Switzer Super Report
Advice you can trust

Monday 18 April 2016

Picking the blue chippers

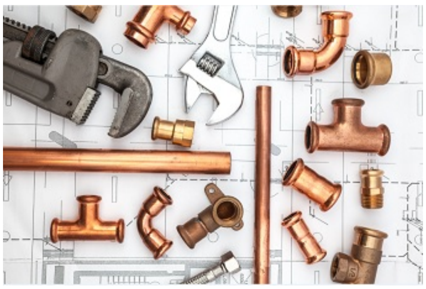
Regular *Switzer Super Report* expert Roger Montgomery often talks about the “new age” blue chip stocks. Today, I look at some of the more traditional blue chippers and see whether they still stack up in terms of growth and income. Roger also features in today’s report and uncovers a stock poised for growth – he’s not calling it a blue chip yet!

Also in today’s *Switzer Super Report*, Paul Rickard gives his take on the upcoming Reliance IPO and Pengana’s Rhett Kessler provides us with three stock picks that are set to become game-changes in 2016.

Sincerely,

Peter Switzer

Inside this Issue



Not many leaks with this IPO
by Paul Rickard
04

switzersuperreport.com.au

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

Are Roger Montgomery's stocks right for everyone?

by Peter Switzer

Fund manager and TV buddy Roger Montgomery is often slagging off at traditional blue chip stocks, even questioning whether they really are blue chippers! Companies such as BHP-Billiton (BHP), Telstra (TLS), AMP (AMP) and the like are in his sights and he regularly let's them have it.

But are his blue chip arguments and stock suggestions right for everyone?

He makes the correct point that BHP and Rio Tinto's (RIO) share prices are lower than 11 years ago and Woolworths' (WOW) share price can hardly beat the price it was a decade ago.

Of course, if someone had bought BHP for the first time last week, they would have made 19% in a week. That's not bad for a dud blue chip stock, however, that's a short-term analysis. If you'd bought BHP a couple of years ago, you'd be unhappy with the stock, the company and especially chairman Jac Nasser, who, especially letting his CEO promise a progressive dividend and then welched on the deal.

That said, if you'd bought your portfolio of stocks because you were happy with a 7% dividend after franking credits, and even happier if your long-term accumulation of 'blue chip' stocks gave you 7% before franking credits, then you might question aspects of Roger's argument.

When it comes to his position, it depends on your appetite for risk and your goals.

He has pointed out that he thinks the following four stocks are real, new age, blue chips: REA Group (REA), Challenger (CGF), Isentia (ISD) and IPH Ltd (IPH).

These come out of his definition for blue chips, which gets down to:

- Does the company retain large amounts of capital?
- Does it generate higher returns on incremental capital?
- Is it free from external curve balls, such as commodity prices and OPEC, that could KO the company? (The weekend's failed meeting in Doha is a case in point.)

I think these are important questions you should ask and I'd throw in questions about debt levels and the quality of management. But do Rogers' companies suit retirees running their own shares in an SMSF?

If I were a younger Australian trying to build wealth via shares, inside or outside of an SMSF, I'd be looking for the growth companies that Roger searches for but at a certain age you do want income as well as growth.

If I had $1 million in my SMSF and let's say I started in 2009 and I drew my million out of my employer-funded super fund and rolled it into an SMSF, my yield would be pretty damn good.

Let's take the usual old world blue chip stocks: the four banks, Telstra, Woolworths, Wesfarmers (WES), AMP, Transurban (TCL) and Sydney Airports (SYD).

Commonwealth Bank of Australia (CBA) was around $34 in 2009 and is now $75, which would be a 120% gain and the dividend yield would be close to 12% before franking credits!

Wesfarmers was at $18 and now is $41. That's a 127% gain and your dividend yield would be around 6.1%, even with a lower dividend. That's because you bought these blue chip stocks at the right time.

Even Telstra is a good story for the 2009 buyer, with the share price at $3.70 and with the current price at $5.24, there's a 41% gain. Your yield on Telstra before franking credits would be 7.5%, which is pretty damn good.

Of course, I selected March 2009 because it was a good time to buy. It was after the GFC crash, the uptrend had been established, good companies were at great prices and even though Roger's criticism of them as poor growth companies is generally true, they can be very good dividend payers and that's what a lot of SMSF investors want.

In a perfect portfolio for the person I'm talking about, you'd have a core group of stocks paying reliable dividends/yields. You then should have exposure to growth companies to build up the capital but remember, great growth companies, even Roger's group, can be creamed in a crash. Sure, quality companies can slide too but their dividends don't slide at the same rate. In fact, they often don't fall that much at all.

As I say, added to your core dividend stocks, you could have Roger's kinds of companies to ensure growth. That said, there's a hell of a lot of people who could not sleep easy with all their share money in Roger's growers, which generally pay small dividends, knowing that they might fall 50% in one crash and stay low for a year or two.

I guess if you had a big nest egg in super of $2 million, you could have a $1 million in dividend payers, cash and other fixed income for stable income and $1 million in growth companies to ensure you'd never have to tell your kids "I've shrunk your inheritance" but that's not the usual situation for most Australians.

And anyway, after a crash, your capital would shrink but, provided you hold your nerve, it would rebound in the ensuring years.

Roger is right to differentiate between old blue chips and new blue chips — my words not his — but I think there's a role for both, depending on who you are, what kind of risk you're prepared to live with and what your goals are.

One size advice seldom fits everyone, comfortably.

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.*

Not many leaks with this IPO

by Paul Rickard

Initial public offerings (IPOs) are suddenly hot again with the latest, WiseTech Global (WTC), debuting on the ASX last week and finishing at a 20% premium to its issue price of $3.35. The next major company to seek investor offers is plumbing manufacturer Reliance Worldwide Corporation.

And it is a sign of the crazy market we are in, when a manufacturer such as Reliance can attract such attention. With a “growth at almost any price” mentality prevailing, Reliance seems to have timed its IPO close to perfection.

Here is what we think of the IPO.

Reliance

Reliance is a leader in the design, manufacture and supply of premium branded, high quality water flow and control products and solutions for the plumbing industry. From a small manufacturing operation in Australia, Reliance has grown to become a global business, with established operations in the USA, Australia, the UK, Canada and New Zealand, and an emerging presence in Europe, following a recent investment in Spain.

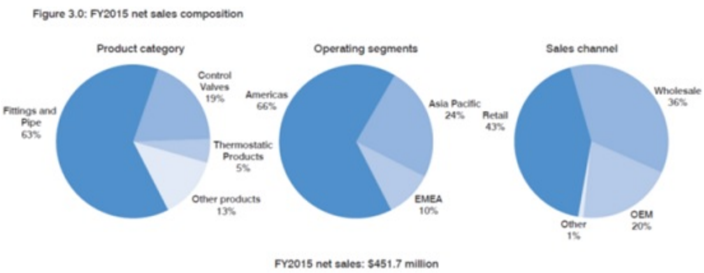
Reliance’s key products and solutions are primarily used in “behind the wall” plumbing and hot water systems. These products and solutions include pipe fittings and related pipe, control valves and thermostatic products and are used for both residential and commercial applications, with a principal focus on the residential repair and renovation end-market.

Reliance’s products and solutions are sold through wholesale and retail sales channels as well as to hot water system equipment manufacturers, and are marketed under premium brands. Brands include SharkBite, Cash Acme and RMC Water Valves.

66% of Reliance’s sales come from the USA and Canada. Asia Pacific including Australia accounts for 24%, with Europe producing the remaining 10%.

Reliance manufactures about 70% of the products it sells, and has 11 highly automated manufacturing facilities across four countries. It boasts that its in-house R&D capability is a key competitive strength.

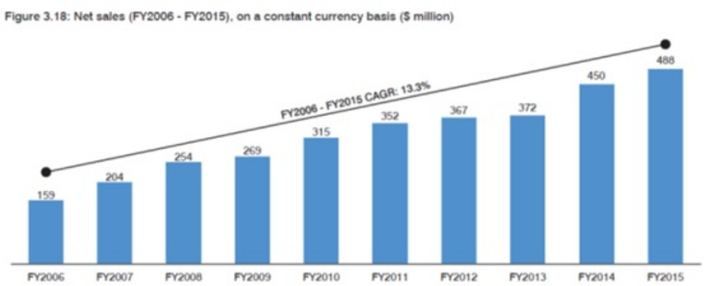
Sales by category, segment and channel



Growth drivers

Reliance points to 10 years of net sales growth at a CAGR (compound annual growth rate) of 13.3%. The acceleration of sales over the last two years, together with the benefit of a weaker Australian dollar, has driven an increase in EBITDA at a CAGR of 54.2% over this shorter period.

Sales from 2006 to 2015



Reliance is forecasting 2016 net sales to be 18.4% higher than 2015, and 2017 net sales to be 9.9% higher than 2016. It points to continued strong growth in the brass PTC (push to connect) plumbing fittings category in the USA, which principally serves the residential repair and renovation end market. Increasing renovation activity and spend, sales of existing homes and the ongoing ageing of plumbing systems in residential buildings should help this category grow at a CAGR of 12% in the next few years. Reliance estimates that with its SharkBite products, it has an 80% share of this category by sales volume.

It also expects increased demand for thermostatic mixing valves driven by industry and regulatory focus on safe and efficient water control products.

In new markets, Reliance sees an opportunity to service the new construction plumbing end-markets in the USA, and has recently developed a range of products, which are expected to be launched in FY17. Expansion into new geographic regions is also a growth opportunity, with continental Europe high on the agenda.

The Offer

The offer is a sell-down by the Munz family, who has owned the Reliance business since 1986. After selling between 60% and 70% of the company, they will keep 40% to 30%. Jonathan Munz, who has been involved with the company for 30 years, is the Non-Executive Chairman.

The proceeds of the offer, plus a drawdown of bank debt of approximately $160m, will be paid to the Munz family for their shares.

The shares retained by the Munz family will be subject to a voluntary escrow, which will expire in August 2017.

Details of the offer are set out below.

Indicative Price Range	$2.27 to $2.50
Shares Available under Offer	315.0m to 367.5m
Total Proceeds under Offer	$715.1m to $918.8m
Shares held by existing owners	157.5m to 210m
Shares on Issue following offer	525.0m
Indicative Market Capitalisation	$1.19bn to $1.31bn
Net Debt	$154.5m
Enterprise Value	$1.35bn to $1.47bn
Forecast proforma FY16 EBITDA	$97.8m
Forecast proforma FY 17 EBITDA	$117.7m
Forecast proforma FY 16 NPAT	$51.3m
Forecast proforma FY17 NPAT	$62.6m
Enterprise Value/ proforma FY16 EBITDA)	13.8 - 15.0 x
Offer Price / FY 16 NPAT	23.2x to 25.6x
Offer Price / FY 17 NPAT	19.0x to 21.0x.
Implied Forecast Dividend Yield for FY17	2.4% to 2.6%, partly franked
Offer Opens	Tuesday 19 April
Offer Closes	Tuesday 26 April
Bookbuild	Wednesday 27 to Thursday 28
Final Price Announced	Thursday 28 April
Commencement of trading on ASX	Friday 29 April (ASX Code: RWC)

Pricing

As the table above shows, the offer is being priced at a multiple of around 24 times FY16 NPAT and 20 times FY17 NPAT. These multiples aren't inconsistent with some of the recent strongly performing IPOs such as Link, but they are also not cheap for an industrial company.

Still, there aren't too many Australian companies that can point to a 10 year CAGR in sales of 13.3% or a USA market where they claim 80% market share.

Apart from net sales, key sensitivities to the forecast relate to the Australian dollar and the price of copper. Reliance doesn't hedge and has based its forecast on an Aussie dollar of 75 US cents and a spot copper price of USD 4,700 per tonne (currently around $4,813). A 1% increase in either of these variables reduces FY17 NPAT by $0.6m and $0.3m respectively.

My view

Reliance looks like a really well-run Australian company, with an outstanding track record and very plausible growth story. While the pricing is on the high side, it is not unreasonable and with the lead managers potentially operating market stabilisation activities (which means that they can buy back shares on the market for the account of the existing owners), it will have post listing support.

However, with the Australian dollar moving higher and the company being from an industry that I don’t see as a “must have” for my portfolio, I don’t really feel a great urge to play.

The offer opens tomorrow. Brokers involved include Macquarie, JP Morgan, Evans and Partners, Morgans and Ord Minnett.

***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.*

Undervalued and poised for growth

by Roger Montgomery

Markets will typically pay a premium for a company depending on growth expectations, and then management is burdened with meeting these expectations, however rosy they may be. It's rare then to find a company, which has attractive growth prospects, which are not being valued by the market. IMF Bentham (IMF) is one such company, which has laid the foundation for long-term growth, but the market seems focused on its short-term underperformance.

IMF Bentham is a leading funder of commercial litigation in Australia, boasting an impressive track record since its formation in 2001. To the end of the 2014 Calendar Year, IMF Bentham had commenced 169 cases, of which 113 were settled, 15 were won, 6 were lost and 35 withdrawn. This model has generated $1 billion for clients and around $600 million to the firm, two-thirds of which has been recognised as income before administration costs.

The company had built a rigorous case selection framework and was executing this model well. But management recognised that the Australian funding market was reaching capacity and that a sustained focus on high-profile class actions would exacerbate the company's already high earnings volatility. So it began the 2015 Calendar Year with a bold vision and a renewed Board to match.

IMF Bentham wanted to significantly grow its Claims Portfolio above $2 billion, while also improving the earnings profile of the business. It would do this by expanding aggressively overseas, particularly in North America, where it had established an office in 2011. It would also reduce the size of the claims that it funded, to reduce case duration and increase the rate of settlement.

We considered it was a reasonable and thoughtful strategy, but the burden was on the new management team to achieve a stronger operational focus, while maintaining the integrity of the case selection process it had honed over many years.

This announcement came as the company was on track to make a record annual profit. IMF Bentham reported $23 million of profit in the 2015 financial half year, which was well above the $10 million generated in the full 2014 financial year. The company's market capitalisation subsequently peaked at $411 million in February 2015.

But IMF Bentham then experienced an abnormal run of case losses. Four cases were lost in quick succession, which included the high profile Bank Fees case involving ANZ that is now being heard in the High Court of Australia. IMF Bentham settled relatively few cases in 2015, yet the cost base increased meaningfully as the company expanded overseas.

It went on to report a 2015 full year profit of $6 million and a small loss in the 2016 half year. The market capitalisation has since fallen to $230 million, which is modestly above its reported book value of $180 million.

These short-term results are certainly disappointing, but the long-term potential of the company should be measured against the execution of its strategy. And management has made meaningful progress in this regard.

In December 2014, IMF had an investment portfolio of $1.8 billion, with $1.5 billion of value in Australia and $300 million in the United States. One year later, IMF now has an investment portfolio of $3.2 billion, with $1.8 billion in Australia alone. The North America portfolio has increased to $1.2 billion, while Asia has grown to $111 million. Cases in the United States are also averaging $50 million in value, compared to

Australia, where the average case value is $92 million.

IMF Bentham has also entered Europe to pursue Standard & Poor's for its ratings of the financial instruments distributed by Lehman Brothers during the GFC. IMF Bentham's recent $52 million settlement with S&P in Australia bodes well for its chances abroad. The firm is also funding an action in Europe against Volkswagen for its failure to inform the market about software installed in its vehicles, which distorted emissions data.

Closer to home, IMF Bentham recently achieved a $6.6 million settlement with NAB in the Bank Fees case, which will limit the downside of an unfavourable result against ANZ in the High Court.

IMF Bentham appears very well positioned for future earnings growth, provided that management has maintained its rigorous risk assessment, while expanding the claims portfolio. When you consider that the market capitalisation of this company is close to its liquidation value, despite management doubling the claims portfolio in the past year, we feel that the investment risks are weighted more to the upside than the downside.

IMF Bentham is too small for a position in the Montgomery funds, yet it is a company we are following with interest.

IMF Bentham (IMF)

Source: Yahoo!7 Finance

***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.*

3 game-changers and disruptors for 2016

by Rhett Kessler

Investment analysts wrote much about the attraction of 'disruption' during 2015. How new technology is enabling smaller, smarter and nimbler start-ups to build disruptive business models by achieving the "magical trifecta" of better service to more customers at a lower cost.

Buzzwords associated with this concept include:

Collaborative software. This allows many users to share information by collaborating on a common platform e.g. Uber and Aconex.

The network effect, which increases the number of users with a common denominator, usually location, creates an exponential increase in efficiency e.g. Airbnb and Domino's online (DMP).

First-mover advantage, suggests that the first company to establish critical mass and meaningful scale gains an extremely strong position e.g. Google Search and Carsales (CRZ).

Global operational leverage. This concept refers to those businesses that can spread their cost base over a global customer base, providing a cost advantage over localised competitors e.g. Netflix, Amazon and Aristocrat's (ALL) online games.

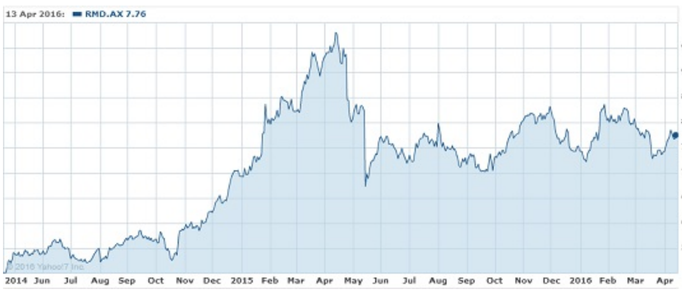
Investing in a 'ten bagger' by picking the next Google or Facebook is harder than it seems. Survivorship bias means we remain focused on the few companies that 'make it', rather than the multitude of ones that don't. Furthermore, rapidly growing disruptors carry additional investment risk. This risk may include a lack of any cash earnings to underpin a valuation as the business grows its way to scale; as well as a lofty multiple of future earnings, EBITDA, revenue or even addressable market share, depending on how hot investor sentiment is at the time.

The preference at Pengana has been to find existing companies with proven robust business models and competent management at the right price that are using technology to either grow their addressable target market; lower costs through efficiencies or strengthen their customer service proposition.

Two pertinent examples come to mind.

ResMed (RMD), a home-grown global medical device company that designs, manufactures and distributes flow generators and masks to treat sleep apnea. By connecting each flow generator through a network similar to Amazon's 'Whispernet' for the Kindle, the company has successfully connected patients, sleep doctors and equipment suppliers to a common database that enhances efficient and effective service at substantially lower cost. First-mover advantage has provided sales momentum in excess of 50% per quarter while simultaneously establishing a closer brand connection with its customers and end-users.

ResMed (RMD)



Source: *Yahoo!7 Finance*

Tatts Group (TTS). The domestic lottery provider has successfully increased its distribution of products by offering them online. Previously, lottery tickets were sold exclusively through newsagencies. For every $109 spent by the consumer on tickets, $9 stayed with the newsagent as a distribution fee, $60 went to [their] players as prizes, $30 went to the government and $10 remained with the operator to cover costs and profit. The online offering has broadened the company's target market without requiring an intermediary or increasing its associated distribution costs; while simultaneously creating a direct interaction with its customers.

Tatts Group (TTS)

Source: *Yahoo!7 Finance*

In our view, just finding a company that has developed a better mousetrap is not (nearly) enough. The essential components of a good investment require not just a strong value proposition (good product) but also a coherent path to sustainable profitability (healthy earnings) underpinned by robust cash flows (high after tax cash earnings yields). Nanosonics is in this category.

Nanosonics (NAN)

Source: *Yahoo!7 Finance*

Nanosonics (NAN) has developed a world leading sterilisation solution for reusable medical devices. More importantly, however, is the company's experienced management team with a track record for commercialising disruptive medical solutions. Our investment process includes having an investment thesis for every investment that lays out the key profit drivers – For NAN this would include:

a) the ***Installed base*** of solutions verifying acceptance of product and success of direct sales model into the US hospital market;
b) ***Volume of consumables*** validating use of product in customers' operations and
c) ***EBIT margins*** confirming profitability.

More importantly, as investors, we require investment milestones against which we can test our investment thesis. By tracking the successful achievement of these milestones, we are able to increase our confidence in the product, management competence and the business model. This process allows us to add or trim our holdings on an informed basis rather than speculation.

The Darwinism of modern capitalism continues to allow the strong players to survive (and even flourish) while whittling away the inefficient. Our challenge as investors is to be able to identify and back the winners, while reducing the risk of being led down an evolutionary dead end. Be careful, it really is a jungle out there!

Rhett Kessler is the senior fund manager of the Pengana Australian Equities Fund.

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.*

Buy, Sell, Hold – what the brokers say

by Rudi Filapek-Vandyck

In the good books

Aristocrat Leisure (ALL) Upgrade to Outperform from Underperform by Macquarie B/H/S 4/2/0

Australian slot machine ship-share data for March indicate Aristocrat Leisure is continuing to take market share from Ainsworth Gaming Technology (AGI) and the trend is set to continue, the broker suggests. Aristocrat's share rose to 60% in the quarter, up from 45% a year ago, while AGI's fell to 14% from 19%. Both companies are set to benefit from consolidation in the international market, the broker notes, but patent applications and R&D spend suggest Aristocrat's dominance is set to continue.

Bluescope Steel (BSL) Upgrade to Outperform from Neutral by Credit Suisse B/H/S 6/1/0

Spot steel spreads have risen materially and Credit Suisse notes this has grossly exceeded the soft increase in the iron ore price. Yet the broker is cautious, as a Chinese export/production response to higher spreads is a key risk that could dent an emerging structural improvement or a short lived seasonal upswing. Credit Suisse increases assumptions modestly.

Origin Energy (ORG) Upgrade to Outperform from Neutral by Credit Suisse B/H/S: 4/2/1

Origin has underperformed relative to the rest of the leveraged sector in Credit Suisse's opinion, lagging Santos (STO) by 15% since the start of March. The broker upgrades to Outperform from Neutral on the expectation that this situation is normalised. Moreover, the broker has increased confidence in the value of a de-merged entity with a premium for an energy markets stand-alone justified by the level of conglomerate discount that exists. Obscuring the conglomerate discount is the potential dilution from a re-capitalisation, which the broker believes is required.

Upgrades

Order	Company	New Rating	Old Rating	Broker
1	Aristocrat Leisure	Buy	Sell	Macquarie
2	Bluescope Steel	Buy	Neutral	Credit Suisse
3	BT Investment Management	Buy	Neutral	Morgans
4	Origin Energy	Buy	Neutral	Credit Suisse
5	South32	Buy	Neutral	Morgans
6	Whitehaven Coal	Buy	Neutral	Morgans

South32 Limited (S32) Upgrade to Add from Hold by Morgans B/H/S: 4/3/1

Morgans has gained conviction the downturn in the resources sector has matured and the worst is now behind. A bump up in market sentiment has been significant enough to deliver more stable commodity prices. Morgans considers South32 has a strong balance sheet, without the high gearing that burden others. There is also ample scope for a relief rally that may increase cash flow gains from the company's cost cutting drive.

In the not-so-good books

Ainsworth Game Technology (AGI) Downgrade to Underperform from Outperform by Macquarie B/H/S: 1/0/1

As noted above, Australian slot machine ship-share data for March indicate Aristocrat Leisure is continuing to take market share from Ainsworth Gaming Technology and the trend is set to continue, the broker suggests. Patent applications and R&D

spend suggest Aristocrat's dominance is set to continue. The broker has downgraded AGI to Underperform from Outperform, now abandoning an expectation of market share mean reversion.

Alumina (AWC) Downgrade to Neutral from Buy by UBS B/H/S: 4/2/1

The share price is up 13% in the year to date, supported by a 25% rebound in the spot alumina price, UBS observes. Still despite the price improvement in the March quarter, the broker believes 40-50% of the alumina refining industry remains loss making.

Iluka Resources (ILU) Downgrade to Sell from Neutral by UBS B/H/S: 1/1/5

Year-to-date, the share price has been volatile, UBS observes. The broker considers the outlook is subdued, although potential upside could come from tightening of global supply, particularly rutile, or if demand recovers. UBS downgrades earnings forecasts for 2016 and 2017 and drops the rating to Sell from Neutral, given concerns that the stable pricing regime of the last three years is coming to an end.

Downgrades

Order	Company	New Rating	Old Rating	Broker
1	Ainsworth Game Technology	Sell	Buy	Macquarie
2	Alumina	Neutral	Buy	UBS
3	Iluka Resources	Sell	Neutral	UBS
4	Platinum Asset Management	Sell	Neutral	Credit Suisse
5	Western Areas NL	Sell	Neutral	UBS

Western Areas (WSA) Downgrade to Sell from Neutral by UBS B/H/S: 3/1/3

Nickel is a commodity where much of the industry is loss making, UBS observes. The broker believes shut downs are the most obvious catalyst but another 100-150,000 tonnes per annum is needed to generate supply pressure. UBS forecasts a loss of $52m in FY16 for Western Areas. This extends to smaller losses in FY17 and FY18, while depreciation and amortisation masks underlying profitability in those years. The broker's valuation has been hit by lower Australian dollar nickel prices and the incorporation of the recent placement.

Earnings Forecasts

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PRU	Perseus Mining	-0.09	-0.66	86.17%	4
2	BHP	BHP Billiton	-0.88	-2.92	69.88%	8
3	FMG	Fortescue Metals Group	31.17	22.63	37.77%	7
4	AQG	Alacer Gold Corp	8.17	7.08	15.52%	5
5	EVN	Evolution Mining	16.82	15.53	8.30%	5
6	AWC	Alumina	5.70	5.33	6.96%	7
7	OGC	Oceanagold Corp	24.90	23.52	5.91%	4
8	NST	Northern Star Resources	30.67	29.63	3.49%	3
9	WOR	Worleyparsons	86.65	83.99	3.17%	5
10	NCM	Newcrest Mining	42.31	41.13	2.88%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WLD	Wellard	10.73	41.33	-74.03%	3
2	WHC	Whitehaven Coal	0.90	1.76	-48.78%	8
3	IPL	Incitec Pivot	18.90	21.09	-10.39%	7
4	ILU	Iluka Resources	29.53	32.83	-10.06%	7
5	ALQ	ALS	15.47	16.16	-4.28%	7
6	BTT	BT Investment Management	50.65	52.70	-3.89%	6
7	BDR	Beadell Resources	5.34	5.54	-3.61%	3
8	BOQ	Bank of Queensland	94.75	98.08	-3.39%	7
9	APN	APN News & Media	6.80	7.00	-2.86%	4
10	TGR	Tassal Group	30.00	30.51	-1.67%	3

Super Stock Selectors – Woolworths and Freedom Foods

by Christine St Anne

CMC Markets' Michael McCarthy is not "usually in the real estate investment trust space" but this week he likes Cromwell Properties (CMW).

Last week CMW bought a 9.9% stake in the Investa Office Fund. Dexus Property (DXS) had previously offered a takeover deal of the fund.

"The Dexus/Investa proposal should shake up the sector. I see plenty of potential winning scenarios for CMW shareholders from this development," McCarthy says.

McCarthy doesn't like the supermarket giant Woolworths (WOW), despite last week's rally.

"Many investors are asking, "is it time to buy WOW?" The short answer is no," he says.

"Increasing competition, a new senior team, lack of strategy and legacy drags on the balance sheet all need attention before this will stack up in my book."

Chartist and Sharewealth Systems' Gary Stone also does not see much "wow" in WOW.

"When WOW fell below $22.60 it broke out of a strong support zone to the downside," Stone says.

"There's not much support for quite some way," Stone says.

If the stock falls way down to a zone between $13-$14, Stone says "it certainly would be "Wow!" if it's gone down there."

Stone likes Brambles (BXB) and he notes that the stock looks like it's on its way to challenge its all time high of $13.89, set back in 2007.

"Currently trading at $12.07, its next milestone is $12.74," he says.

	Stock I like	Stock I don't like
Raymond Chan, managing partner, Morgans	Ardent Leisure Group (AAD)	Fortescue Metals Group (FMG)
Elio D'Amato, CEO Lincoln Indicators	Technology One (TNE)	Freedom Foods (FNP)
Michael McCarthy, Chief Market Strategist, CMC Markets	Cromwell Properties (CMW)	Woolworths (WOW)
Gary Stone, founder of Share Wealth Systems	Brambles (BXB)	Woolworths (WOW)

Lincoln Indicators' Jacob Simonsen likes Technology One (TNE).

Participating in the growing technology sector, Simonsen says TNE typically trades at a premium to its intrinsic value, due to its long history of growth and excellent management.

"The business maintains a strong recurring revenue base, growing its annual license fees at an encouraging rate," he says.

Simonsen doesn't like Freedom Foods (FNP) due to some emerging business challenges associated with its expansion plans.

The company plans to capitalise on the changing nature of food consumption and its growing presence in overseas markets.

"Participating in a highly competitive industry, the business must maintain a substantial reliable supply chain in order to maintain manufacturing capacity to meet increasing demand," Simonsen says.

***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.*