



# Market Watch

## June 2018

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### Editor's Note

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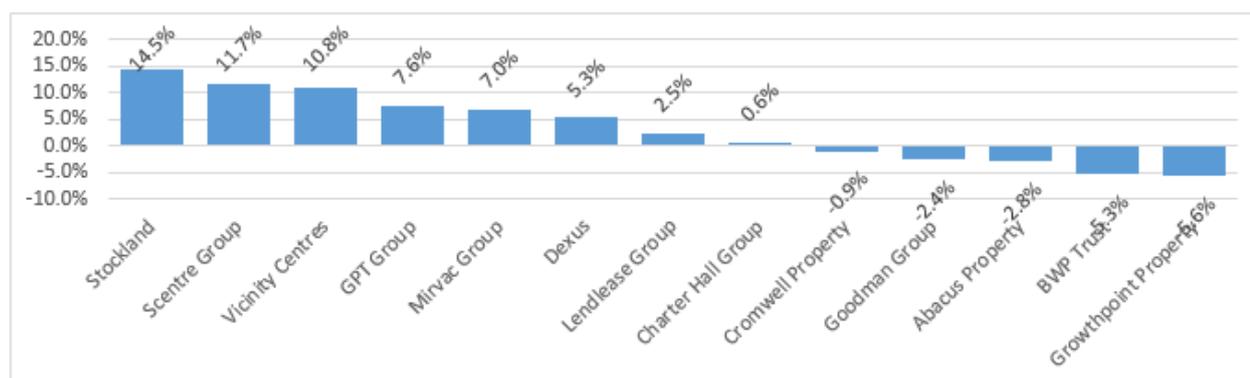
*Where will all the REIT money go? Market commentators believe that the recent A\$33bn scrip-and-cash takeover of Westfield Corp (ASX:WFD) - the largest takeover in Australia's corporate history - is likely to impact other stocks listed in the domestic REIT sector. The question is how much of the A\$7bn cash component of the consideration - paid to WFD investors on 7 June - will find its way back into the market? Factoring in the proportion of global investors on the Westfield register who will simply repatriate their cash component and investors who take some profits off the table, analysts estimate that between A\$1.5bn-A\$2bn could be left to reinvest. Predicated on investors maintaining asset allocation, the bulk of this could flow into the domestic listed REIT space. We believe that REIT plays with offshore retail exposure (mirroring WFD) such as Goodman Group (ASX:GMG) and Lendlease Group (ASX:LLC) are likely to be the main beneficiaries. On 29 May, US fund manager Blackstone announced a \$3.1bn bid to buy out commercial property investor Investa Office Fund (ASX:IOF). Although, one tenth the size of the Westfield deal, the delisting of Investa will result in additional cash looking for a new home in the domestic REIT space.*

*At current share price levels, we calculate Stockland (ASX:SGP) offers the highest total return at 14.5%.*

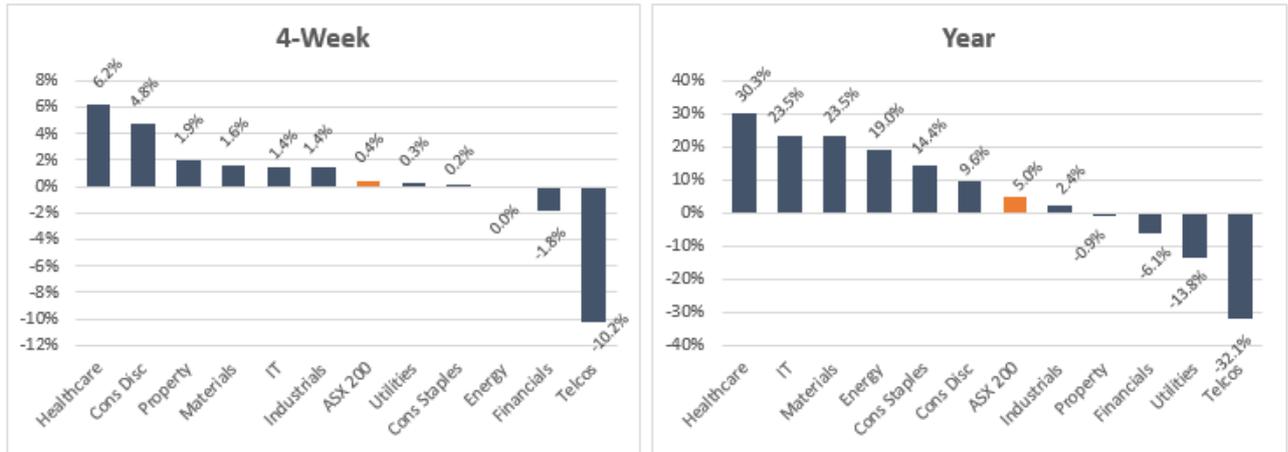
### Forecast total return for selected S&P/ASX 300 REITs

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)
SGP	Stockland	4.14	4.47	8.0%	0.27	6.5%	14.5%
SCG	Scentre Group	4.18	4.45	6.5%	0.22	5.3%	11.7%
VCX	Vicinity Centres	2.68	2.81	4.9%	0.16	6.0%	10.8%
GPT	GPT Group	5	5.13	2.6%	0.25	5.0%	7.6%
MGR	Mirvac Group	2.3	2.35	2.2%	0.11	4.8%	7.0%
DXS	Dexus	9.77	9.81	0.4%	0.48	4.9%	5.3%
LLC	Lendlease Group	18.77	18.58	-1.0%	0.66	3.5%	2.5%
CHC	Charter Hall Group	6.35	6.07	-4.4%	0.32	5.0%	0.6%
CMW	Cromwell Property	1.09	1	-8.3%	0.08	7.3%	-0.9%
GMG	Goodman Group	9.23	8.73	-5.4%	0.28	3.0%	-2.4%
ABP	Abacus Property	3.87	3.58	-7.5%	0.18	4.7%	-2.8%
BWP	BWP Trust	3.19	2.84	-11.0%	0.18	5.6%	-5.3%
GOZ	Growthpoint Property	3.55	3.13	-11.8%	0.22	6.2%	-5.6%

Source: IRESS, compiled by State One Stockbroking. Share price dates as at 31 May 2018

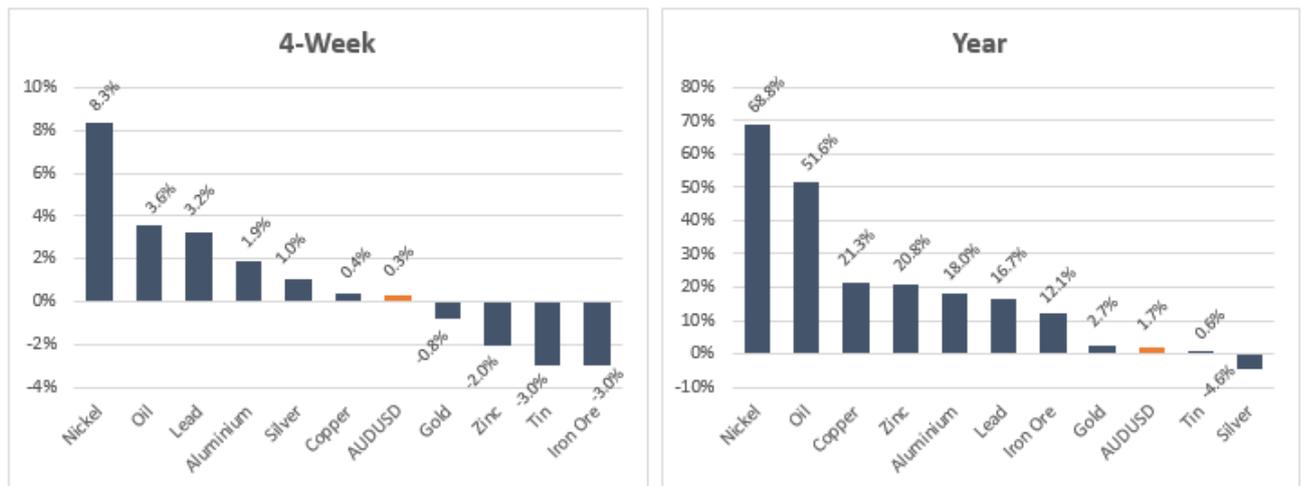


### ASX 200: sector performance over past four weeks and year



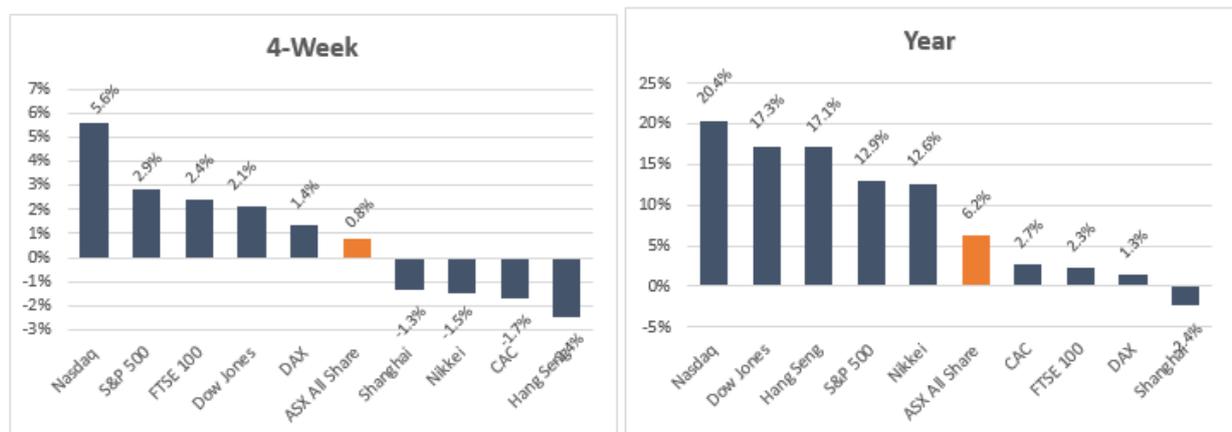
Source: IRESS, compiled by State One Stockbroking

### Commodities and AUDUSD: performance over past four weeks and year



Source: IRESS, compiled by State One Stockbroking

### World Indices: performance over past four weeks and year (local currency)

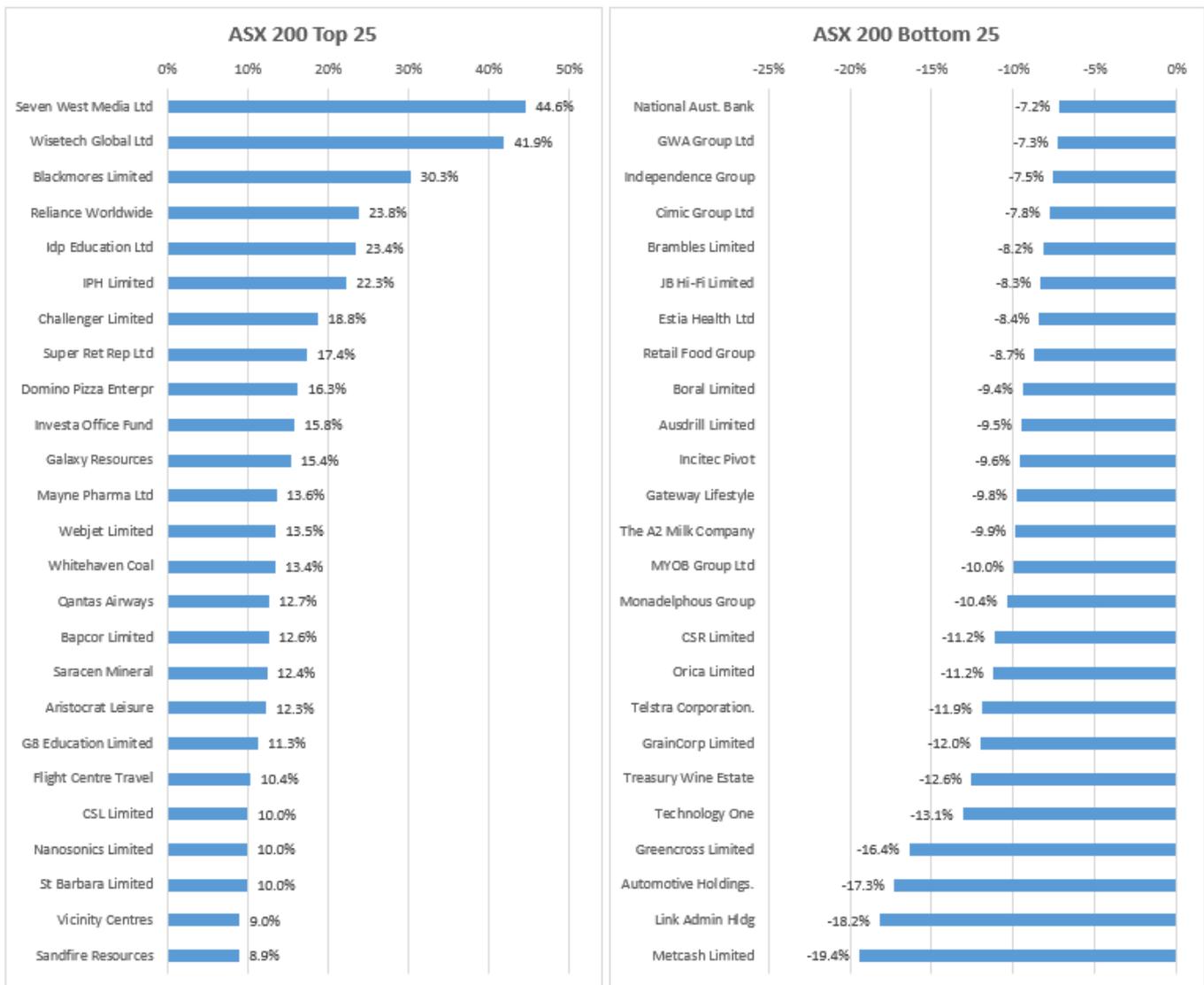


Source: IRESS, compiled by State One Stockbroking

## Commentary

- The FTSE/ASX 200 Index gained 0.4% in May - starting off strongly in the month, but reversing most of the gains as market concerns resurfaced over valuations and geopolitical risks (i.e., Italian election results). The Telco sector was (again) the underperformer with the Healthcare a standout performer, posting a 6.2% gain.
- May was broadly positive for commodities, with oil and nickel appreciating the most. Precious metals continue to battle headwinds of a stronger US\$ and rising bond rates.

### ASX 200: top 25 and bottom 25 performing stocks over the past four weeks (% gain/loss)



Source: IRESS, compiled by State One Stockbroking

- **Top performer:** Seven West Media (ASX: SWM) appreciated by 44.6% on the back of continued market approval of winning cricket television rights and M&A speculation.
- **Worst performer:** Metcash Limited (ASX: MTS) on broad market concerns over the domestic retail environment and increased competition from overseas discounters.

## Month in review - *events that caught our eye in May*



The country's political parties announce their income tax plans - the government prioritising income tax cuts over larger surpluses, the Labor plan is to spend and tax to bigger surpluses.



Is it on? Is it off? The much-anticipated meeting between North Korean leader Kim Jong-un and President Trump continues to baffle the world. The US North Korea summit coin may prove to be a collector's item or a dud.



Retail giant Westfield (ASX:WFD) exits the ASX after Australia's largest corporate takeover (A\$32bn); new owner is Europe's largest commercial property owner Unibail-Rodamco.



AGL Energy (ASX:AGL) rejects Alinta's bid for the Liddell coal-fired power plant, confirming its closure. Seen as a public rebuke to the government which is concerned over companies increasing power costs as the country transitions away from fossil fuels.



Prince Harry and Meghan Markle tie the knot at St George's Chapel Windsor Castle, at a star-studded ceremony. Unfortunately, I couldn't attend.



Findings from the Productivity Commission highlight inefficiencies in superannuation - the country's compulsory pension savings scheme.



Santos rejects Harbour Energy's \$6.95 per share takeover bid; STO's share price ends the month at \$5.84 - some 16% lower. Chief Executive Kevin Gallagher will be keenly watching oil price developments over the next few months - his job may well depend on whether rejecting the bid proved correct.



In contrast to Santos, the Board at Sino Gas (ASX:SHE) recommends US-based private equity firm Lone Star's offer of US\$530m (A\$0.25 per share). Speculation now moves to corporate activity amongst other mid-tier oil and gas producers.



Italian President Sergio Mattarella blocks appointment of Finance Minister after Italian general election sparking political crisis in Europe's third largest economy.

## Technical Analysis vs Fundamental Analysis



### What is Technical Analysis?

It is the practice of valuing stocks on past volume and pricing information.

Technical analysis assumes the following:

Market value of the asset reflects supply and demand of the asset.

Supply and demand are driven by rational factors, such as data and economic analysis, as well as irrational factors, such as guesses.

Markets and individual stocks move together given trends.

Shifts in supply and demand will shift the trends in the market and can be detected in the market.

### What is Fundamental Analysis?

Fundamental analysis takes a more formal approach. Fundamental analysts review the financial statements of a company and generate metrics, such as price-to-book value and enterprise value-to-EBITDA to value a security.

### Technical vs. Fundamental Analysis

The main difference between technical analysis and fundamental analysis is the use of financial statements to value equities. Technical analysis is the practice of valuing stocks on past volume and pricing information. Technical analysis combines both the use of past information (how stocks have reacted previously) and "feeling" (how the market is moving) to value the security.

### Advantages of Technical Analysis:

- Easy to understand and can be performed relatively quickly, especially with the aid of one of the many types of charting software.
- Does not rely on the use of financial statements for valuation purposes.
- Rather than strict fundamental valuation, technical analysis considers the "feeling" of the market, which is subjective.

### Challenges to Technical Analysis:

- The past is not always an indication of future results, calling into question the validity of technical analysis.
- Technical analysis violates the premise of EMH (Efficient Market Hypothesis) because EMH believers assume that price adjustments happen too quickly to be profitable.

Technical indicators are used widely by traders to help them formulate their view on the market:

### 1. Contrary Opinion

Traders that follow this type of analysis view the majority as being incorrect and choose the opposite direction. One example is Mutual fund cash positions. Given a mutual funds holds a part of its assets as cash, traders monitor cash positions of mutual funds (reported monthly) and trade against them accordingly. To a trader, a large cash position in a mutual fund would be an indication to buy (mutual funds are bearish, hence trader would be bullish). Also, a large number of bearish investment advisory opinions would indicate it was time to buy, again taking the contrary view.

### 2. Smart Money

- Some investors are deemed smarter than others and, therefore, their money is considered "smart money". Traders typically follow the smart money. The following are viewed as smart-money indicators.
- An increase in margin debt would indicate that investors are becoming more bullish.

### 3. General Market

- Breadth of market is the measure of stock declines versus stock increases for the day, indicating direction (a technical indication for the market).
- Short interest is the measure of stocks sold short. If short interest increases, that is a bullish signal as investors will have to buy the stock to cover the shorts.



### 4. Stock Price and Volume Techniques

- **Dow Theory** - A theory which says the market is in an upward trend if one of its averages (industrial or transportation) advances above a previous important high, it is accompanied or followed by a similar advance in the other. The theory also says that when both averages dip below previous important lows, it's regarded as an indicator of a downward trend.
- **Support and Resistance** – This is a psychological view that a stock does not often trade above its support and resistance level. Traders monitor the levels for strategy. If a stock breaks out of its resistance level, it moves to the next resistance level.
- **Moving-average** measures the average moves of a stock over a specified time period. This measure removes daily fluctuations in a price change and the trend can be more readily discerned.

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