BOR) delivered better-than-expected earnings reports last week. AGL's underlying profit for the first half rose by 24.2%, while Boral's rose by 23%, compared to the corresponding period in 2015. Both companies are in our model portfolios (growth and income), and in this article, we look at how you might want to play them going forward.

AGL Energy

AGL has been one of the better performing stocks over the last 12 months. Apart from company factors, it has benefitted from the switch to more defensive sectors like utilities, where the annuity characteristics become highly prized, particularly as government bond rates tumble. For the year to the end of January, the utilities sector (in price terms) rose by 11.5% compared to the broader S&P/ASX 200, which fell by 10.4%.

For AGL, it is up from $14.88 a year ago to $18.20 on Friday, an increase of 22.3%. It is up a little bit this calendar year, and on Wednesday last week, it very briefly touched $19.65.

Source: Yahoo!7 Finance, 15 February 2016

AGL's underlying profit for the half year rose by 24% to $375m. It benefitted from higher electricity generation volumes, higher wholesale electricity prices and a lift in margin from the consumer market through disciplined price management. Savings in opex also assisted.

It is working hard to improve its balance sheet through a programme of reducing working capital, reducing sustaining capital expenditure and a targeted asset sale program.

AGL reconfirmed guidance for the full year, saying that underlying profit should now be "in the upper half" of the range of $650m to $720m. The interim dividend was raised by 2 cents to 32 cents per share.

While AGL presently makes most of its money out of power generation, it is undertaking a long-term transformation program from power producer and distributor to energy services provider.

It plans to be at the forefront of what it calls "new energy" – the provision of services to consumers producing their own roof top solar, with things like metering services and energy storage, electrical vehicle services, and other initiatives in the renewables industry. It will close its coal-fired power stations by 2050, with Liddell in the Hunter Valley to close by 2022. Further, it won't commission any new station or extend the life of any existing asset. It is also exiting coal seam gas, with these results including an impairment of almost $800m to cover this.

Transformation of this nature obviously carries considerable risk, and although it is over a multi year/decade time horizon, is likely to be a drag on earnings in the short to medium term. The New Energy Business division lost $8m in this half.

According to FN Arena, the Brokers are reasonably positive on AGL, with sentiment at +0.4 (scale -1.0 is most negative, +1.0 is most positive). While there were two downgrades following the result, with Credit Suisse going from outperform to neutral and UBS from buy to neutral, it was largely on the back of AGL trading in line with valuation (albeit pretty briefly on Wednesday). Overall, the brokers have a consensus target price of $19.52 on AGL.

For a utility stock, AGL is not cheap, trading on a multiple of 16.9 times FY16 earnings and 15.1 times FY17 earnings. Full year fully franked dividends of 68 cents per share are expected, placing it on a yield of 3.7%.

If the market continues to trade skittishly, utility stocks aren't going to get sold off. However, if the market starts to rally, stocks like AGL will lag in any upswing. It is fairly fully priced and there is execution risk in regard to its long-term transformation. Take profits in strength.

Boral

Boral shares rose from $5.14 the day prior to the announcement of its half-year result, to close on Friday at $5.61. It is, however, still a long way from its 52-week high of $6.90 in August.

Source: Yahoo!7 Finance, 15 February 2016

Earnings for the half-year were marginally better than expected, with underling net profit after tax up 23% to $137m.

The interim dividend was increased from 8.5 cents to 11.0 cents per share.

The market liked the margin expansion from operational and cost efficiencies in its largest division, the construction materials and cement business in Australia, as well as the improved contribution from Boral's 50% gypsum joint venture.

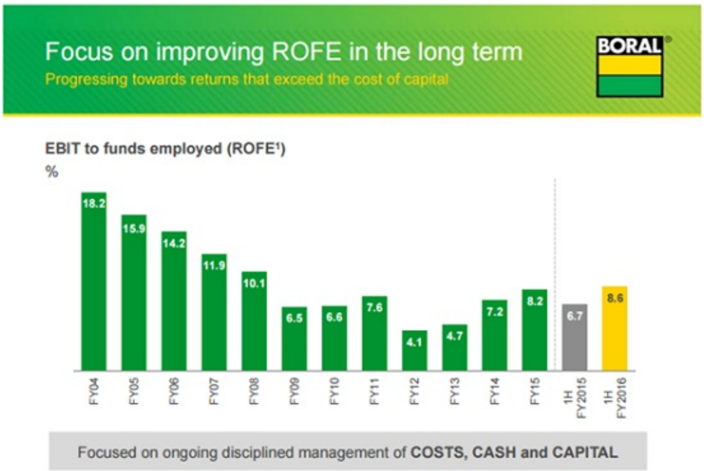
The company also painted a reasonably optimistic outlook, pointing to the pick-up in major road and infrastructure spending in Australia.

It said: "we expect a continued strong result (for FY2016) with marginally higher underlying earnings from construction materials and cement; marginally higher reported earnings from building products; underlying growth from the gypsum JV; and earnings from Boral USA to strengthen in line with market recovery".

Boral is turnaround story, with chief executive Mike Kane executing a ''Fix, Execute and Transform" program that started in 2013. This has seen a streamlining of the organization, divestment of assets, cost reductions and a reduction in capital spending.

With the "Fix" part of the strategy on track and progress being made on improving efficiency, the challenge going forward will be to transform the company such that it really is positioned for growth.

The Boral team also needs to continue to lift its ROFE (Return on Funds Employed), which although improving, still stand at a poor 8.6%.



The Brokers are relatively upbeat on Boral, with a sentiment ranking of +0.6. According to FN Arena, the consensus target price is $6.17. Boral is trading on a multiple of 16.4 times FY16 earnings, and 14.6 times FY17 earnings, with a prospective fully franked dividend yield of 3.9%.

Boral doesn't stand out as a "screaming buy". Pricing is ok, but not fabulous. Rather, it is a bit of a bet on the infrastructure cycle in Australia of roads, highways, bridges and subdivisions, ongoing market recovery of the housing market in the USA, and on the chief executive, Mike Kane, delivering on his program. Buy in weakness.

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McMillan Shakespeare: our half-year assumptions

by Roger Montgomery

With reporting season gathering pace over the next fortnight, this is the time we get to revisit the assumptions behind many of our current portfolio holdings. Through large amounts of data crunching, we are also able to compare and contrast management teams and businesses we hold against others that we do not and potentially identify opportunities.

One of the holdings we will be testing our assumptions against – albeit a smaller holding in terms of relative portfolio size – is McMillan Shakespeare Limited (MMS).

McMillan Shakespeare is a business that has been busy trying to reduce reliance on its core remuneration services division through the acquisition of Presidian, United Financial Services and expansion into the UK market.

The key things we will be looking for in their upcoming half-year result follow.

Division one: remuneration services – 78% of FY15 pre-tax profits

Anyone that has modelled McMillan Shakespeare will quickly conclude that the majority of its valuation is derived from its remuneration services division. So a good showing here is important.

This is the core business and since it was founded many years ago, has grown into a large, highly profitable and cash generative area servicing more than one million employees across Australia.

This division provides outsourced administration services for salary packaging, including the provision of motor vehicle novated leases.

Just prior to Christmas, McMillan Shakespeare's largest competitor Smartgroup (SIQ) had a material upgrade, citing excellent growth, leading to a 30 to 40% lift in profitability.

Even though SIQ is a smaller business and growing from a smaller base, at MMS's full year result in 2015, they pointed to improving momentum with a recovery in volumes, particularly in the second half of 2015.

If SIQ's update is anything to go, the momentum MMS experienced should continue into the current half as a result of new contracts awarded in April 2015. We hope to see the momentum supported by a strong pipeline of new business.

Division two: asset management – 16% of FY 15 pre-tax profits

The asset management division finances and provides fleet management services for motor vehicles, commercial vehicles and equipment.

This is a highly competitive market, with pressure on net interest margins and management fees, it provides a relatively a small amount to our overall valuation for MMS, with more weight placed on the higher margin remuneration services division.

The business unit drives cross-sell opportunities and we note that 2015 was apparently a record-breaking year for the Australian new vehicle market, with the industry database **VFACTS** recording total registrations of 1,155,408 cars, SUVs and commercials. We suspect this is a tailwind for transaction volumes.

In their 2015 results, MMS's UK asset management business turned profitable late in the period. This is an immature business with good prospects, and has the potential to be further boosted given:

1. MMS now have scale in these operations;
2. Financed Assets grew from just £7m to £55m in the 2015 year so a further profit contribution is likely to come as these assets mature and continue; and
3. MMS acquired Anglo Scottish Asset Finance in November 2015 for £7.7m, which will contribute two months to the half-year result and also into the balance of FY16.

We are anticipating growth from this division.

Division three: retail financial services (RFS) – 6% of FY15 pre-tax profits (and growing quickly)

This is the newest division within MMS and we are watching closely to see what management can achieve here.

The division provides consumer finance brokerage services, aggregation of finance origination and provision of extended warranty cover including insurance predominantly for used cars.

It is early days for RFS but the cross sell opportunity is large. Effectively MMS can now capture all vehicles rolling off novated leases in asset management, refinance them and up-sell warranties and insurance.

Previously, as a client rolled off a novated lease, MMS had no way to capture this business, which we estimate could be a double-digit percentage churn. This gives MMS the ability to capture repeat business.

Presidian, acquired in February 2015, only made a small pre-tax contribution in FY15. Now the acquired business has been owned for a full six months, its contribution will be much higher and should add to growth.

To give some insight into the cross-sell opportunity, we understand the integration is proceeding faster than anticipated and consumer loan originations of $500m were some 10% higher than forecast at the time of acquisition.

In addition to Presidian, the purchase of United Financial Services (UFS) was acquired in August 2015.

It is also an originator of finance and insurance of around $370m in vehicle and personal loans and $14m in insurance premiums each year. UFS will add to the scale and synergy benefits of Presidian and strengthen MMS's new Retail Financial Services division.

With this scale, MMS' loan book should now be in excess of $1.5 billion allowing MMS to extract better broker funding commissions and potentially secure improved funding arrangements.

The upside and downside

The combination of the growth drivers outlined should see MMS report a strong first half-year result. We will be looking for signposts that point towards a good full year in FY16.

MMS carries a valuation that is undemanding in the context of its growth profile and with approximately $60m of available debt capacity, there is also the chance for more acquisitions.

However, it's not a business for everyone given its exposure to regulatory and government risk.

Even though MMS has reduced its reliance on the remuneration services division (and FBT concessions) via the acquisition of Presidian, United Financial Services and the expansion into the UK market more recently, remuneration services still remains the largest profit contributor to the group.

The majority of any valuation for the business relies on the performance of remuneration services, which could be potentially impacted, and materially so, if there were any changes to the regulations.

Our research indicates that changes are not currently on the government's agenda with no mention in the latest government review of taxation.

We await an update on how the business is progressing and how the integration of the recent strategic acquisitions is progressing.

McMillan Shakespeare Limited (MMS)

***Source**: Yahoo!7 Finance, 15 February 2016*

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Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

Falling share prices last week finally started to trigger recommendation upgrades from stockbrokers. We registered twice as many upgrades than downgrades for the week: 18 against 9. It was not all purely share price related though with BlueScope Steel and Boral among those receiving upgrades after posting better-than-expected market updates.

In the good books

ASX Limited (ASX) Upgrade to Neutral from Underperform by Credit Suisse B/H/S: 0/6/2

First half results beat Credit Suisse's forecasts and the broker upgrades fiscal 2016 estimates by 2.0%. The beat was primarily on the back of higher revenue. The result highlights the defensive nature of the stock and the relatively low earnings risk, in the broker's view.

BlueScope (BSL) Upgrade to Buy from Neutral by UBS B/H/S: 7/0/0

UBS observes regional steel maker spreads have rebounded, with extreme losses by Chinese mills amid declining demand in China, and with global protectionism increasing and working to reduce Chinese steel output.

While UBS considers it too early to call a bottom, recent events suggest the rebound in spreads is sustainable in the near term.

Boral Limited (BOR) Upgrade to Buy from Sell by Citi B/H/S: 4/3/0

The interim result was supported by a tax benefit, thus of low quality, but of more importance, perhaps, is that Citi sees Boral as a relatively defensive safe-haven at a time when investors are jittery about a potential slowdown in Australian housing.

Anticipated infrastructure spending should support growth in the years ahead.

Upgrades

Order	Company	New Rating	Old Rating	Broker
1	Alacer Gold Corp	Buy	Neutral	Morgan Stanley
2	Ansell	Buy	Neutral	Citi
3	Ansell	Neutral	Sell	Credit Suisse
4	Ansell	Neutral	Sell	Deutsche Bank
5	Ansell	Buy	Neutral	Morgan Stanley
6	ASX	Neutral	Sell	Credit Suisse
7	Bluescope Steel	Buy	Neutral	UBS
8	Boral	Buy	Sell	Citi
9	Centuria Metropolitan REIT	Buy	Neutral	UBS
10	JB Hi-Fi	Buy	N/A	Ord Minnett
11	National Storage REIT	Buy	Neutral	Morgans
12	Nufarm	Buy	Neutral	Credit Suisse
13	Perseus Mining	Buy	Neutral	Morgan Stanley
14	REA Group	Buy	Neutral	Morgans
15	REA Group	Buy	Neutral	Credit Suisse
16	Sonic Healthcare	Buy	N/A	Ord Minnett
17	Suncorp Group	Buy	Neutral	UBS
18	Vitaco	Buy	Neutral	Citi

REA Group Limited (REA) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Add from Hold by Morgans B/H/S: 4/4/0

First half earnings were in line with forecasts and Credit Suisse expects Australian revenue growth to remain strong in the second half. Price increases in May/June should support revenue into fiscal 2017.

The only negative, in the broker's opinion, was the guidance for cost growth to be higher than revenue growth. Full year estimates are trimmed by 2.0% to reflect this.

First half results were above Morgans and the market. The broker notes the market disliked the result because management avoided commenting on the planned May price rise and warned that second half margins would be lower.

Morgans is not bothered by either of these issues and believes the current sell off provides the opportunity to buy a long-term growth story at a discount to intrinsic value, a rare event for REA Group.

Sonic Healthcare Limited (SHL) Upgrade to Accumulate from Hold by Ord Minnett B/H/S: 5/1/2

Ahead of the first half results Ord Minnett notes risks remain regarding the Medicare Benefits Schedule review but on valuation grounds, and with a market craving growth plus some level of certainty, the rating is upgraded by the broker.

A robust first half result is expected, with guidance maintained and regulatory pressure unlikely to impact.

Suncorp Group (SUN) Upgrade to Buy from Neutral by UBS B/H/S: 5/2/1

First half profit was ahead of UBS forecasts. Although the company has guided to a higher margin confidence in a sustained recovery is expected to depend on how it can address the issues in home and motor insurance.

UBS is yet to be convinced that the company has addressed the short-tail claims challenges but believes the balance of risks has tilted and upgrades the insurer.

In the not-so-good books

Newcrest Mining (NCM) Downgrade to Underweight from Equal-weight by Morgan Stanley B/H/S: 0/3/5

The broker believes the current global theme of macro uncertainty due to China and US growth fears and negative rates in Europe and Japan will mean the gold price will remain supported for now, although the market is more balanced in the medium term.

Valuation upgrades for gold miners is on the cards. Industry view: in-Line.

Rio Tinto (RIO) Downgrade to Neutral from Buy by Citi B/H/S: 5/3/0

Post the 2015 financial report, Citi analysts have reduced projected capex & costs as well as the dividend to be paid out in years to come. The immediate result is the company is now expected to be cash flow positive.

On the negative side, Citi remains convinced of yet lower prices for iron ore in the years ahead. This forecast has pulled the balance into neutral territory, offsetting the positives noted above. The analysts are taking notice of the need to continue lowering costs in the face of continued downward pressures on the price of iron ore.

Tassal Group (TGR) Downgrade to Hold from Add by Morgans B/H/S: 2/1/0

First half results were weaker than expected. Morgans expects earnings growth will be stronger in the second half with the De Costi synergies.

The broker suspects the mention of pricing pressure on retail contracts in fiscal 2017 spooked the market and, with less than 10% upside to the price target of $4.20, the broker downgrades the business.

Downgrades

Order	Company	New Rating	Old Rating	Broker
1	AGL Energy	Neutral	Buy	UBS
2	AGL Energy	Neutral	Buy	Credit Suisse
3	Bank of Queensland	Neutral	Buy	Deutsche Bank
4	Lifehealthcare Group	Neutral	Buy	UBS
5	Newcrest Mining	Sell	Neutral	Morgan Stanley
6	Rio Tinto	Neutral	Buy	Citi
7	Tassal Group	Neutral	Buy	Morgans
8	Watpac	Neutral	Buy	Morgans
9	Whitehaven Coal	Neutral	Buy	Morgans

Watpac Limited (WTP) Downgrade to Hold from Add by Morgans B/H/S: 0/1/0

Morgans downgrades to Hold from Add after strong share price appreciation. Operationally, the mining division is expected to be difficult and, with no material contracts won in the first half, the broker suspects asset carrying values are at risk of impairment in fiscal 2016.

Meanwhile, the outlook for the core construction business appears solid and the broker notes the balance sheet is strong, which should enable the company to continue its buy-back program.

Earning Forecasts

Positive Change Covered by > 2 Brokers						
Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	BWP	BWP Trust	21.29	16.77	26.93%	5
2	BRS	Broadspectrum	16.51	14.30	15.48%	5
3	GMG	Goodman Group	43.98	39.58	11.12%	6
4	TCL	Transurban	20.06	18.20	10.21%	6
5	SGP	Stockland	30.29	27.85	8.75%	6
6	SCP	Shopping Centres Australasia Property Group	14.24	13.41	6.19%	6
7	COH	Cochlear	325.22	307.85	5.64%	8
8	CIM	Cimic Group	157.13	150.03	4.73%	6
9	MFG	Magellan Financial Group	110.08	105.30	4.54%	4
10	BLD	Boral	34.00	33.04	2.91%	7
Negative Change Covered by > 2 Brokers						
Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	S32	South32	-6.17	-0.65	-854.49%	7
2	AQG	Alacer Gold Corp	5.41	19.82	-72.73%	6
3	OZL	OZ Minerals	20.03	45.34	-55.82%	8
4	RIO	Rio Tinto	197.29	306.79	-35.69%	8
5	PRG	Programmed Maintenance Services	17.78	20.75	-14.33%	4
6	WHC	Whitehaven Coal	1.60	1.80	-11.28%	8
7	RWH	Royal Wolf	10.56	11.52	-8.37%	4
8	WPL	Woodside Petroleum	115.08	122.64	-6.16%	8
9	ANN	Ansell	136.63	145.38	-6.02%	8
10	NWS	News Corp	62.75	66.20	-5.21%	6

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Super Stock Selectors – Rio Tinto and Lifehealthcare Group

by Christine St Anne

Despite the negative news surrounding resource major Rio Tinto (RIO) – which was recently downgraded by Citi analysts – CMC Markets' Michael McCarthy likes the stock. McCarthy says its reported fiscal 2015 earnings "were broadly in line."

"Cutting the progressive dividend policy and further reducing capital expenditure are signs of prudent management at this point in the commodity cycle," McCarthy said.

According to McCarthy, the miner's share price is not fully reflecting the 2016 turnaround in iron ore prices.

McCarthy does not like the Tatts Group (TTS), "at least not this week". He reckons that the stock is priced more than its market growth prospects and could face a "savage sell off" when it announces its results on Thursday. Having said that, McCarthy will keep an eye on TTS with a view to "buying back in on any sell off".

Prime Value's Shih Thin Wong likes Baby Bunting (BBN), a stock favoured by *Switzer Super Report* expert Charlie Aitken.

Wong was pleased with BBN's first-half results last week "that underlined good top-line sales growth due to market share gains and the benefits of a growing store network".

A potential legislative change could have adverse impacts for the Lifehealthcare Group (LHC), which is the key reason why Wong does not like the stock. The Health Minister announced a working group to implement changes to the Federal Prostheses list (PL).

The company has about 35% of sales set by the PL. This legislative change also spurred UBS stock analysts to downgrade the stock in last Thursday's report, *Buy, Sell, Hold – what the brokers say*.

Expert	Stock I like	Stock I don't like
Raymond Chan, managing partner, Morgans	Fletcher Building Limited (FBU)	Amcor (AMC)
Elio D'Amato, CEO Lincoln Indicators	SkyCity Entertainment Group Limited (SKC)	Drillsearch Energy Limited (DLS)
Evan Lucas, IG Markets analyst	National Australia Bank (NAB) and Westpac (WBC)	
Michael McCarthy, Chief Market Strategist, CMC Markets	Rio Tinto (RIO)	Tatts Group (TTS)
Gary Stone, founder of Share Wealth Systems	Metcash (MTS)	IOOF Holdings (IFL)
ST Wong, Senior Portfolio Manager Prime Value	Baby Bunting (BBN)	Lifehealthcare Group (LHC)

IG Markets' Evan Lucas still remains firm with his call that the banks have been heavily discounted.

National Australia Bank (NAB) and Westpac Banking Corporation (WBC) are his preferred calls this week.

Both banks are due to provide trading updates.

"Asset quality and the underlying capital on the balance sheets are very strong and the pessimism built into the banks has moved too far", Lucas says.

Given that reporting season is now in full swing, Lucas prefers "to pass" on what stocks he dislikes this week and prefers to see the upcoming results to "judge where things could head".

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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