



Market Watch

February 2018

1 February 2018

marketwatch@amscot.com.au

Editor's Note

REITs are investment vehicles that have a portfolio of real estate and which generate money through income from renting and selling assets. REITs typically pay out a significant portion of their income to unitholders and must have the majority of total assets in real estate to be considered and listed as a REIT. A key advantage as compared to stocks is predictable cash flow and dividends. Because REITs are required to give out most of their income as dividends, investors should be fairly certain of consistently getting dividends - as long, of course, as the REIT continues to be profitable. REITs also tend to sign long-term leases with their tenants. Because of this, investors are able to predict the long-term revenue of a REIT accurately. A key disadvantage as compared to stocks is the degree of leverage. Leveraging allows REITs to purchase more assets than they have in unitholders' equity. At the same time, leverage poses additional risks as REITs may face difficulty paying off its debt in difficult times. The fact that REITs are required to pay out a significant portion of their income to unitholders works as a double-edged sword too. Although unit holders can sleep easy knowing they can earn consistent dividends, REITs are not able to reinvest in their portfolio, hence can remain stagnant for many years.

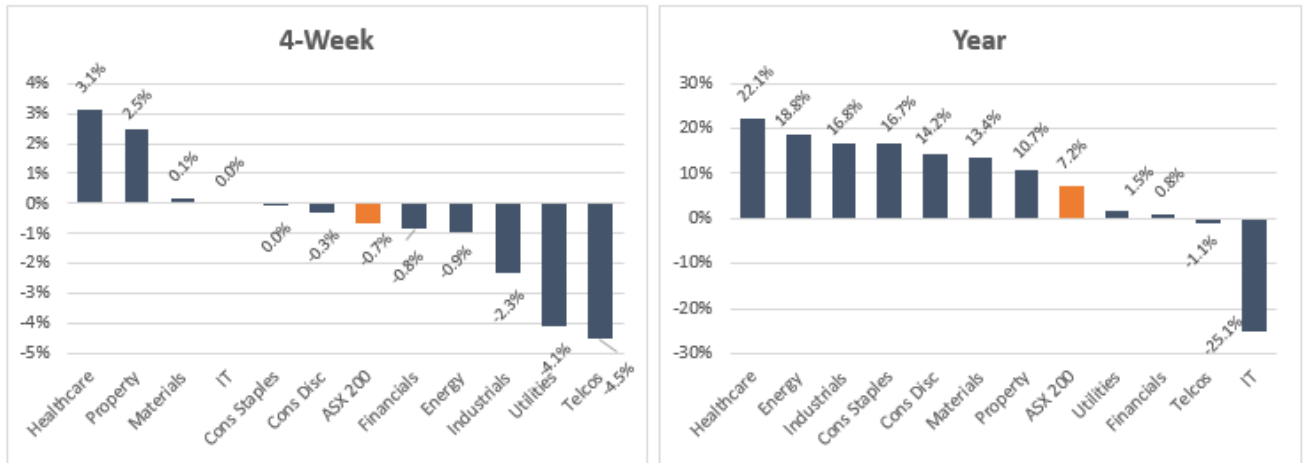
The top-15 largest REITs (by market capitalisation) on the S&P/ASX 300 Index look attractive, offering a simple average total return of 9% (3.5% capital upside plus 5.5% dividend yield). At current price levels, Stockland (ASX: SGP), Lendlease (ASX: LLC), and Mirvac (ASX: MGR) offer the biggest upside, with potential total returns of 18%, 16%, and 15% respectively.

Forecast total return for top-15 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	4.23	4.73	11.8%	0.27	6.4%	18.2%
LLC	Lendlease Group	15.93	17.75	11.4%	0.66	4.1%	15.6%
MGR	Mirvac Group	2.19	2.4	9.6%	0.11	5.0%	14.6%
VCX	Vicinity Centres	2.65	2.86	7.9%	0.16	6.0%	14.0%
SCG	Scentre Group	4.09	4.44	8.6%	0.22	5.4%	13.9%
GPT	GPT Group	5	5.26	5.2%	0.26	5.2%	10.4%
IOF	Investa Office Fund	4.46	4.72	5.8%	0.20	4.5%	10.3%
GMG	Goodman Group	8.12	8.42	3.7%	0.28	3.4%	7.1%
WFD	Westfield Group	9.13	9.41	3.1%	0.35	3.8%	6.9%
DXS	Dexus	9.55	9.72	1.8%	0.47	4.9%	6.7%
CMW	Cromwell Property	0.98	0.96	-2.0%	0.08	8.2%	6.1%
ABP	Abacus Property	3.62	3.62	0.0%	0.18	5.0%	5.0%
CHC	Charter Hall Group	5.96	5.81	-2.5%	0.32	5.4%	2.9%
GOZ	Growthpoint Property	3.27	3.11	-4.9%	0.22	6.7%	1.8%
BWP	BWP Trust	3	2.81	-6.3%	0.18	6.0%	-0.3%

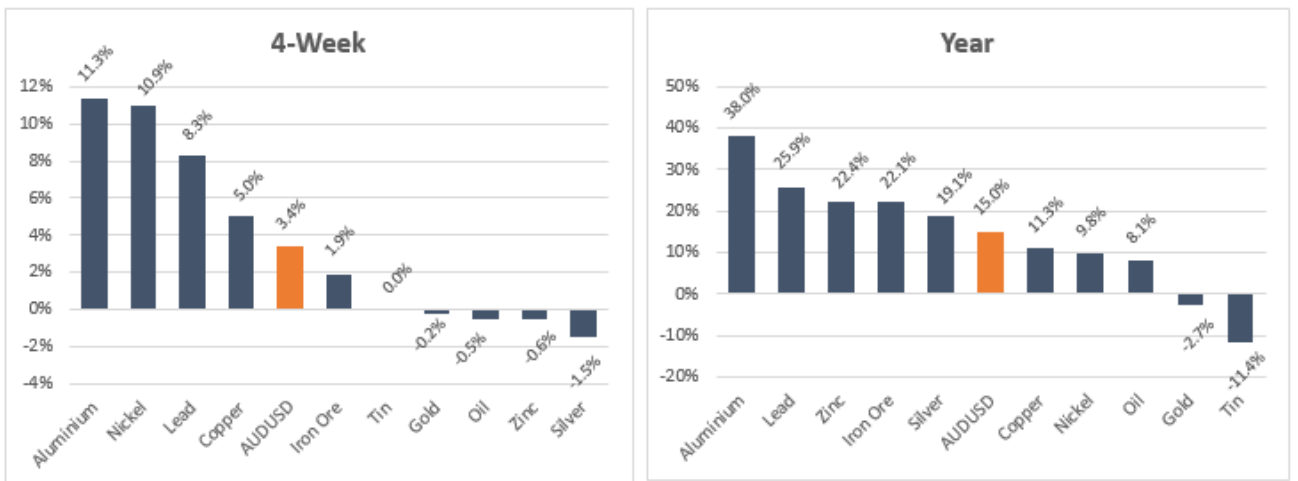
Source: IRESS, compiled by State One Stockbroking

ASX 200: sector performance over past four weeks and year



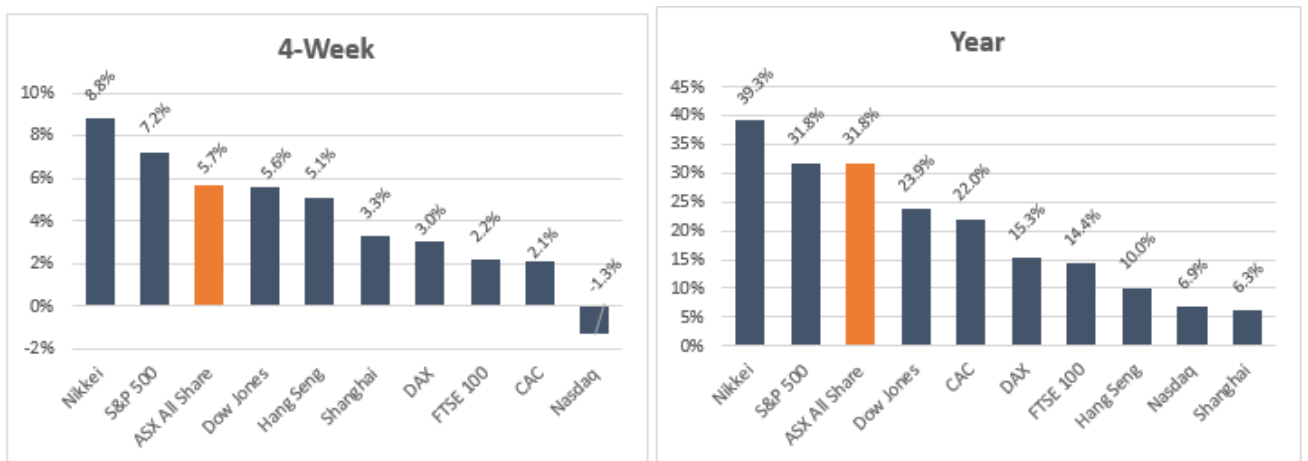
Source: IRESS, compiled by State One Stockbroking

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)

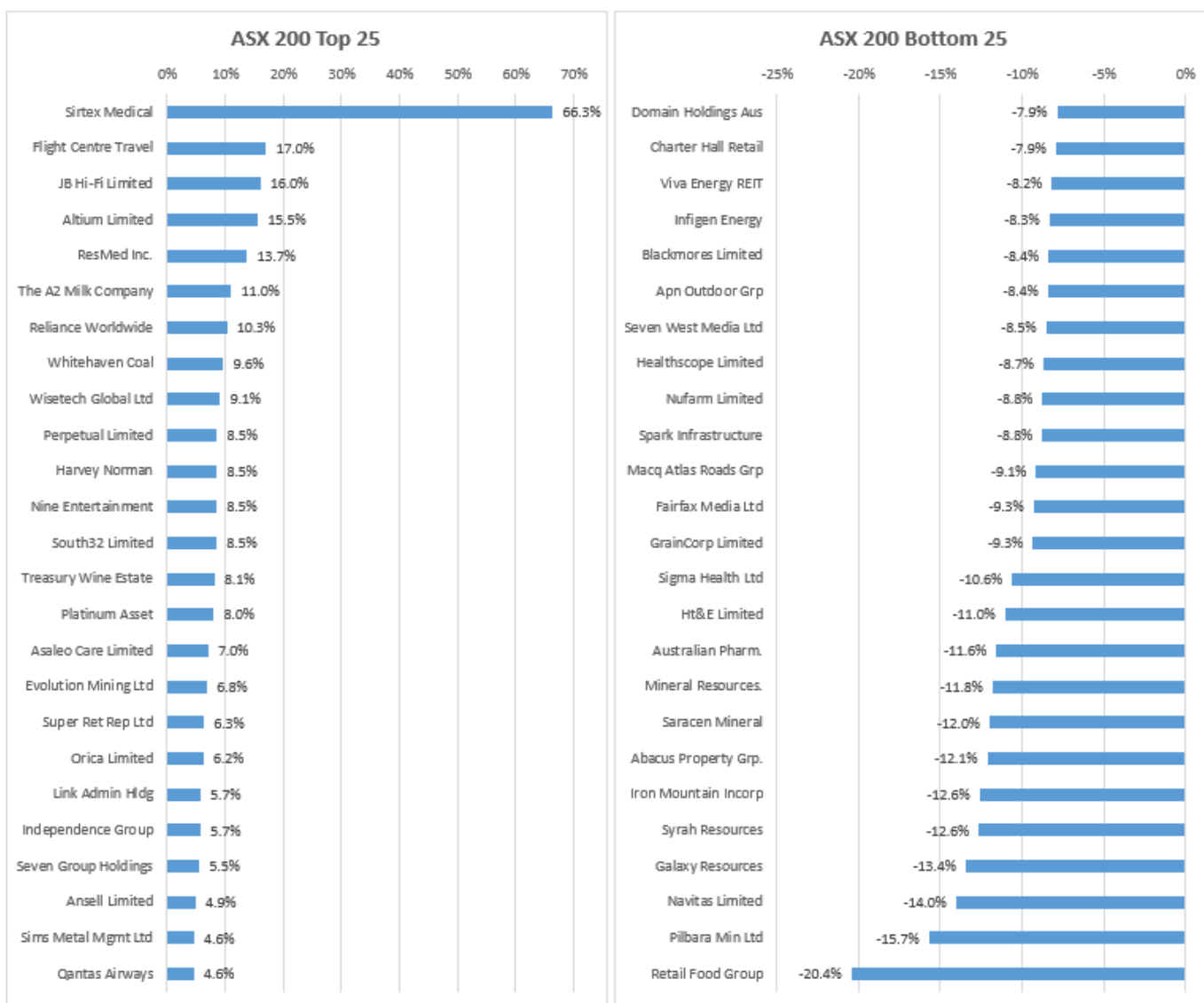


Source: IRESS, compiled by State One Stockbroking

Commentary

- The FTSE/ASX 200 Index fell -0.7% in January with the Telco and Utilities sectors losing the most with losses of -4.5% and -4.1% respectively. The Healthcare and Property sectors posted gains of +3.1% and +2.5% respectively.
- Aluminium and the base metals Nickel, Lead, and Copper posted strong gains in January. The Australian dollar posted gains of 3.4% against the US\$, bringing the local currency's appreciation to 15% over the past year.

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 66%, on the back of an end-January \$1.58bn takeover offer from Varian Medical Systems.
- **Worst performer:** Retail Food Group (ASX: RFG) fell 20% on on-going concern over the group's franchise portfolio, earnings downgrades, and future strategy in the face of increasing online competition.

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



Donald Trump removes one-time chief strategist Steve Bannon from his circle after disparaging Trump in a new book "Fire and Fury" written by Michael Wolff



Corelogic's December Home Value Index shows Sydney property values fell 0.9% in December...the boom is over.



Australia comfortably beat England 5-0 to win the Ashes.....now for South Africa in February!



Embattled department store retailer Myer has shaken up senior management and shed another 50 head office jobs after posting an unprecedented fall in sales before Christmas.



Chief executives have detailed plans to reinvest, create new jobs and lift wages, if the Senate agrees to lower the corporate tax rate to 25% (ala Trump's US tax cuts).



Australian farmers to benefit in particular from revitalised Trans-Pacific Partnership as tariffs on a range of products Australia exports are set to fall; deal expected to be signed in March 2018.



Sirtex Medical's (ASX: SRX) share price shoots up 66% as California-based Varian Medical Systems looks to acquire company for US\$1.28bn. Could lead to rerating for other ASX-listed medical stocks.



Australian government announces initiatives to significantly increase the country's arms exports including a A\$3.8bn fund to boost foreign sales and create tens of thousands of jobs for Australian manufacturers.



Commonwealth Bank

CBA appoints an internal candidate – Retail Bank head Matt Comyn – to take over as CEO from Ian Narev in April 2018. Some in the market were expecting the board to favour an outsider to address perceived governance issues.

Do you really know Hybrids?

Hybrids securities are a way for banks and companies to borrow money from investors while paying interest in return. They offer a blend of features of both debt and equities (shares). They are like equities, taking on equity risk but receiving returns like bonds. Some hybrids take on terms and conditions that allow the issuer to exit the deal or suspend the interest payments when they decide. Hybrids may come in forms of very long-term investments and may not show suitability to investors who need to receive a constant return and capital protection.



There are 3 types of hybrids:

1. Convertibles
2. Preference shares
3. Capital notes

Convertibles are a debt security that gives either the investor or the issuer the option to convert it into another type of security at a specified date in the future.

Preference shares carry a specified dividend rate unlike ordinary shares which pay a variable rate that is decided by the directors of the firm.

Capital notes debts are equity-like in features. There is the perpetual debt that has no fixed maturity date. Subordinated debt securities have a ranking in relation to payment of interest and repayment of principal, ranked behind another class or classes of debt. Knock-out debt securities are debt securities that give the issuer or by a third party the right to extinguish the debt securities under certain conditions. The debt securities have a risk weighting or maybe treated as capital, by prudential regulators.

New hybrids are constantly being introduced to meet the needs and requirements of sophisticated investors. Some of these securities are complicated and difficult to define if it is a debt or an equity. Besides it being difficult to understand, another point to note is that some hybrid securities require the investors to take more risk than the potential return would require.



Dawn Chia
Business Development Manager
amscot Stockbroking and Advisor Services

Warnings and Disclosures

These Research products and their contents at all times remain the property of State One Stockbroking Ltd ("State One") and as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from State One. The contents of this document constitute General Advice and have been prepared without taking account of your investment objectives, financial situation or needs. Because of that you should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in these documents, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs. While State One believes information contained in these documents are based on information which is believed to be reliable, their accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One or any officer, agent or employee of State One. If applicable, you should obtain the Product Disclosure Statement relating to any relevant financial product mentioned in this document (which contains full details of the terms and conditions of the relevant financial product) and consider it before making any decision about whether to acquire the financial product. The directors and associated persons of State One may have a long or short interest in the financial products discussed in these documents and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products. Additionally, State One may earn fees due to having been appointed advisors to, or may be undertaking or about to commence research relating to any of the companies mentioned here.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au