



The Research Monitor

March Quarter 2016

ShawandPartners

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Shaw and Partners

Shaw and Partners is one of Australia's preeminent investment and wealth management firms. With a national presence and approximately \$10 billion of assets under advice, Shaw and Partners offers the intimacy of a boutique investment firm with the resources and scale of a major financial group.

We are privately owned and client focused, having helped our clients manage and grow their financial assets for over 25 years. Our emphasis on integrity and high compliance standards has enabled us to achieve very high levels of client satisfaction, while unlocking opportunities of significant value. Backed by fresh thinking, robust research and the nation's best investment and wealth experts, our business has been designed to meet the growing needs of our clients. Shaw and Partners offers access to an extensive team of private client advisers, institutional sales and trading specialists, market leading research analysts and strategic corporate financiers.

By working closely with clients and targeting their needs, we have forged strong long-term relationships. So, whether you are an ordinary investor, high net worth individual, charity, institution or corporate, our goal is simple: to listen to you, then act according to your needs alone.

We welcome you to Shaw and Partners. Your partners in building and preserving wealth.

March Quarter 2016 Performance

The main themes that defined 2015 were growth fears regarding China, pressure on commodity prices, the US Federal Reserve interest rate decision, energy markets and the migrant crisis and market volatility.

The accumulation return of the Australian share market was 2.8% for calendar year 2015, but price return was negative 1.3%, meaning 4.1% came from dividends. We anticipate a similar dividend yield from the market in 2015 (we estimate around 5.0% from the leading stocks before franking) but hopefully a bit more in the way of capital growth.

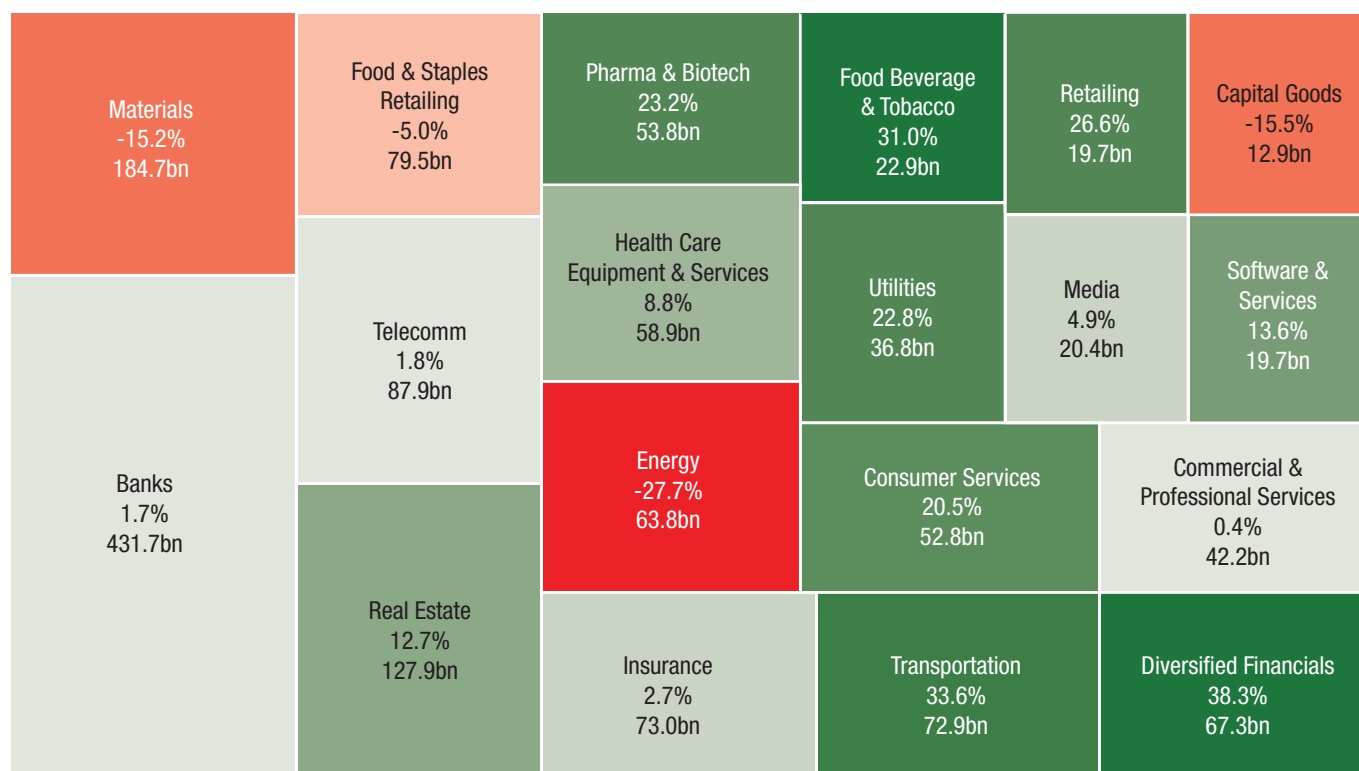
The Diversified Financials sector posted the best returns during 2015 (up 38.3%). Merger and Acquisition activity bolstered the performance of the Transport sector (up 33.6%) and the Food, Beverage and Tobacco sector also did well over the year (up 31.0%).

The worst performing sector during 2015 was Energy (down 27.7%) on the back of weakening oil prices.

The Capital Goods (down 15.5%) and Materials (down 15.2%) sectors also performed poorly during the year.

The Chinese share market has contributed to a great deal of volatility in global share markets and the ASX/S&P 200 in 2016 is off to its worst start in over a decade. Weakening commodity prices and nervous Chinese policymakers are fuelling share market weakness and a US Fed determined to lift rates further has left investors more nervy than optimistic.

We expect better returns from Australian shares this year and recommend that portfolios should rotate out of large caps into mid caps for even better returns.



Heat map legend: Size of box: market cap of sector. Colour of box: Quarterly performance (green positive, red negative).

Model Portfolio

Shaw and Partners has expanded our Model Portfolio from the S&P/ASX Top 50 to the Top 100 stocks and make several changes to our portfolio. The current volatility in world markets, brought about by China, poses some interesting questions for investors.

World growth is set to accelerate from 2.4% in 2015 to 2.7% in 2016 and then 3.1% in 2017. Employment is continuing to improve in Australia, Europe and the US. Manufacturing is expanding in Europe and the US. Consumer confidence is strong, interest rates are low and stable – so why all the doom and gloom heading into 2016?

It's all about China at the moment. Chinese authorities are trading virgin territory. There is no “play book” on how to transition a centrally planned economy to a market driven one, at the same time as shifting focus from exports to domestic demand, while engineering the largest mass migration of workers from the farm to the factory in history. Some policy measures have been effective, others are just not working and so markets remain nervous.

We should not lose sight of developments in US labour markets, particularly around wages. Developments here will determine the path of US interest rates, however a weaker than expected Chinese currency could export a new bout of deflation to the world and cause the US Federal Reserve to stutter.

We trimmed holdings of large cap stocks in favour of mid caps. Generally speaking, we see better value in “the second eleven” and have moved 17.8% of our portfolio from the Top 50 to the next 50. We reduced positions in the large banks and added money to stocks we think are a good “hedge” to the current uncertainty and weak commodity prices, notably Qantas Airways (QAN) and Newcrest Mining (NCM).

Recommendation

We have stayed overweight in equities in a balanced portfolio with a focus on quality cyclicals. We shifted our focus to the “second eleven” and took some money off the table in strong performers Brambles (BXB) and Lendlease Group (LLC).

Additions		Reductions	
QAN	5.00	BHP	(1.00)
NCM	1.50	BXB	(5.89)
FLT	3.00	CBA	(3.85)
BOQ	3.81	WBC	(3.86)
PPT	3.00	ANZ	(4.22)
MPL	3.00	NAB	(1.46)
GMG	2.00	MQG	(0.79)
SGP	3.00	SUN	(0.51)
CAR	3.00	AMP	(2.81)
		LLC	(1.00)
		TLS	(1.92)
Total	27.31		(27.31)

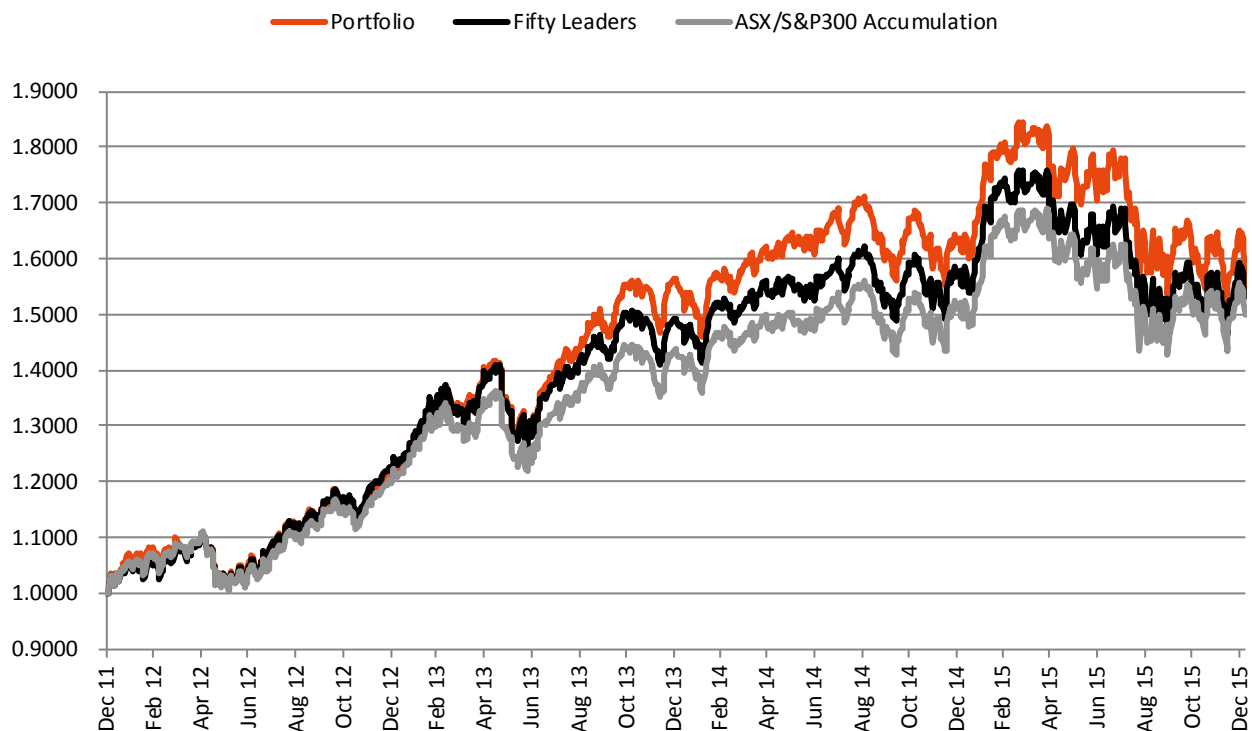
Model Portfolio @ December 2015		
WBC	Westpac Banking Corp	9.00%
CBA	Commonwealth Bank.	8.00%
ANZ	ANZ Banking Grp Ltd	7.00%
BHP	BHP Billiton Limited	6.60%
TLS	Telstra Corporation.	6.50%
MQG	Macquarie Group Ltd	6.00%
LLC	Lendlease Group	5.30%
QAN	Qantas	5.00%
NAB	National Aust. Bank	5.00%
SUN	Suncorp Group Ltd	5.00%
AMC	Amcor Limited	4.20%
NCM	Newcrest Mining	4.00%
AMP	AMP Limited	4.00%
BOQ	Bank of Queensland	3.80%
ORG	Origin Energy	3.50%
FLT	Flight Centre	3.00%
PPT	Perpetual Group	3.00%
MPL	Medibank Private Ltd	3.00%
SGP	Stockland	3.00%
CAR	Carsales.com Limited	3.00%
GMG	Goodman Group	2.00%
Total		100.0%

Portfolio Changes

Some of the important changes to our model portfolio – apart from the aforementioned increased focus on the second eleven – include:

- A reduced weighting to BHP Billiton (BHP) by 1% in favour of Newcrest Mining (NCM) +1.5%. We believe that the current period of uncertainty is likely to continue for the short term and see potential upside to gold prices.
- A reduced weighting to the top four banks, introducing favourite regional bank, Bank of Queensland (BOQ). We expect the regionals to benefit strongly from regulatory tailwinds as APRA seeks to address major bank “To Big To Fail” (TBTF) issue. The playing field will be levelled, as major banks are forced to increase risk weightings (25%→32%), allowing regionals to become more competitive and outgrow major banks. Major banks will try and protect Return on Equity (ROE) via lifting loans rates. This means lower growth and ROE pressure. Small, nimble, well executing regional banks can grow strongly.
- Reducing your exposure to sectors where competition is starting to bite. We cut Suncorp Group (SUN) back by 0.51% and Telstra Corporation (TLS) back by 1.92%. Consolidation has taken place in the General Insurance industry and now the battle for market share will be fought out amongst the major players. In telecommunications, challengers to Telstra’s dominance have started to re-emerge and things will get tougher in that sector moving forward.
- Switching within the Wealth Management space, we like Perpetual (PPT) and have added it in with a 3% weight. We funded this mostly from AMP Ltd (AMP) where we held a large overweight position.
- We have added growth stocks Flight Centre Travel Group (FLT) and CarSales.com (CAR). Both travel and car retailing industries continue to grow strongly taking advantage of price deflation of the underlying product and strong demographic shifts which favour consumption of both.

Portfolio Performance (Accumulation Basis)



Meet the Research Team

Shaw and Partners provides coverage on more than 100 ASX listed companies which are predominantly within the S&P/ASX200 benchmark index. Our 12 research analysts cover companies across Financial Services, Real Estate, Industrials, Health and Biotech and Natural Resources sectors.



Martin Crabb, Head of Research

Research Management, Equity Strategy

Martin joined Shaw in April 2011 as Head of Research. Martin is responsible for overall management of the research team as well as equity strategy and coverage of Diversified Financial Services companies. Prior to joining Shaw, Martin was an Executive Director with Macquarie Group where he worked for over 20 years in roles spanning institutional stockbroking, wealth management, research and portfolio management. Martin holds a Bachelor of Arts in Economics and Mathematics from the University of Melbourne, with postgraduate studies in Applied Finance. Martin is a Responsible Executive (ASIC).



Danny Younis, Senior Analyst

Technology / Developers & Contractors / Retailers

Danny joined Shaw and Partners in April 2010 and covers the Industrials sector with specific focus on Technology, Contractors / Mining Services, and Retailers. Danny has had over 15 years' experience in financial markets and stockbroking and commenced his career with CCZ Statton Equities and worked previously with Aegis Equities, Westpac, Commonwealth Bank and StoneBridge Group as Head of Research. Danny graduated with a Bachelor of Science from the University of Sydney with majors in Biology (Genetics) and the History & Philosophy of Science. Danny has also completed FINSIA's Graduate Diploma of Applied Finance and Investment (GDipAppFin).



Darren Vincent, Senior Analyst

Commercial Services, Life Sciences, Travel & Leisure

Darren joined Shaw and Partners in September 2012 as a Small Company specialist. Darren has worked in equity markets for over 20 years, having previously worked at Credit Suisse and also with BNP Paribas and ANZ Stockbroking. During that time Darren has covered a wide variety of small industrial companies and has been recognised by his clients for his work, winning the 2010 East Coles Small Company Analyst of the Year and placing second in the 2011 Wall Street Journal Asia's Best Analysts Awards (Industrial Goods & Services). Darren holds a Bachelor of Economics from the Australian National University.



David Fraser, Senior Analyst

Transport, Infrastructure and Utilities

David joined Shaw and Partners in May 2014 as Senior Analyst covering the Transport, Infrastructure and Utility sectors. David has over 18 years' experience in the financial services industry. David previously worked in equity research and advisory at BBY, Nomura Australia and UBS Australia. Prior to his career in finance David worked as a chemical process design engineer in the oil and gas industry in New Zealand, Australia, Norway and the United Kingdom. David holds a Bachelor of Chemical Engineering and a Bachelor of Science from Canterbury University and a Diploma in Accounting and Finance from Victoria University.



David Spotswood, Senior Analyst

Financial Services, Telecommunications

David joined Shaw in February 2012 as Senior Analyst covering the Banks, Diversified Financials, Insurance, Media and Telecommunications companies. David has over 20 years' experience in the financial services industry. David previously worked as Research Officer and Economist with the Commonwealth Treasury & Department of Finance, Research Associate with John A. Nolan & Associates, Senior Investment Manager (Australian Equities) with HSBC Asset Management, Investment Manager (Australian equities) Credit Suisse Asset Management, Australian Equities Manager with Warakirri Asset Management and Institutional Research Adviser with Select Equities. David holds a Bachelor of Economics from Flinders University and Master of Commerce with 1st Class Honours from the University of Melbourne.



Peter O'Connor, Senior Analyst

Metals and Mining

Peter joined Shaw and Partners in January 2015 as Senior Analyst. Peter is an experienced equities analyst specialising in Metals and Mining sectors. Peter was most recently Managing Director, Head of Asian Metals & Mining Team, Co-head of Global team - Equities Research at Merrill Lynch/Bank of America. Prior to this Peter held positions as Head of Australian Metals and Mining at Deutsche Bank, Head of Global Metals and Mining at Credit Suisse and Equities Research, Metals and Mining at Macquarie Bank. Prior to his time as an equities research analyst, Peter held operational roles with Rio Tinto for five years and BHP Billiton for five years. Peter has a Bachelor of Engineering (Mining) from the University of New South Wales (First Class Honours and the University Medal).



Peter Zuk, Senior Analyst

Real Estate

Peter joined Shaw and Partners in October 2015 as Senior Analyst. Peter has over 17 years of real estate industry experience that includes roles within financial markets, direct industry and advisory. Previously, Peter worked as an equities analyst at Goldman Sachs where he covered the Real Estate sector. Prior to this, he held roles at Goodman Group and KPMG where he focused on REITs, developers and contractors. Peter has a Masters of Commerce Degree from the University of New South Wales and is also a Chartered Accountant.

Our Preferred Stocks

Equity Trustees (EQT)

Equity Trustees (EQT) is a financial services company which provides financial products and services and include wealth management, estate planning, managed funds, superannuation, institutional services and philanthropy. EQT operates in Australia and has two business units which are Trustee & Wealth Services and Corporate Trustee Services.

Flight Centre Travel Group (FLT)

Flight Centre Travel Group (FLT) is engaged in travel agency business. The company provides a complete travel service for leisure and business travellers in Australia, New Zealand, the United States, Canada, the United Kingdom, Africa, Middle East, Asia, New Zealand, and Europe.

Goodman Group (GMG)

Goodman Group (GMG) is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. GMG comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited. GMG operates four divisions namely Property Investment, Fund Management, Property Services and Property Development.

MyState (MYS)

MyState (MYS) is a non-operating holding company and listed diversified financial products and services group. MYS provides a range of financial products and services through three wholly-owned Australian subsidiaries MyState Financial Limited, Tasmanian Perpetual Trustees, and The Rock Building Society Limited. Headquartered in Tasmania, MYS's business operations cover banking services, trustee services and wealth management.

Newcrest Mining (NCM)

Newcrest Mining (NCM) is a gold producer with its portfolio located in Australia, the Pacific region, Asia and Africa. Newcrest has interests in six production provinces in four countries and a portfolio of brown and greenfield exploration projects. Group Mineral Resources are estimated at 161.2Moz Au, 21Mt Cu and 142.2Moz Ag, and reserves are 87.3Moz Au, 12.1Mt Cu and 77.2Moz Ag. F13 production was 2.1Moz Au and 80,000t Cu.

National Veterinary Care (NVL)

National Veterinary Care Ltd (NVL) is building a national network of veterinary clinics and aims to be a provider of veterinary services in Australia and New Zealand. Within the pet care industry, the veterinary services include prevention, diagnosis and treatment of disease and injury in pets. As at 18th Sept 2015, NVL has acquired 33 of the 35 clinics and professional businesses.

Perpetual (PPT)

Perpetual (PPT) is an independent and diversified financial services group providing specialised investment management, wealth advice and corporate fiduciary services to individuals, families, financial advisers and institutions. PPT comprises of three core businesses: Perpetual Investment, Perpetual Private and Corporate Trusts.

Rio Tinto (RIO)

Rio Tinto (RIO) is engaged in minerals and metals exploration, development, production and processing. The Company's Portfolio of assets is condensed into four product groups: Aluminium, Copper & Coal, Diamonds & Minerals and Iron Ore.

Stockland Corporation (SGP)

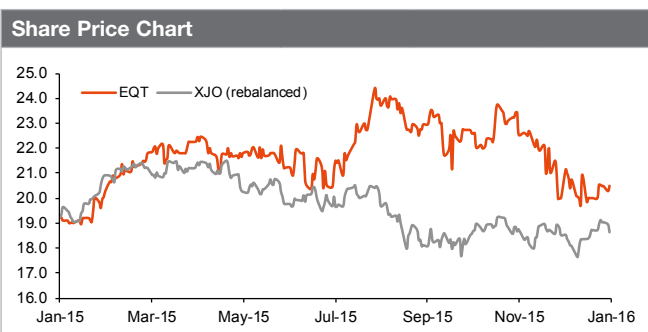
Stockland Corporation (SGP) is a diversified property group in Australia which develops, owns and manages retail centres, business parks, logistics centres, office buildings, residential communities and retirement living villages.

Suncorp Group (SUN)

Suncorp Group (SUN) is a Queensland-based financial services conglomerate offering retail and business banking, general insurance, life insurance, superannuation and investment products in Australia and New Zealand. SUN has following five core businesses: Personal Insurance, Commercial Insurance, Vero New Zealand, Suncorp Bank and Suncorp Life.

Equity Trustees (EQT)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$20.48
Target Price	\$25.00
Analyst	Martin Crabb



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.8%	-10.0%	8.3%

* Relative Performance is compared to the S&P/ASX 200 Index

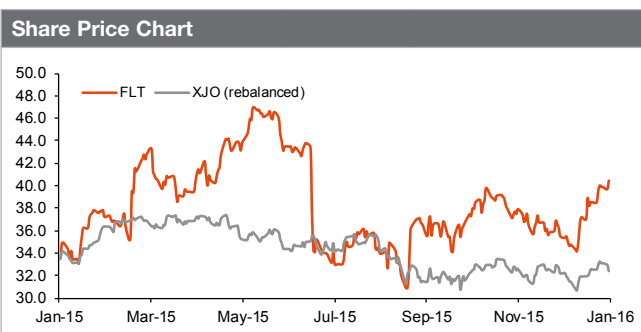
A dead giveaway

- Due to changes in the regulatory environment which resulted in Equity Trustees (EQT) having to hold increased regulatory capital, the Company voted on and approved a new corporate restructure which will provide greater funding flexibility and allow EQT to raise debt. The new corporate structure will also allow EQT to consolidate the number of licenses the Group holds, thereby reducing the administrative and supervisory requirements. The Scheme of Arrangement was approved by the Supreme Court of Victoria in December 2015.
- EQT's two business units, Trustee & Wealth Services (TWS) and Corporate Trustee Services (CTS) are experiencing organic growth in terms of client activity and numbers, contributing to operating profits being "modestly ahead of last year". At the end of Q1, total FUM/A in CTS was \$46b, up from \$45b as at June 2015.
- The growth of the funds management industry and the need for individual advice and assistance to manage and preserve wealth in a complex and volatile environment should prove to be beneficial to EQT's business and the Company is well placed to continue to profit and grow from these opportunities. EQT will continue to position itself as the largest, Independent listed company with a trustee focus while investing in its capabilities and building scale.
- EQT is a thematically attractive business that is fundamentally strong with increasing operational scale and solid cash flow. The company is well placed to benefit from an ageing population, increasing superannuation contributions, and intergenerational transfer of wealth. We consider the recent share price weakness as a buying opportunity.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	87.2	120.5	141.4
Dividends cps	94.0	98.0	114.0
PE x	23.5	17.0	14.5
Yield %	4.6	4.8	5.6
Franking %	100	100	100

Flight Centre Travel Group (FLT)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$39.89
Target Price	\$42.00
Analyst	Darren Vincent



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	11.3%	4.5%	21.3%

* Relative Performance is compared to the S&P/ASX 200 Index

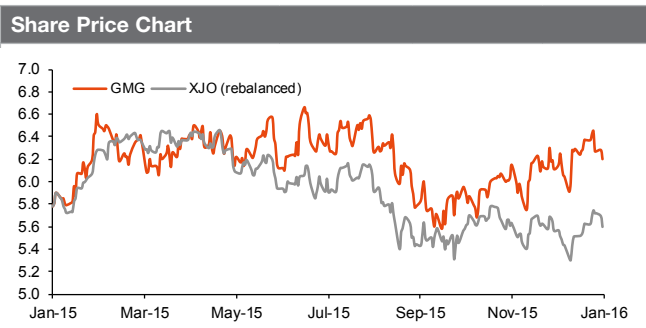
On track for more growth

- Flight Centre Travel Group's (FLT) TTV and sales are exposed to positive trends in the travel industry and the Company is positioned to benefit from stronger overseas arrivals and departures data. Short-term visitor arrival data for October 2015 is trending 8.8% higher compared to October 2014; with residential departures also showing stronger growth trends from the same period, up 4.9%.
- FY15 generated record EBIT for FLT's four off-shore regions as management continually diversifies the revenue streams to have a greater portion represented from the International business. FY16 presents FLT with significant opportunities as the market continues through the "Golden Era" of travel and a full year contribution from Top Deck of \$8-10m of PBT in FY16 is expected.
- Management has provided guidance for a 4-8% uplift in FY16 PBT, with the expectation of all divisions performing well. CAPEX is above expectations at ~\$120m, showing FLT's intent to grow its brand network via store roll-outs across major regions, especially in the US corporate market, with double digit growth to continue in FY16.
- Trading at a cash adjusted PE of 12.6x on FY16 earnings, we conclude that FLT is undervalued relative to the market and trading at a discount, especially considering that the Company is generating 7% sales growth.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	254.7	285.8	293.9
Dividends cps	152.0	164.0	174.7
PE x	15.8	14.6	13.6
Yield %	3.8	4.1	4.4
Franking %	100	100	100

Goodman Group (GMG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$6.27
Target Price	\$6.65
Analyst	Peter Zuk



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.8%	6.2%	10.9%

* Relative Performance is compared to the S&P/ASX 200 Index

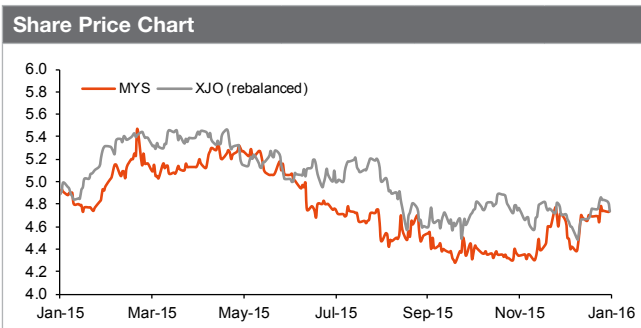
Self-funding business model offers attractive growth outlook

- Goodman Group (GMG) offers an attractive EPS growth profile with a forecast 3-year CAGR of 6.2%. This is driven by (1) higher development completions as well as improved margins, (2) increased management income due to growth in assets under management, and (3) lower net debt. Management is guiding to 6% EPS growth in FY16, with a forecast DPS of 23.8cps. Our FY16 EPS estimate is higher than guidance, with a view that GMG's development margins will benefit from continued cap rate compression across its global platform.
- We expect continued growth in development work in progress (WIP), commencements, completions and EBIT – fully funded over our forecast period. As at 30 Sep 2015, development WIP was \$3.4b, which gives us visibility over GMG's completion outlook over the next 12-18 months.
- GMG has low gearing of 17.3% (as at 30 Jun 2015) and importantly, development growth is not being driven by the use of debt. We suggest GMG is able to fulfill its share of funding commitments through a combination of retained earnings and proceeds from asset recycling, as well as funds generated from its currently active DRP.
- While GMG recently announced \$600m of revaluation gains, we see further potential gains of c.\$1.28b from the sale of rezoned urban renewal projects over the next 10 years.
- We believe GMG represents an attractive investment opportunity for investors looking for a stock with (1) an attractive EPS growth outlook and (2) consistent total return potential of c.10% pa over the next 3 years.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	37.4	39.9	42.2
Dividends cps	22.2	23.8	25.4
PE x	16.7	15.7	14.8
Yield %	3.5	3.8	4.0
Franking %	0	0	0

MyState (MYS)

Recommendation	BUY
Risk	LOW
Share Price (as at 31 Dec 2015)	\$4.74
Target Price	\$5.20
Analyst	David Spotswood



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.8%	7.8%	-0.6%

* Relative Performance is compared to the S&P/ASX 200 Index

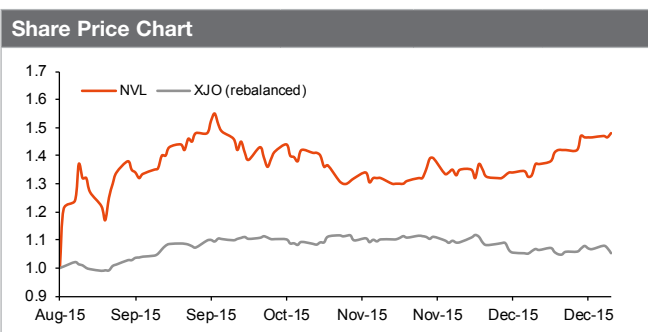
Strong loan growth to drive double digit EPS growth in FY16/17

- Loan Volumes going gangbusters: November loan growth data released by APRA shows MyState (MYS) grew 2.15% for the month (or 26% annualised). In our forecasts we have loan growth of 15.5% and 12.0% for 2016 and 2017, respectively, which may prove to be conservative.
- MYS Product looks very competitively priced, at 4.22%. This should help MYS maintain strong volume growth.
- Margins: We assume flat margins in 2016, with a 20bps increase in variable home loans expected to increase margins by 7bps.
- Regulatory environment continues to benefit MYS: We expect regulators to announce further convergence of advanced and standard accreditation. This is positive for MYS as it continues to level the playing field and enhance MYS competitive position.
- Capital remains strong.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	34.1	37.7	41.5
Dividends cps	28.5	29.0	30.0
PE x	14.0	12.0	10.9
Yield %	6.0	6.1	6.3
Franking %	100	100	100

National Veterinary Care (NVL)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$1.47
Target Price	\$1.68
Analyst	Darren Vincent



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	12.8%	10.3%	52.3%

* Relative Performance is compared to the S&P/ASX 200 Index

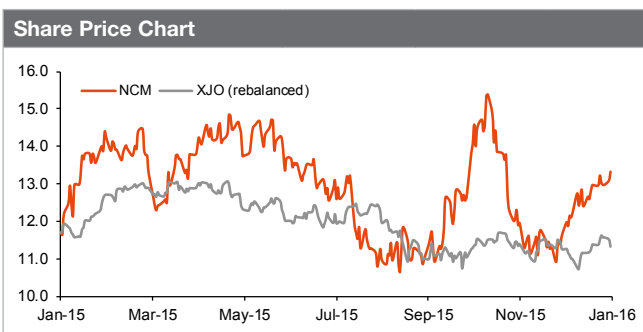
Proven management to roll up more vets

- National Veterinary Care (NVL) listed on the ASX in August, raising \$30.0m to acquire 34 vet clinics. It has since settled 33 and is now looking at further acquisitions. NVL's model is designed to arbitrage the difference between private and public multiples and to enable its vets to deliver an uplift in sales and margins through economies of scale, management systems and specialty services.
- The vet rollup model and NVL management are both proven. NVL has six ex Greencross (GXL) executives/directors, all of whom left GXL following its reverse takeover by Mammoth. While this team was with GXL, GXL acquired and integrated 126 clinics over 9 years and over the last four years generated a sales CAGR of 24% and an EPS CAGR of 26%.
- The Australian Vet industry remains fragmented with GXL and the next six largest vets have a combined market share of 8%. The remaining operators are owner operators providing significant opportunity for acquiring businesses and the multiples being paid are conducive to profitable consolidation.
- NVL will differentiate itself from GXL as its operations will not include a retail segment, providing investors a pure exposure to higher margins and lower volatility to discretionary spend. NVL is exposed to execution risk on veterinary clinic roll up and competition, but management have experienced these challenges before.
- We have a BUY recommendation with a price target of \$1.68.

Forecasts			
YE Dec	2015 (A)	2016 (E)	2017 (E)
Earnings cps	nm	2.8	10.0
Dividends cps	nm	0.0	0.0
PE x	nm	15.9	14.6
Yield %	nm	0.0	0.0
Franking %	nm	100	100

Newcrest Mining (NCM)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$12.97
Target Price	\$14.70
Analyst	Peter O'Connor



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	9.7%	-9.1%	15.9%

* Relative Performance is compared to the S&P/ASX 200 Index

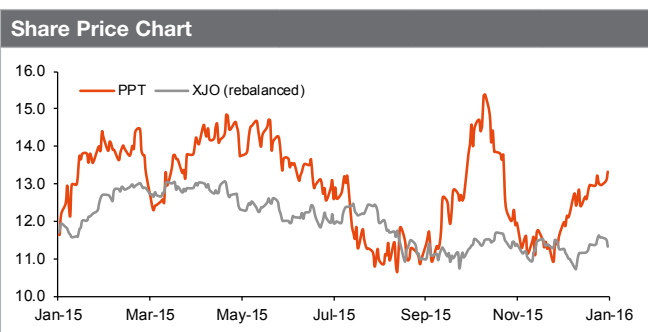
Safe haven: gold equity+large capn (liquidity) + turnaround story

- Gold prices to support Newcrest Mining (NCM) share price in the short run: We expect gold price to be supported, at current levels, on the back of increasing geopolitical tension (Middle East/Asia) and global economic uncertainty, especially emerging economies.
- January catalyst: NCM is expected to report 2Q16 production results on 28th January; we expect this to be a share price catalyst with "In line" production data and NCM reiterating guidance for FY16, despite recent market concerns regarding Cadia mill outage (now addressed) and Lihir mine (potential) El-Nino/drought issues impacting process water availability.
- Cadia full year production guidance intact: NCM had operational issues with one of the SAG mills at Cadia mine in early October. Based on the recent feed back from NCM, SAG mill is back in operation and NCM will optimise the secondary SAG mill. We expect minimum impact on the overall FY16 production guidance provided at the last quarterly.
- Minimal El-Nino impact for Lihir mine, yet: Despite one of the worst El-Nino events forecasted for FY16, Lihir operation has not had any major operational impact yet. With the Lihir turnaround plan intact, we expect no changes to production guidance. If severe drought conditions prevail for an extended period, there will be production curtailments, in our view.
- Project studies to be released early 2016. Three major project updates in early 2016; (i) Cadia – expansion to 32mtpa from 27mtpa; (ii) Lihir – long term mining plan update including detailed cost/capex; (iii) Golpu – feasibility study for stage 1 and prefeasibility for stage 2.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	67.0	63.0	100.0
Dividends cps	0.0	0.0	0.0
PE x	19.4	20.4	12.9
Yield %	0.0	0.0	0.0
Franking %	0	0	0

Perpetual (PPT)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$46.65
Target Price	\$58.00
Analyst	Martin Crabb



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.8%	14.3%	3.4%

* Relative Performance is compared to the S&P/ASX 200 Index

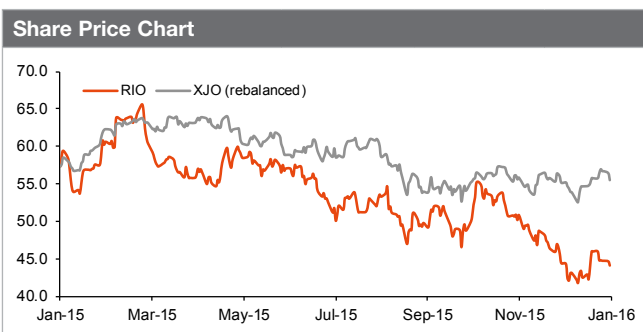
The world is its oyster

- We recently initiated coverage on Perpetual (PPT) with a \$58.00 price target. Investors incorrectly treat PPT as a beta play on the Australian share market. We see value creation in Corporate Trust and Perpetual Private matching the opportunities in Perpetual Investments.
- PPT has undergone a significant transformation from both a cost-out perspective and via the acquisition of Trust Company (TRU). PPT has transformed into a lean organisation and is now generating significant free cash flow. Management must now demonstrate and execute on growth strategies in Investments and Private Wealth and look to capture value from the Corporate Trust business.
- Perpetual Investments (PI) is fishing in a very small pond for its Global Equities product and should take a leaf out of the book of Magellan Financial Group (MFG) and find distribution partners in North America and Europe. Perpetual Private (PP) enjoys a strong brand name, wealthy client base and productive adviser force. Perpetual Corporate Trust (PCT) is a banking services business that would be more valuable to a global player or consolidator, so if the opportunity arose to divest the business and release capital, it should be taken.
- The balance sheet is solid and a high payout ratio can be maintained. PPT pay out 90% of profits as fully franked dividends making the stock attractive to superannuation funds. Capital requirements come mostly from the Corporate Trust business and are covered by cash holdings.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	282.4	267.2	289.3
Dividends cps	240.0	245.0	260.0
PE x	16.5	17.5	16.1
Yield %	5.1	5.3	5.6
Franking %	100	100	100

Rio Tinto (RIO)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$44.71
Target Price	\$59.00
Analyst	Peter O'Connor



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.9%	-16.6%	-21.1%

* Relative Performance is compared to the S&P/ASX 200 Index

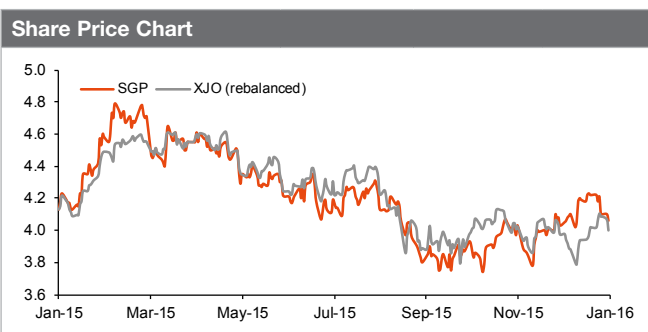
Dividend "safe" even with collapsing prices (CEO)

- Rio Tinto (RIO) has an unstretched balance sheet (~20%ND/(ND+E)), a world class iron ore business (cash costs of ~US\$15/t) and a strong cashflow stream to back dividend commitments. Moreover, the CEO recently delivered a clear message in this regard – "The dividend is safe even with collapsing prices."
- Iron ore business to dominate, despite weak iron ore prices: Improved operation efficiencies and mine optimisation has enabled iron ore division to lower its operating cost by ~US\$1bn since 2012. On the back of favourable currency movements and other expected operation cost savings we expect 2H15 cash costs to further reduce from US\$15/t level, providing headroom given weak iron ore environment.
- Recent project announcements supports long term growth: Over the last two months RIO announced two large growth projects – "South of Embley" bauxite project US\$1.9bn and "Oyu Tolgoi" Mongolian copper project signed US\$4.4bn project financing - showing management's confidence in investing for future growth despite commodity market headwinds.
- Dividend remains intact: RIO maintains an unstretched balance sheet with gearing of ~20% ND/(ND+E) in FY16, and based on our assumptions, will generate an operating cash flow of ~US\$ 8.8bn in FY16 to achieve a ~7% yield in FY16.
- Trading broadly in line to long run EV/EBITDA (NTM): RIO trades at a consensus EV/EBITDA of ~6.3x NTM, in line with its long run average EV/EBITDA of 6.0x NTM.

Forecasts			
YE Dec	2015 (A)	2016 (E)	2017 (E)
Earnings cps	5.0	2.7	2.2
Dividends cps	2.2	2.2	2.2
PE x	6.4	12.1	14.6
Yield %	6.7	6.7	6.7
Franking %	100	100	100

Stockland Corporation (SGP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$4.10
Target Price	\$4.32
Analyst	Peter Zuk



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.4%	5.8%	2.1%

* Relative Performance is compared to the S&P/ASX 200 Index

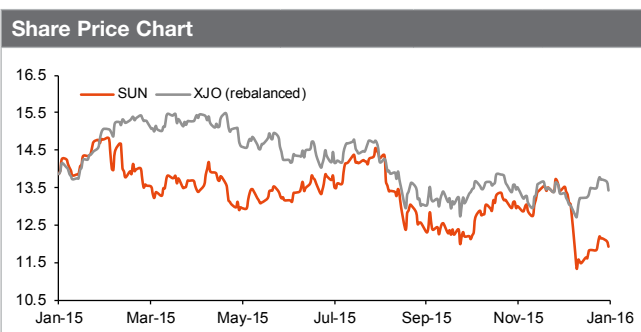
Prudent approach to capital allocation to drive continued EPS recovery

- Stockland Corporation (SGP) is guiding to 6-7.5% EPS growth in FY16 driven by: (1) c.6,000 residential lot settlements with operating profit margins of c.14%, (2) comp net operating income (NOI) growth of 2-3% across the commercial portfolio and (3) the completion of retail developments. Our FY16 EPS estimate of 27.7¢ is towards the upper end of guidance, and we show a 3 year EPS CAGR of 6.0% over FY15-FY18.
- Earnings are underpinned by the \$8.8b commercial portfolio, where fundamentals remain healthy with occupancy at 98% and a weighted average lease expiry (WALE) of 6.0 years.
- Record residential contracts on hand of 5,299 lots (as at 30 Sep 2015) provide good visibility over the outlook for the development business in FY16. Operating margins have trended up to 13.3% in FY15 (from 6.6% in FY13) and we expect continued improvement in FY16 to the ~14% level.
- While SGP is not immune to a slowdown in residential markets, on balance, we think the outlook for its residential business remains positive. We note: (1) SGP's portfolio is geographically diversified across NSW, VIC, QLD and WA; (2) it has almost no exposure to high density apartments; (3) owner occupiers represent 73%+ of its sales, with offshore buyers less than 1%; and (4) cancellations have been historically in the 10-15% range (currently c.13%).
- With a more disciplined approach to capital allocation, an increased focus on shorter life development projects and conservative accounting policies, we believe SGP is well positioned to offer continued EPS growth over FY16-FY18.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	25.9	27.7	29.5
Dividends cps	24.0	24.5	25.1
PE x	15.8	14.8	13.9
Yield %	5.9	6.0	6.1
Franking %	0	0	0

Suncorp Group (SUN)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 31 Dec 2015)	\$12.14
Target Price	\$13.84
Analyst	David Spotswood



Source: IRESS, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-12.8%	-2.7%	-11.2%

* Relative Performance is compared to the S&P/ASX 200 Index

Insurance fundamentals improving, Bank and Life going well

- Margins have been impacted by: 1) higher assumed larger weather events, 1% (not new); 2) lower yield on investment portfolio, -0.5% to -1.0% (not new); and 3) higher claims in person lines, CTP, higher-one off large weather events, -3% to margins, the "new news".
- Higher personal line claims due to operational issues, frequency and input costs (builders and car parts) in October and November. Suncorp Group (SUN) are now looking to offset this by increasing pricing and managing claims more tightly. SUN see the issue as a short term volatility in claims which can be fixed.
- 1H16 underlying margin was 10.0%, down from 14.6% or 1/3 lower, which is a huge drop. Headline margin will be 11.5%-12.0%, as reserve releases will be 3.0%-3.5%. Underlying margins to be up in the second half. Medium term underlying margins still expected to be at least 12%. We assume this in 2017 (there is \$100m in cost saving in 2017 or +1.2% to margins).
- Pricing: personal lines small increase, SME flat, large corporate falling, but at slower rate. Gross Written Premiums (GWP) growing 1H16 and stable pricing, versus flat GWP and falling premiums in FY15 i.e. the market is improving.
- Bank and Life continuing to perform well.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	91.0	96.0	104.0
Dividends cps	89.0	96.0	102
PE x	13.3	12.6	11.6
Yield %	7.2	6.7	7.1
Franking %	100	100	100

Recommendation Definitions

RATING CLASSIFICATION

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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Providing a summary of your portfolio's performance over the quarter, this report includes income, expenses, realised/unrealised capital gains and losses and portfolio value at quarter start and end. A net performance figure is also provided so that your portfolio can be measured against a variety of benchmarks.

Portfolio Valuation

This report shows individual portfolio holdings and displays total costs, market value, portfolio weighting and estimated income and yield.

Realised/Unrealised Capital Gains Tax (CGT) Reports

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Transaction Report

This report displays the transactions (buys and sells) and corporate actions (e.g. rights issues) that have occurred over the quarter, with a breakdown of brokerage and GST.

Income Report – Accounting

Detailing income received such as dividends (including franking credits), interest and result distributions, this report works together with the transaction report to assist greatly in the preparation of income tax returns and business activity statements (BAS).

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