



Market Watch

March 2017

8 March 2017

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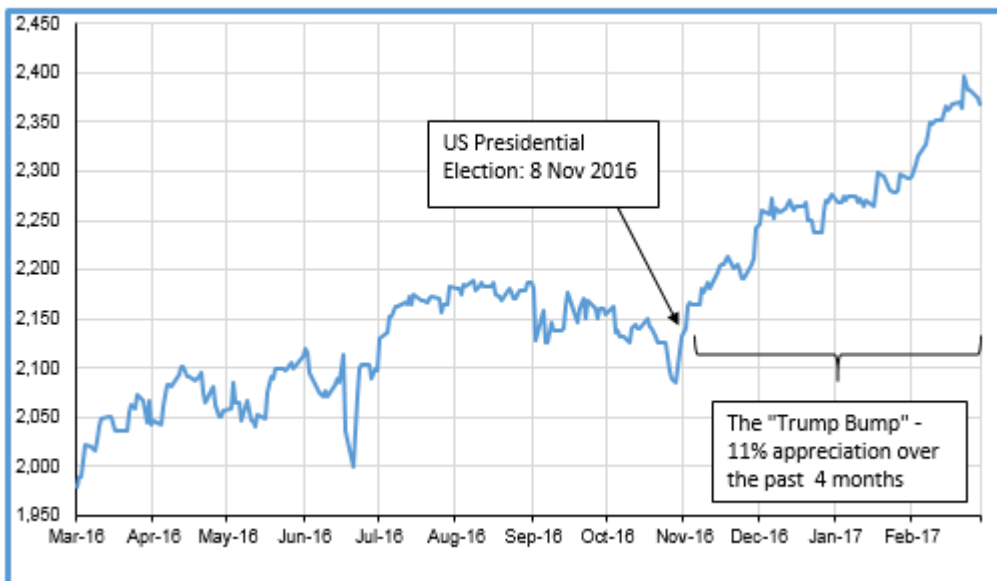
Editor's Note

Welcome to the inaugural edition of State One Stockbroking's Market Watch, a monthly review where we analyse where the markets have gone over the previous four weeks, highlight events that caught our eye (and which may offer investment opportunities), and present our top stock picks.

On January 20 2017, President Trump took power as the 45th president of the US, and pledged to end what he called an "American carnage" of rusted factories and crime. The market has responded positively to Trump's message of "America First" - reinvestment in infrastructure, domestic job creation, border adjustment taxes, and corporate tax cuts; the S&P500 has appreciated by 11% since the US Presidential elections on 8 November 2016. While the recovery in the gold price (+6% YTD) reflects some level of geopolitical uncertainty, we believe the positive trend in equity markets will continue into April. We remind investors not to ignore seasonal effects (sell in "May"), and our view is that growing concern over US domestic and foreign policy strategies will ultimately undermine the "Trump Bump" in the second half of the year. The thematic that "politics is the new economics" could also play out in Europe, with The Netherlands' general election taking place on March 15, and the French Presidential election occurring in April (first round) and in May (second round).

Closer to home, the WA state elections on March 11 offer the potential for either a Labor or Liberal/One Nation government, with repercussions for the planned privatisation of Western Power, the Perth Freight Link, and possibly the tax/royalty/regulatory environment for the state's key money spinner – the mining sector.

S&P 500 Index: one-year price history



Source: IRESS, compiled by State One Stockbroking



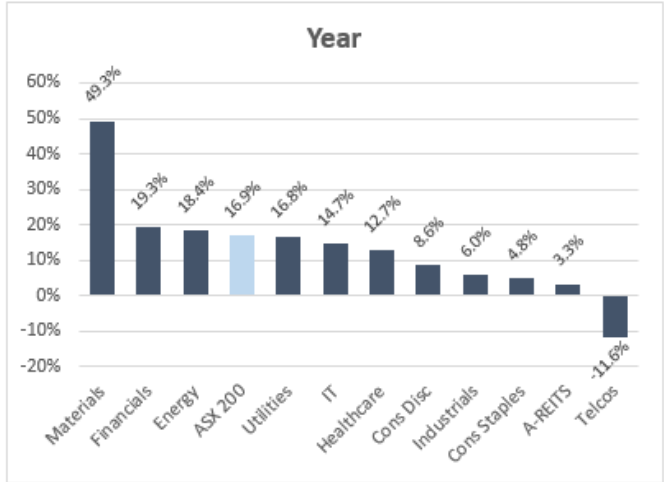
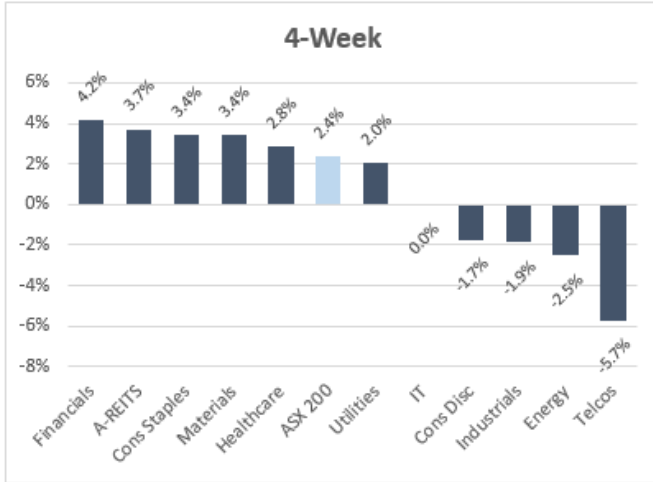
Alan Hill
Executive Chairman, State One Stockbroking

Stock Picks

- APN News** (refocused media exposure)
- Brickworks** (exposure to investment in Australian housing)
- Fleetwood** (domestic tourism and leisure)
- Ingenia Communities** (exposure to aging demographic in Australia)
- Jumbo Interactive** (technology/internet lottery)
- Quickstep** (Global and Australian defence play)

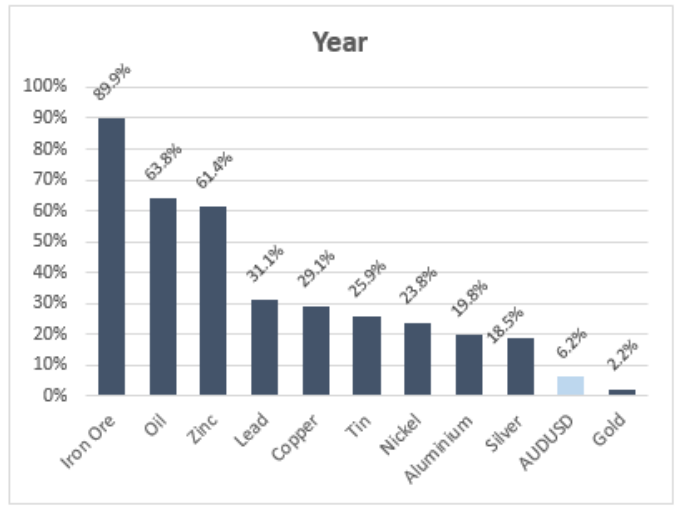
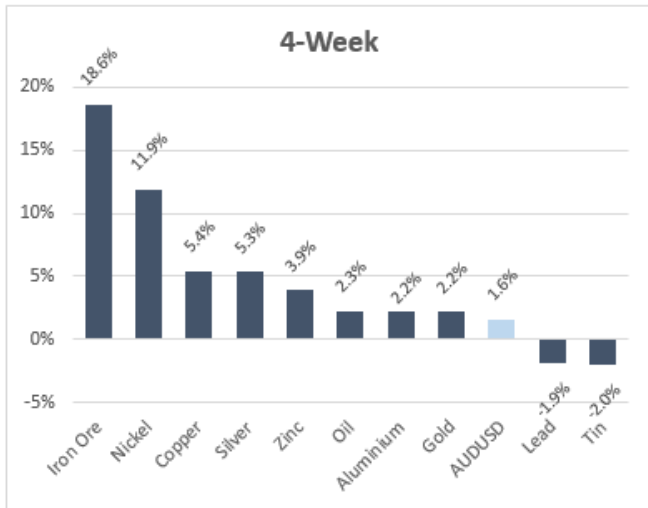


ASX 200: sector performance over past four weeks and year



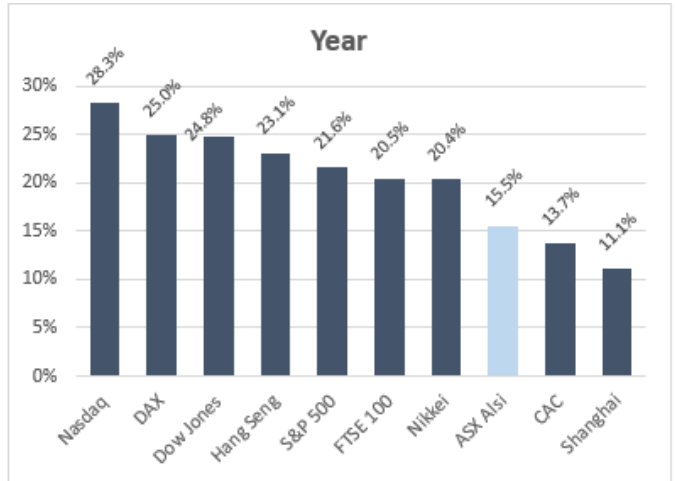
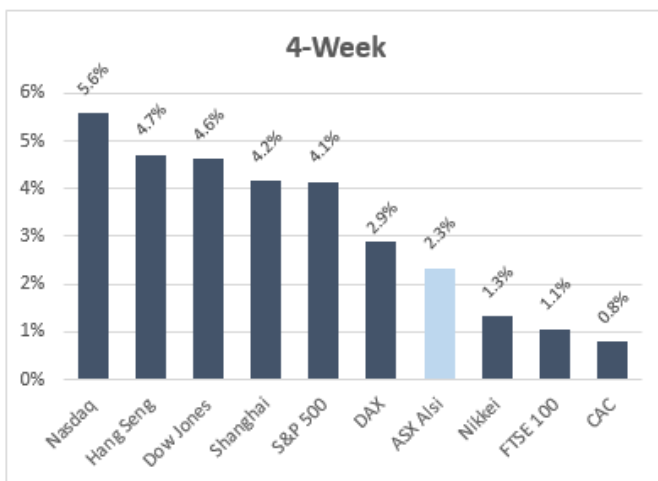
Source: IRESS (2 March 2017), compiled by State One Stockbroking

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



Source: IRESS (2 March 2017), compiled by State One Stockbroking

World Indices: performance over the past four weeks and year

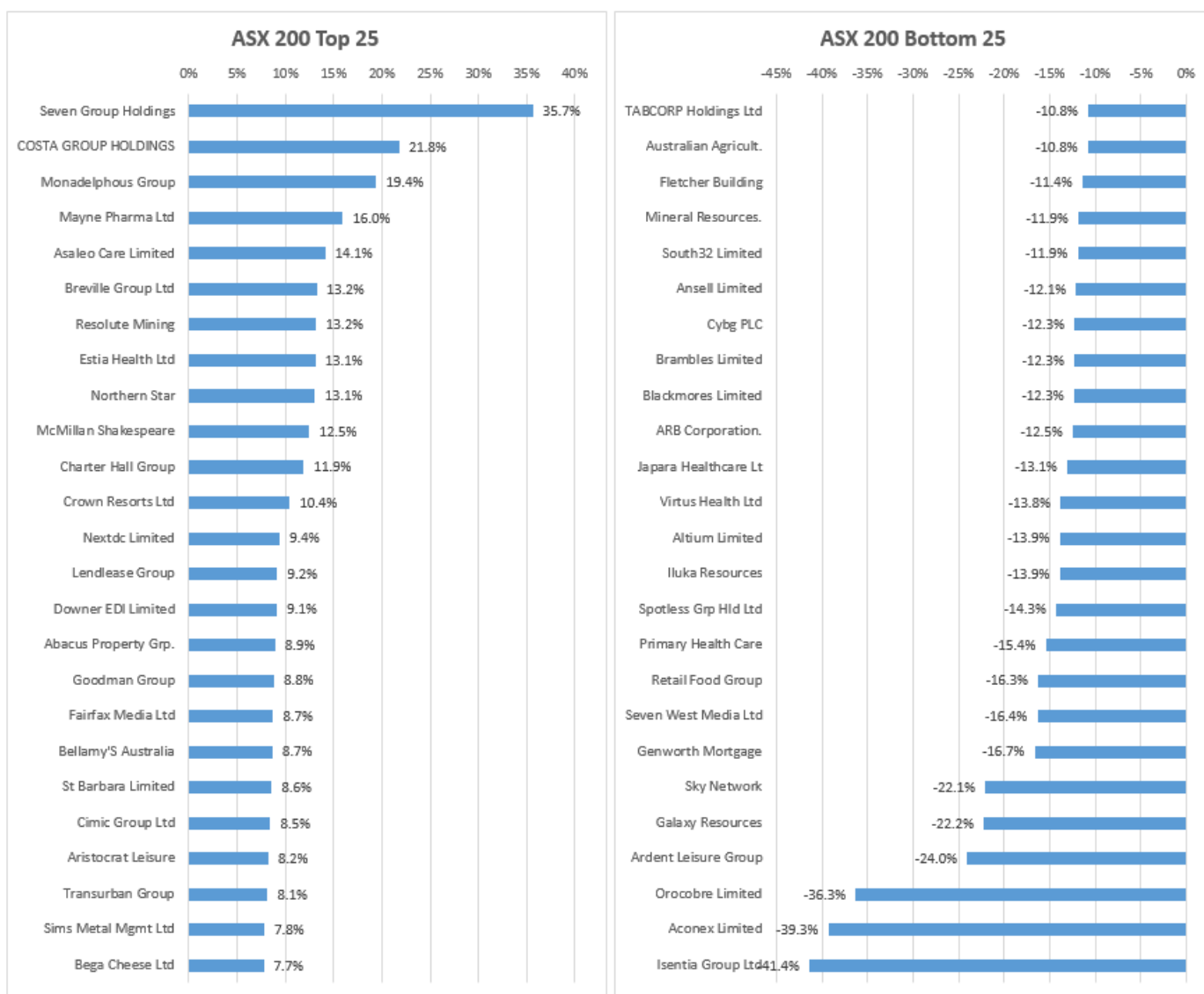


Source: IRESS (2 March 2017), compiled by State One Stockbroking

Commentary

- Over the past year the **Materials Sector has significantly outperformed the S&P ASX 200 Index**. The Telcos Sector has underperformed the broader market on both a year and 4-week basis.
- The increase in the Materials Sector was supported by a **major recovery in commodity prices**, with iron ore a standout, up 90% over the past year. Despite this increase in commodity prices, the Australian dollar has appreciated by (only) 6.2%. We believe if the historical positive correlation between the exchange rate and commodity prices is restored, the A\$ could strengthen to US\$80-85c.

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



Source: IRESS (2 March 2017), compiled by State One Stockbroking

- **Top performer:** Seven Group Holdings (ASX: SVW) appreciated from A\$7.30 at the beginning of February to current price levels of A\$9.97.
- **Worst performer:** ISENTIA GROUP (ASX:ISD) depreciated from A\$2.60 at the beginning of February to current price levels of A\$1.58.

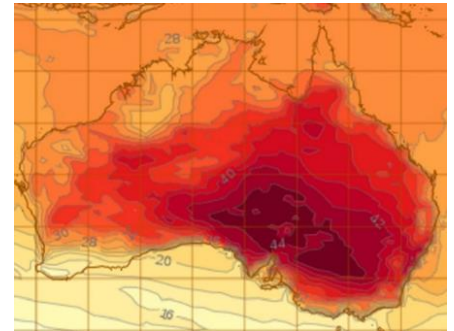
Four weeks in review - *events that caught our eye*



Santos raises less than half of A\$500m from the retail leg of a capital raising (@A\$3.94ps). A\$1bn was raised in a separate institutional offering.



Trump immigration order on seven predominantly Muslim countries blocked by US courtsnew reworked executive order expected.



Freak heatwave across SE Australia on 8-10 February causes power outages....adds to concern over stability of National Electricity Market (NEM).



Global arms trade reaches highest point since cold war era (Stockholm International Peace Research Institute).



WA Liberals form preference deal with One Nation ahead of March 11 state election. Polls show swing to Labor Party.



Coca-Cola Amatil to close Adelaide bottling plant in 2019 with loss of 180 jobs as part of A\$80m company restructuring.



Fortescue Metals Chairman and largest shareholder Andrew Forrest gets A\$208m payday as FMG declares A\$20cps dividend and sharp rebound in profits.



Investment in new buildings, equipment, and machinery fell for a fourth straight quarter in Dec 2016; slump likely to continue in 2017 (ABS).



The cobalt price ramps up to ~US\$22/lb, up nearly 40% from US\$16/lb at the beginning of the year. Cobalt is viewed as the "in-metal" for 2017.



State One Stock Picks

APN News (APN)

Sector: Media

Market Cap: A\$818m

Share price: A\$2.64

IRESS target price: A\$3.37

Recommendation: Buy

28% upside to IRESS consensus target price plus 3.7% dividend yield = 32% total return.

With the disposal of ARM in December quarter 2016, APN News is focused on higher growth in digital, radio and out of home (OOH) media. These forms of media currently exhibit growth rates of 6%, 8%, and 16%, respectively.

Brickworks (BKW)

Sector: Construction Materials

Market Cap: A\$1.85bn

Share price: A\$12.75

IRESS target price: \$14.93

Recommendation: Buy

17% upside to IRESS consensus target price plus 4.0% dividend yield = 21% total return.

Brickworks is experiencing strong demand for its building products fuelled by buoyant housing market conditions in the eastern states and NZ. We expect demand to continue as property prices in NSW and VIC remain buoyant and as record levels of building approvals turn to construction. We note press commentary that BKW and Boral are in talks about a potential transaction involving Boral's roof tiles business.

Fleetwood (FWD)

Sector: Consumer Disc.

Market Cap: A\$124m

Share price: A\$2.04

IRESS target price: A\$2.94

Recommendation: Buy

44% upside to IRESS consensus target price = 44% total return.

Fleetwood's restructure has resulted in a turnaround in the financial performance. Capex reductions should see a return to profitability for the historically loss making RV segment in 2018. Additionally, we believe FWD's renewed focus on and key agreements in high growth sectors such as affordable accommodation and education will be key drivers of future performance.

Jumbo Interactive (JIN)

Sector: Consumer Disc.

Market Cap: A\$79m

Share price: A\$1.80

IRESS target price: A\$2.16

Recommendation: Buy

20% upside to IRESS consensus target price plus 5% dividend yield = 25% total return.

Around 80% of 18-25 year old lottery players play online, decreasing to 68% for 25-35 year olds. The large uptake in online lottery players from the younger generation is a sign of changing times in the market. We expect to see Jumbo continue to take a stronghold on the market as the next generation of players come through.

Quickstep (QHL)

Sector: Defence

Market Cap: A\$67m

Share price: A\$0.12

State One target price: A\$0.20

Recommendation: Buy

100% upside to IRESS consensus target price = 67% total return.

QHL's partnership with the US Department of Defence to produce parts for the F-35 is set to be a catalyst for the share price in 2017, with President Trump set to boost military spend. More recently, the F-35's performance at the US Air Force's Red Flag training exercise impressed with its 15:1 kill ratio capabilities. This showing has the potential to accelerate the manufacturing schedule for the F-35.

Ingenia Communities (INA)

Sector: Real Estate

Market Cap: A\$479m

Share price: A\$2.71

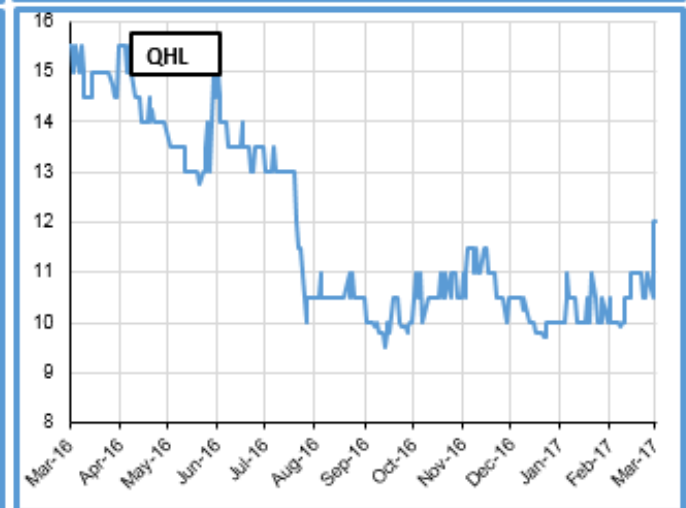
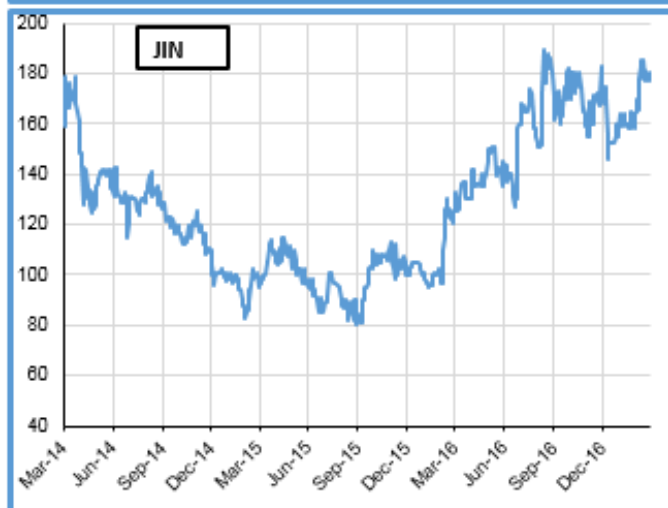
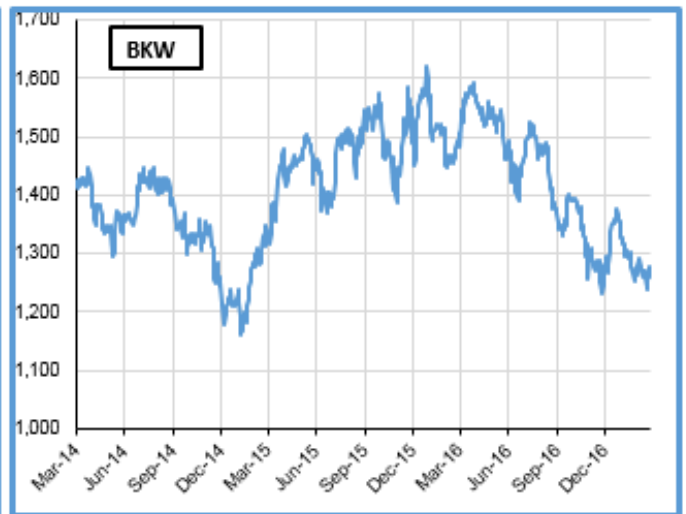
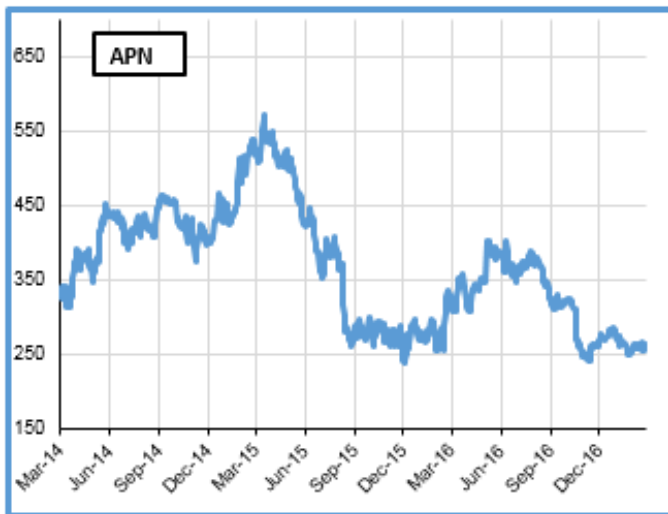
IRESS target price: A\$3.20

Recommendation: Buy

18% upside to IRESS consensus target price plus 3% dividend yield = 21% total return.

Ingenia Communities owns and manages a diversified portfolio of affordable seniors living communities. We see significant growth potential in this market, with the aged population in Australian forecast to increase by 17% by 2020, and only 80% of current target market living in senior-focused communities.

State One stock picks: share price history (A\$cps)



Source: IRESS, compiled by State One Stockbroking

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