



Market Watch

March 2018

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Editor's Note

Fraudulent brokers and loan applications at NAB and the CBA-owned Aussie Home Loans are top of the agenda for examination when the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry kicks off later this month (13 March) in a packed week-long hearing in Melbourne.

Commissioner Kenneth Hayne will be diving straight into the quagmire of dodgy lending practises in the first week of public hearings. All four of the major banks, as well as Citi, are set to come under the blowtorch, with the commission publishing the specific case studies up for examination. Westpac and ANZ are also likely to come under fire over their car financing activities, Westpac will be in the spotlight for "unsuitable credit card limit increases", while Citi's imposition of international transaction fees will be looked at. Other areas to be examined in the opening round of royal commission hearings include home loans, add-on insurance, and account administration. Finally, and certainly not least, the commission expanded its case against CBA and will be examining claims by ASIC that the bank tried to rig a key interest rate – the bank bill swap rate - on six occasions.

All in all, it looks like the country's key players in the banking sector are due to face a torrid time. How this will impact share prices is uncertain, but we suggest that a public examination of how the industry has been conducting its business is unlikely to be a positive catalyst. At current price levels, Westpac (ASX: WBC) offers the most upside - relative to its IRESS consensus target price and IRESS consensus FY18E dividend yield - with a potential total return of ~16%.

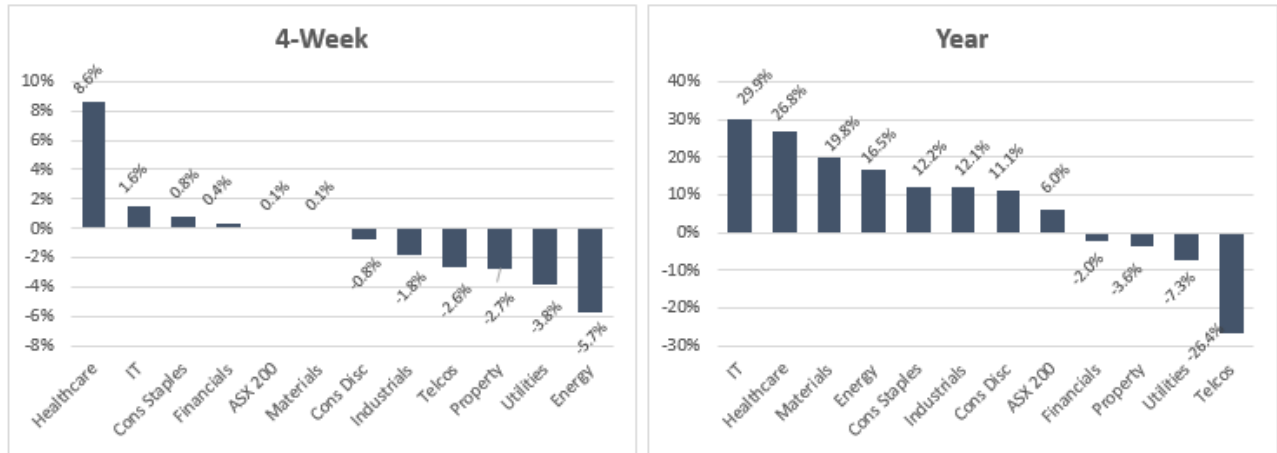
Forecast total return for major ASX-listed financial stocks

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)
WBC	Westpac	30.93	33.83	9.4%	1.92	6.2%	15.6%
NAB	National Aust. Bank	30.09	32.64	8.5%	1.98	6.6%	15.1%
ANZ	ANZ Banking	28.78	31.23	8.5%	1.61	5.6%	14.1%
QBE	QBE Insurance	10.42	11.2	7.5%	0.47	4.5%	12.0%
AMP	AMP Limited	5.25	5.48	4.4%	0.29	5.5%	9.9%
SUN	Suncorp	13.55	14.06	3.8%	0.72	5.3%	9.1%
MQG	Macquarie Bank	102.13	104.84	2.7%	5.08	5.0%	7.6%
CBA	Commonwealth Bank	76.01	80.55	6.0%	0.96	1.3%	7.2%
BEN	Bendigo & Adelaide	11.55	11.21	-2.9%	0.70	6.1%	3.1%
BOQ	Bank of Queensland	12.91	12.45	-3.6%	0.80	6.2%	2.6%

Source: IRESS, compiled by State One Stockbroking

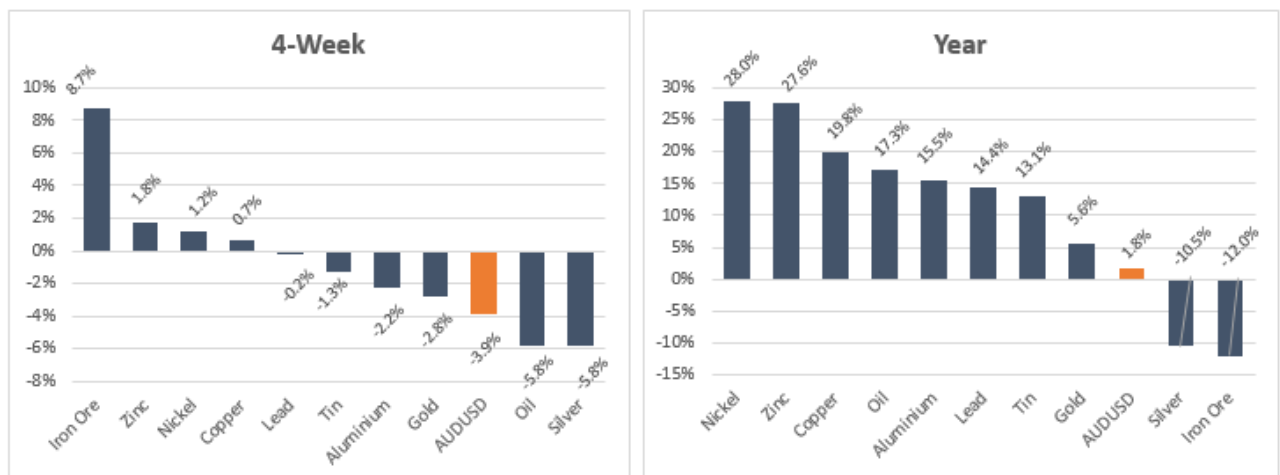
Note: Share price and Target prices as at 26 February 2018

ASX 200: sector performance over past four weeks and year



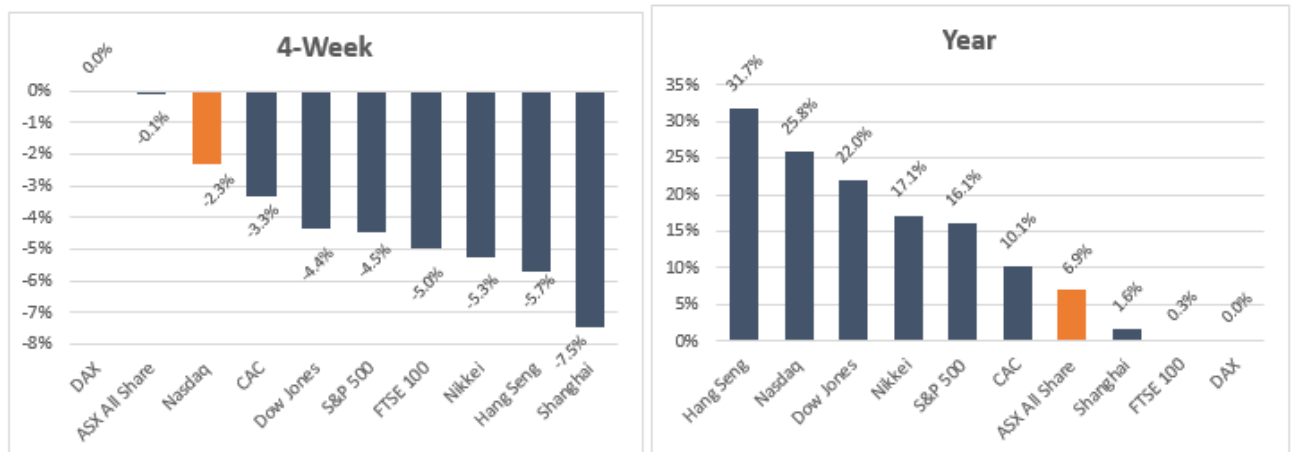
Source: IRESS, compiled by State One Stockbroking

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)

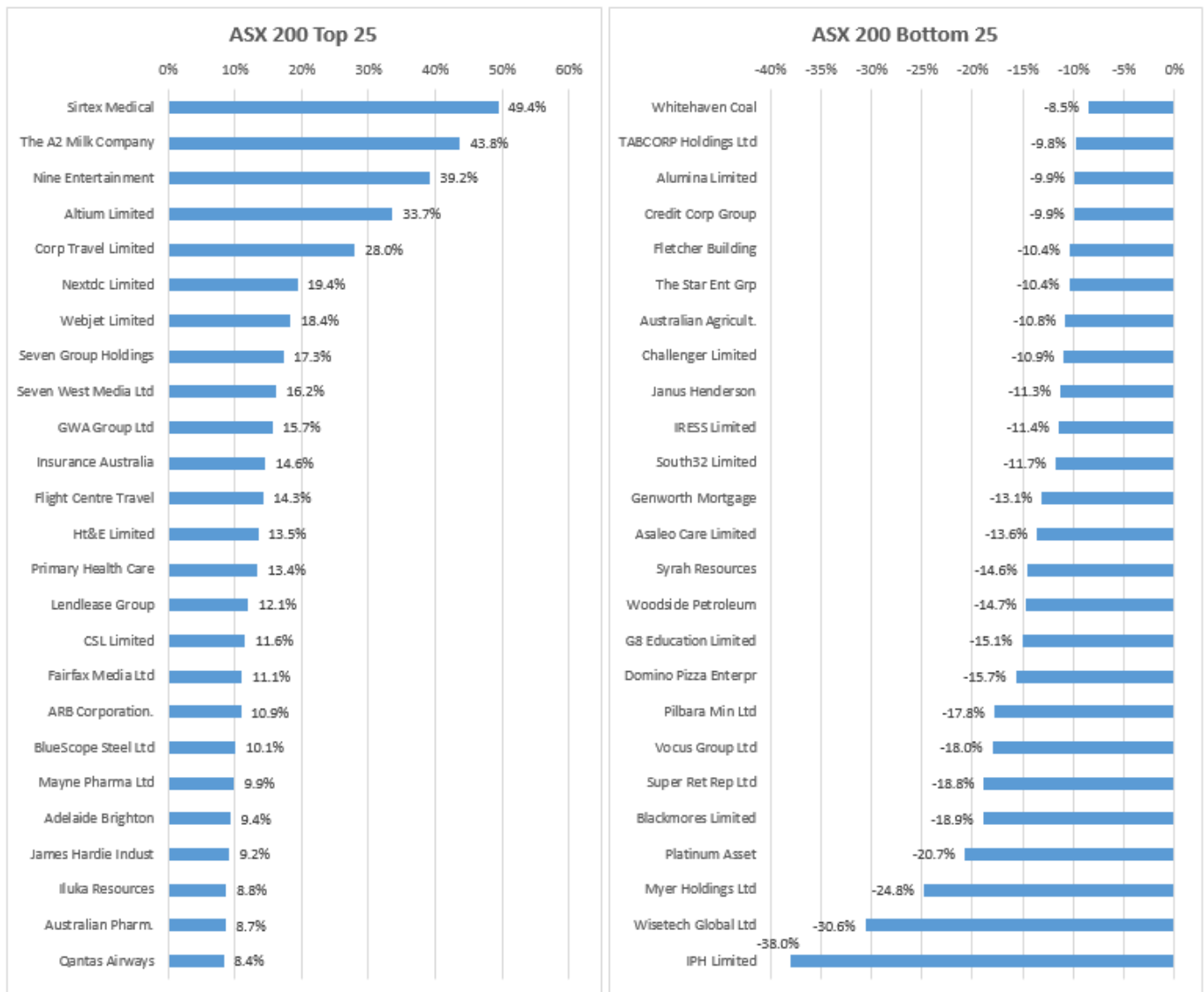


Source: IRESS, compiled by State One Stockbroking

Commentary

- The FTSE/ASX 200 Index gained 0.1% in February with the Healthcare sector the best performer (by far) posting an 8.6% gain and the Energy sector the worst performer, posting a 5.7% loss.
- February was a broadly neutral to negative for commodities, with iron ore the exception posting a stand-out gain of 8.7%. The Australian dollar posted losses of 3.9% against the US\$, which helped offset a lackluster US\$ pricing environment.

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:** Sirtex Medical (ASX: SRX) appreciated by 49% following on the back of an end-January \$1.58bn takeover offer from Varian Medical Systems.
- **Worst performer:** IPH Limited (ASX: IPH) fell 38% on the back of disappointing interim results (1H FY18 net profit A\$19.7m, down 11%).

Month in review - *events that caught our eye in February*



Logistics software company GetSwift (ASX:GSW) facing class action from shareholders after share price collapse on concern over ASX queries on operational and disclosure issues. ...contagion spreads to other smaller players in the tech sector



Rio Tinto tips pay inflation after reporting a 69% increase in full-year profits and record dividend payout to shareholders.



Worries over rising bond yields and inflationary pressures hit shares early in February with the US stock market suffering its worst week in two years.



North Korea sends high-level official delegation to the Winter Olympics in South Korea, which saw the two Koreas compete together in the women's ice-hockey event as a unified team.



Jacob Zuma resigns as President of South Africa following a power struggle within the ruling ANC party. Billionaire Cyril Ramaphosa elected as new leader.



One-time IT market darling Big Un (ASX:BIG) share price collapses over concern over undisclosed cash flow and financing concerns...reinforces concern over smaller players in the tech sector



Barnaby Joyce resigns as leader of the Deputy Prime Minister and leader of the Nationals Party after facing sustained pressure to quit following revelations of his affair with a former staffer.



Florida House committee responds to Parkland school shooting by approving bill to raise minimum age to buy a gun, and create program to arm teachers.



Chinese Central Committee likely to formally abolish the term limit on presidential power, allowing the incumbent Xi Jinping to remain in office indefinitely. Move sparks fresh fears of role of China in the new world order.

Warnings and Disclosures

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