The Research Monitor

September Quarter 2017

With the compliments of your adviser

ShawandPartners

Content

Shaw and Partners

Shaw and Partners is one of Australia's preeminent investment and wealth management firms.

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Backed by fresh thinking, robust research and some of the nation's best investment and wealth experts, our business is well positioned to meet the 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 advisers. By working closely with our clients, we have forged long-term relationships. Whether you are a private investor, high net worth individual, charity, institution or corporate client, our focus is simple: listen to you then act according to your objectives.

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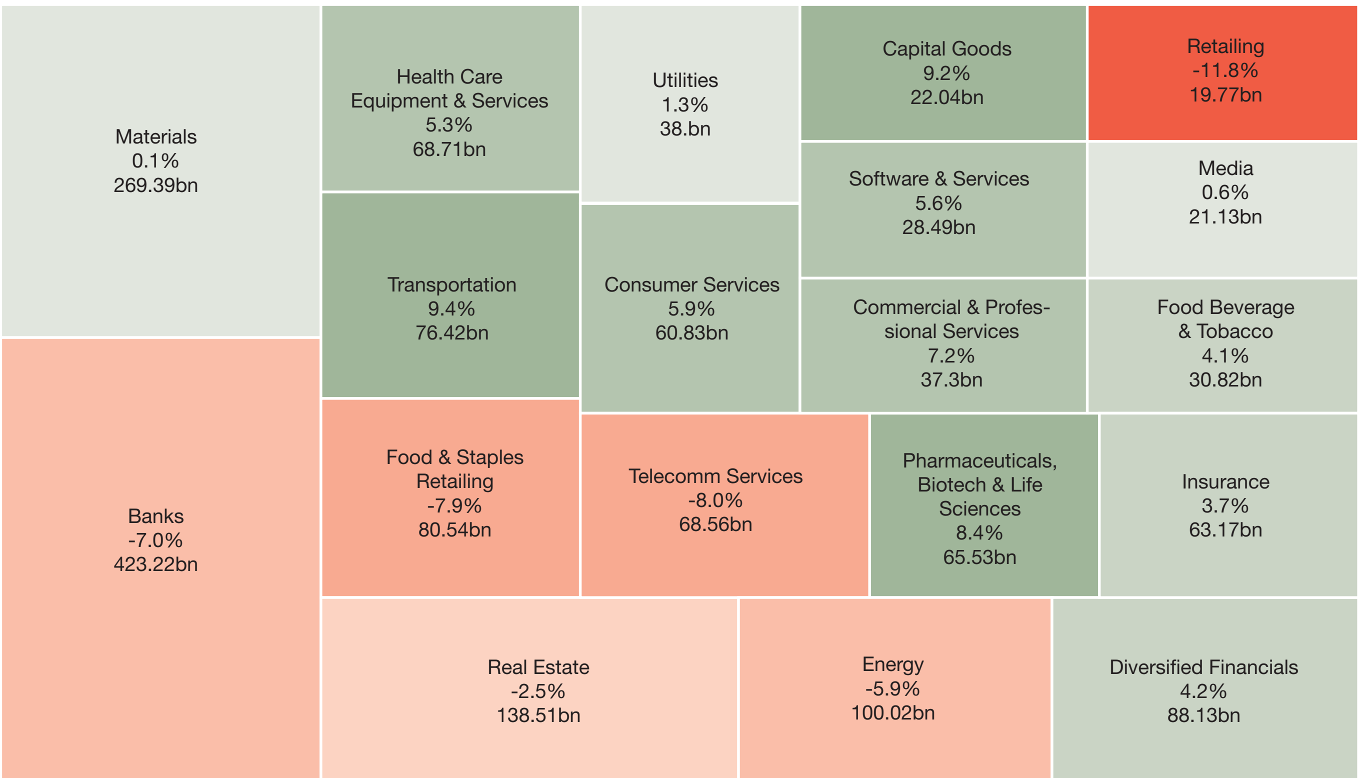
June Quarter 2017 Performance

The Australian Share Market, as measured by the S&P/ASX300 Index, fell by 2.4% on a price basis and 1.6% on an accumulation basis during the June Quarter, reversing some of the gains of the previous quarter.

Investment performance was polarised across the market in the June quarter, with the strongest sector – Capital Goods – rising 8.6% contrasting the worst performing sector – Retailing – which fell 12.4%. Generally speaking, sectors exposed to Australian housing and consumer spending performed poorly. Banks were down 8.7%, Telcos down 8.1% and the Food and Staples Retailing sector was down 7.9%. Sectors to perform well included Transport, Commercial Services, Health Care Equipment and Services and Pharmaceuticals. Stocks exposed to the China food trade such as Bellamy's (BAL) and a2 Milk Company (A2M) were particularly strong up 68.5% and 40.3% for the quarter respectively. Also travel related stocks such as Qantas (QAN) up 43.7% and Flight Centre Travel Group (FLT) up 32.4% did well. At the other end of the spectrum were stocks most heavily exposed to the weak consumer spending environment and the threat of greater competition in the retail sector, notably The Reject Shop (TRS) down 49.7% and Myer (MYR) down 31.6%.

The stocks in the ASX 300 were taken over during the quarter and removed from the Index notably DUET (DUE), Cover-More Group (CVO) and Generation Healthcare (GHC). A fourth stock to leave the index, Ten Network (TEN) had Receivers and Managers appointed – a rarity amongst ASX300 stocks.

Global markets performed better than Australia over the June quarter, with the MSCI World Index rising 3.4%, the US S&P500 rising 2.6% and the NASDAQ rising 3.9%. Even the troubled Japanese market posted a 6% return. Bond markets, measured by the Bloomberg Composite Bond Index (0+yr) Maturity rose 1% in the quarter and cash returned 0.4%.



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

The Research Team

At Shaw and Partners, we don't simply repackage publicly available information. Our analysts visit key companies and spend time with management, competitors, suppliers and customers of businesses to understand the company at a grassroots level, from which they can generate unique insights and unearth commercial opportunities that are otherwise missed by the broader market.

Martin Crabb
Chief Investment Officer

Martin joined Shaw and Partners in April 2011. Prior to joining Shaw and Partners, Martin was an Executive Director at 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.

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 of experience in financial markets. He commenced his career with CCZ Statton Equities and previously worked with Aegis Equities, Westpac, Commonwealth Bank and StoneBridge Group where he was Head of Research. Danny holds a Bachelor of Science from the University of Sydney and has 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 his career 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. Darren holds a Bachelor of Economics from the Australian National University.

Peter Zuk
Senior Analyst, Real Estate

Peter joined Shaw and Partners in October 2015 as a 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.

Peter O'Connor
Senior Analyst, Metals and Mining

Peter joined Shaw and Partners in January 2015 as a 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. Peter also held operational roles with Rio Tinto and BHP Billiton for over 10 years. Peter has a Bachelor of Engineering (Mining) from the University of New South Wales (First Class Honours and the University Medal).

David Spotswood
Senior Analyst,v Financial Services, Telecommunications

David joined Shaw and Partners in February 2012 as a Senior Analyst covering the Banks, Diversified Financials, Insurance, Media and Telecommunications companies. David has over 20 years' experience and previously worked as Research Officer and Economist with the Commonwealth Treasury & Department of Finance, Senior Investment Manager with HSBC Asset Management, Investment Manager at 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.

Stuart Baker
Senior Analyst, Oil and Gas

Stuart joined Shaw and Partners in February 2017 and brings 38 years of experience in the oil industry and financial markets. Stuart worked as a Petroleum Engineer for oil-field service company Schlumberger throughout South East Asia for several years, followed by 28 years in stockbroking as a rated analyst for Bankers Trust, Macquarie Equities and most recently, Morgan Stanley. Stuart holds a Bachelor of Engineering (Electrical) and MBA (Finance) from University of Melbourne & Graduate School of Management, is a Member of the Society of Petroleum Engineers and Member of the Australian Institute of Directors.

Andrew Moller
Analyst

Andrew joined Shaw and Partners in January 2017 as an Analyst in the Small-Cap team. Andrew has worked as an equities research analyst for over ten years covering mid-cap Industrials and Materials companies. Prior to joining Shaw and Partners, Andrew covered Building Materials and Utilities at UBS in Sydney and prior to that covered Transport, Infrastructure and the Developers and Contractors at Morgan Stanley in Sydney. Andrew is a Chartered Financial Analyst and holds a Bachelor of Commerce from the University of New South Wales.

Annabel Riggs
Analyst

Annabel joined Shaw in February 2015 as an Research Analyst and assists with the coverage of Banks, Insurance and Telecommunication companies. Prior to joining Shaw she worked as an Product Analyst at Bendigo and Adelaide Bank, where she helped manage the consumer lending portfolio. Annabel holds a Bachelor of Finance and Bachelor of Commerce (International Business) from the University of Adelaide.

Matthew Johnston
Analyst

Matthew joined Shaw in August 2015 as an Analyst in the Research team. Prior to Shaw, Matthew spent over 4 years' at State Street Australia Limited. Most recently, he was part of the Investment Analytics team carrying out performance and attribution analysis for Asset managers across multiple asset classes. Matthew holds a Bachelor of Commerce from the University of Sydney with majors in Finance and Economics.

Large Cap Model Portfolio

Our Large Cap Model Portfolio has outperformed the S&P/ASX 100 Index again in June and now leads the market by 4.8% over the past twelve months. We make minor changes to the portfolio this month and choose to back the reflation trade by staying overweight resources and financials with leverage to rising rates.

Our outlook for the Australian share market remains neutral to bearish; albeit we think bond markets have become too complacent about the risk of inflation. Central banks are clearly jawboning markets into coming to grips with less accommodative monetary policy since it seems increasingly the case that economies can stand on their own two feet. GDP growth in most countries is picking up and expected to contribute to inflationary pressures as labour markets tighten.

Markets remain vulnerable to a sell-off in long dated bonds, which means lower PE's and that long duration assets (like growth stocks) will come under pressure. Our lack of exposure to infrastructure, utility and healthcare stocks has hurt us in the past, but now may be a blessing in disguise.

Earnings per share momentum in Australia has clearly run out and we are now cycling higher energy and iron ore prices so we can expect the growth in earnings to slow into the low single digits. The APRA inspired credit squeeze for investor and interest only borrowers will keep the housing market from rising much further, but slow and steady gains in employment combined with unchanged interest rates should avoid any trouble in real estate markets. Consumer spending will remain subdued due to the lack of wages growth and the Australian dollar will mark time as interest rates in other countries start to rise and the carry trade unwinds.

The positioning of our portfolio – avoiding long duration assets and stocks exposed to retail spending, whilst favouring stocks that will do relatively well in a rising inflation environment – remains unchanged. Stock selection will continue to be the source of greatest alpha, in our opinion. We swap expensive Gold stock Northern Star (NST) into cheaper and higher quality Gold stock Newcrest Mining (NCM) and tilt from ANZ Bank (ANZ) to Westpac (WBC) given our preference for the latter.

Additions		Reductions	
NCM	2.59	ANZ	(1.00)
WBC	1.00	NST	(2.59)
	3.59		**(3.59)**

Model Portfolio @ 30 June 2017		
WBC	Westpac Banking Corporation	9.0%
BHP	BHP Billiton	8.6%
NAB	Nat Australia Bank of Aust	7.8%
CBA	Commonwealth Bank of Aust	7.3%
ANZ	ANZ Banking Group	5.7%
RIO	Rio Tinto	5.1%
QBE	QBE Insurance Group	5.0%
MQG	Macquarie Group	4.2%
CYB	CYBG	3.9%
SUN	Suncorp Group	3.9%
REA	REA Group	3.9%
MFG	Magellan Financial Group	3.7%
LLC	Lendlease Group	3.5%
OSH	Oil Search	3.4%
MGR	Mirvac Group	3.2%
WOW	Woolworths	3.1%
BOQ	Bank of Queensland	2.9%
NCM	Newcrest Mining	2.6%
FLT	Flight Centre Travel Group	2.6%
CGF	Challenger	2.4%
GMG	Goodman Group	2.2%
ILU	Iluka Resources	2.0%
OZL	OZ Minerals	2.0%
VCX	Vicinity Centres	2.0%
	Total	**100.0%**

Large Cap Model Portfolio is available on Shaw Managed Accounts (see page 18)

Recommendation

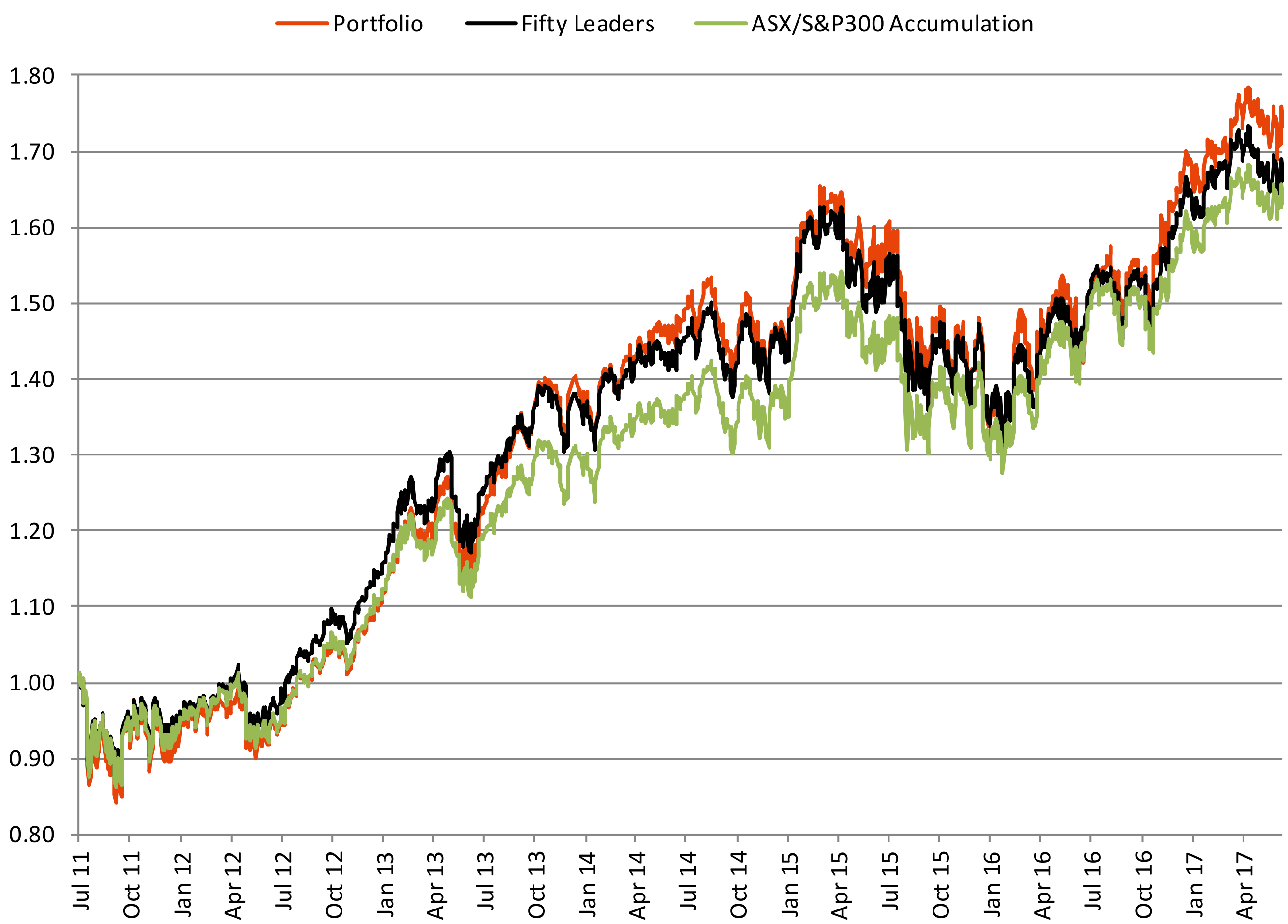
Australian Equities still look set to return a decent dividend yield of 4.5% and a couple of percent capital gain as earnings chug along – so we don't think it is sunset time just yet. The question remains, however, whether this expected return is sufficient given the inherent risk of equities. Given the lack of macroeconomic tailwinds, we see protecting assets from rising inflation as the paramount portfolio management consideration, so Resources and General Insurance stocks remain our favourites. We would use any further weakness in pure iron ore names to establish positions and fund this from long duration stocks.

To obtain the latest Shaw Model Portfolio report, please contact your Shaw adviser.

Portfolio Attribution

Our model portfolio outperformed slightly, by 0.3%, in June thanks to stock selection rather than sector allocation. We own none of the best performing Healthcare and Pharmaceutical names, but did very well out of Magellan Financial Group (MFG) where we felt that their underlying portfolio and its exposure to US tech would see its performance improve and push them back into performance fee earning. Offsetting this somewhat was the performance of QBE Insurance (QBE) which disappointed (again!) due to adverse claims experiences in emerging markets. We remain attracted to the macroeconomic drivers of current low wage inflation but improving investment returns.

Portfolio Performance (Accumulation Basis)



Source: Shaw and Partners

Hybrid Income Model Portfolio

The Income Strategies team consists of specialised strategists dedicated to interpreting the debt and preference share markets. With a focus on structuring and managing listed and hybrid portfolios and blending with equities, the team aims to maximise income, whilst simultaneously minimising the risk of drawdown/permanent loss of capital, providing clients with thoughtful analysis and investment opportunities.

Cameron Duncan
Co-Head, Income Strategies

Cameron has 30 years experience across financial markets, including over 16 years at Macquarie Group in listed debt and hybrid advisory, syndication, proprietary trading and portfolio risk management. Cameron has a Bachelor of Economics degree from the University of Sydney and has completed the Diploma of Financial Planning & RG146.

Steve Anagnos
Co-Head, Income Strategies

Steve has 25 years experience across financial markets and investment management in a range of Senior roles at Citigroup, Bank of America Merrill Lynch, CBA and Strategic Capital Management. Steve's focus has been in designing and implementing portfolio strategies using listed debt, hybrids and equity derivatives. Steve has a Bachelor of Economics degree and Master of Applied Finance degree from Macquarie University.

Investment Strategy

The Shaw ASX Hybrid Income Portfolio aims to provide investors with exposure to a highly transparent portfolio of ASX listed debt and preference securities that offer diversification benefits to both Australian Equities and cash/term deposit investor's allocations.

There is a growing universe of listed assets spanning Senior Debt, Subordinated Debt, Convertible Preference Shares, Convertible Notes and Income Securities (debt and equity). While these "Hybrid" securities each have their own characteristics, research and subsequent implementation and monitoring allows for strategies to extract risk adjusted return from this sector that aims to enhance a core portfolio of Australian Equities and cash.

Investment Objectives

The objective of the Shaw Hybrid Income Portfolio is to provide a sustainable level of income whilst seeking to preserve capital. The target total portfolio return (gross) of the portfolio is 3% above the RBA cash rate. This return will be generated from a combination of cash (interest payments and dividends), franking credits and capital growth (realised and unrealised) from an active portfolio strategy.

Risk tolerance: The portfolio aims to limit the risk of capital loss through security diversification and active portfolio management. It is suitable for investors that have a 3 year + investment horizon that can tolerate secondary market pricing and liquidity risks through the life of the securities, up to the respective first call/maturity date of each security.

Hybrid Income Model Portfolio is available on Shaw Managed Accounts (see page 18)

Portfolio Holdings @ 31 May 2017 – Top 5		
ASX Code	**Issuer**	**Security Type**
WBCPF	Westpac Bank	Capital Note III
WBCPG	Westpac Bank	Capital Note IV
NABHA	Nat Aust Bank	Income Sec
NABPC	Nat Aust Bank	Capital Note
NABPB	Nat Aust Bank	CPS II

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	4.8%
Expected Gross Running Yield (including franking)	5.2%
Expected Cash Running Yield (not including franking)	3.9%
Expected Years to Maturity	5.2
Number of Securities	21
Floating Rate exposure	100%
Fixed Rate Exposure	0%

Markets Returns

Return	1 Month	3 Month	1 Year
ASX200 Accumulation	0.17%	-1.58%	14.09%
RBA Cash Rate	0.13%	0.38%	1.55%

Portfolio Highlights

- During the month of June, the portfolio generated a Total Return (Gross) of +0.37%. A total of thirteen securities traded ex-distribution during the month, resulting in a gross income return for the month of 0.90% and 1.10% for the quarter.
- The Total portfolio return has exceeded its return objectives based on a period of 3 months, 12 months and since inception. For the month the portfolio return slightly less than the objective of 0.40%. The total portfolio return for the quarter was 1.95%, higher than its return objective, 10.1% for the 12 month period and 8.66% pa since inception (Sep 2015).
- The Total Income Return (Gross) was 0.90% for the month and 1.10% for the quarter, whilst the commensurate income return since inception (Sep 2015) is +5.8% p.a.

  The main contributors to performance during the month were WBCPC (+1.18%), NABPB (+1.11%), and WBCPG (+0.86%).
- The main detractors to performance during the month were MBLHB (-1.49%), NABHA (-0.26%), and IANG (-0.12%).
- Thirteen Securities traded ex-distribution during the month. The largest three were WBCPG, WBCPF and ANZPG.
- We are comfortable with the current composition of the portfolio and as a result no rebalancing took place.
- The portfolio continues to enjoy favourable income returns in a period where large new issues are heavily bid for and supply is scarce. We continue to see re-allocation from Equity based portfolios looking for a lower risk alternative.

Portfolio Performance

Return	1 Month	3 Month	1 year	Inception
Income Return (Gross)	0.90%	1.10%	5.30%	5.83%
Capital Return	-0.53%	0.85%	4.80%	2.83%
Total Portfolio Return (Gross)	0.37%	1.95%	10.10%	8.66%
Portfolio Return Objective	0.40%	1.10%	4.60%	4.90%
Excess Return v Objective	-0.03%	0.85%	5.50%	3.76%

Our Preferred Stocks

Clydesdale Bank (CYB)

Clydesdale Bank (CYB) was established in 1838 in Glasgow. The bank has a history of innovation and support for Scottish industry and communities. With over 120 retail branches and a network of business and private banking centres, Clydesdale is one of Scotland's largest banks.

Fortescue Metals Group (FMG)

Fortescue Metals Group (FMG) operates as an iron ore production and sea-borne trading company. It engages in the mining of iron ore and the operation of an integrated mine, rail and port supply chain. The company's projects include Chichester Hub, Solomon Hub, Herb Elliott Port and Rail Expansion.

McPherson's (MCP)

McPherson's (MCP) operates as a supplier of health & beauty, consumer durable and household consumable products in Australia, New Zealand and Asia. The health & beauty division markets and distributes beauty care, hair care and skin care product ranges; the home appliance division markets and distributes large appliances such as cook tops, ovens, washing machines and dishwashers, as well as house wares products such as cutlery, knives, bake ware and cookware; and the household consumables division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminum foil.

Oil Search (OSH)

Oil Search (OSH) engages in the business of oil and gas exploration. It operates through the following segments: PNG Business Unit, Exploration and Other. The PNG Business Unit segment engages in the development, production and sale of liquefied natural gas, crude oil, natural gas, condensate, naphtha and other refined products. The Exploration segment includes exploration and evaluation of crude oil and gas in Papua New Guinea. The Other segment consists of drilling rigs, investment and development towards the group's power strategy and corporate activities

Paragon Care (PGC)

Paragon Care (PGC) engages in supplying medical equipment to the health and aged care markets. Its product categories include balance and mobility, beds, mattresses and furniture, carts and trolleys, consulting room equipment, dermatology and cosmetic medicine, general medical products, consumables, infection control, lighting, materials management, newborn care, operating theatre, and ophthalmic.

Shaver Shop Group (SSG)

Shaver Shop Group (SSG) is an Australian retailer of personal grooming products and aspires. The Company also sells products via its websites www.shavershop.com.au and www.shavershop.net.nz, and an eBay store. It retails various products across the oral care, hair care, massage, air treatment, and beauty categories.

Suncorp Group (SUN)

Suncorp Group (SUN) is a financial services company, which provides banking and wealth, as well as insurance products and services across Australia and New Zealand. The company operates its business through the following segments: General Insurance, Banking and Life.

Vicinity Centres (VCX)

Vicinity Centres (VCX) operates as a real estate investment trust, which engages in the development, operation, and management of shopping centres. It operates through the Investment and Service Business segments.

Western Areas (WSA)

Western Areas (WSA) is a mineral exploration company. It engages in mining, processing and sale of nickel sulphide concentrate, the continued feasibility and development of the nickel mines, base metals and platinum group metals.

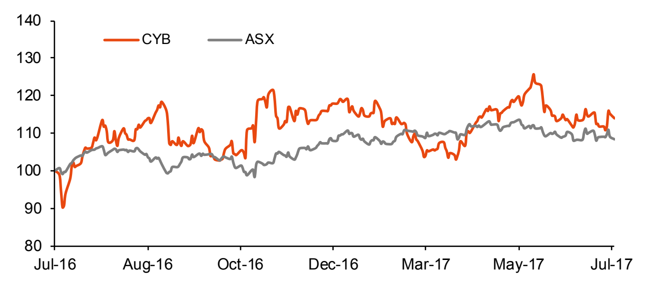
Xenith IP Group (XIP)

Xenith IP Group (XIP) is a holding company, which engages in the provision of intellectual property (IP) services and advice. Its services include identification, registration, management, commercialisation, and enforcement of IP rights for a spectrum of clients in Australia, New Zealand, and the rest of the world.

Clydesdale Bank (CYB)

Recommendation	BUY
Risk	HIGH
Share Price (as at 7 July 2017)	$4.80
Target Price	$5.91
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.7%	4.3%	19.3%

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

Self Help Story

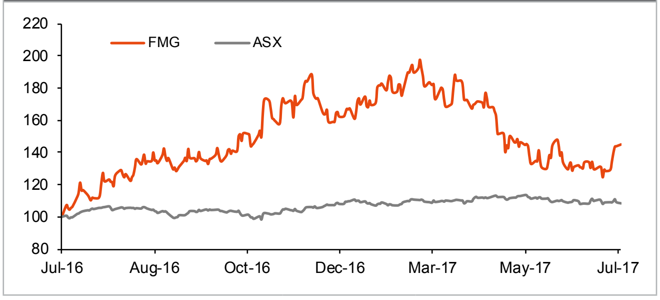
- Meeting all KPIs: Margins biased to upside, GDP/ Bad debts not an issue, costs likely towards bottom end of £690-£700m cost target 2017.
- Capital return/release: Mortgages September 2018 expected to move to IRB (internal risk based model for capital); changing pension fund to cap liabilities (>£40m capital release); IFRS 9 accounting standards 1 October 2018, will add ~£40m to bad debt provisions, balance sheet adjustment not P&L. RWA (risk weighting) for IRB 37% to 20% housing, worth around 90 cents per share. If trading below NTA, more likely to do buy back.
- Double digit ROTE:(return on tangible equity) by FY19, Challenger banks mid-teens ROTE, Lloyds 12%-13% ROTE, CTI (cost to income) FY19 55%-58%, still too high.
- Valuation: We price on 2019 book of $5.13 plus you will also get capital release of around 90 cents per share.

Forecasts			
YE 30 Sep (GBP)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	16.3	19.9	25.5
Dividends cps	0.0	4.0	10.2
PE x	15.9	14.2	11.0
Yield %	0.0	1.4	3.6
Franking %	0	0	0

Fortescue Metals Group (FMG)

Recommendation	BUY
Risk	HIGH
Share Price (as at 7 July 2017)	$5.26
Target Price	$5.50
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	9.1%	(14.8%)	28.0%

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

Double Upgrade to BUY

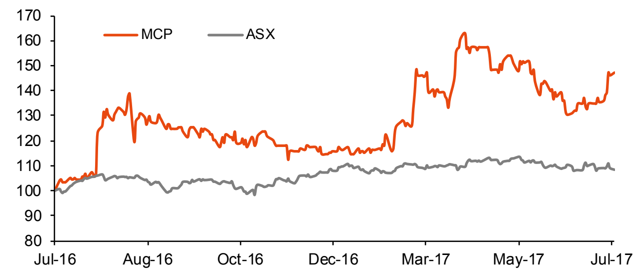
- Double upgrade to BUY: We recently upgraded FMG to a BUY from SELL rating reflecting (i) Valuation attractive with P/NPV below 1x again, (ii) the market price retreat of ~40% had captured the equivalent ~40% slide in iron ore price. Moreover, iron ore had settled back to medium term target range of $50-60/t.
- FY17 tracking well: FMG shipped ~170mt in FY17 at the top end of guidance range. Costs should have trended lower given the improved production in the last quarter to the sector leading level of sub US$13/t. The only headwind at the moment is the "price realisation" for FMG's ore quality which the company guided lower in April. This headwind has abated from recent lows but will likely temper revenue in the last quarter.
- Deleveraging from here: Significant balance sheet deleveraging continued during FY17, trimming ~US$2.4bn net debt and leaving net debt at just ~US$2.8bn at year end 2017. We expect this trend to continue in FY18 and note that even at an iron ore price of just US$50/t FMG could be debt free within 2 years.

Forecasts			
YE 30 Jun (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	25.2	65.7	34.9
Dividends cps (AUD)	14.8	43.6	18.2
PE x	10.4	6.1	11.4
Yield %	4.1	8.2	3.5
Franking %	100	100	100

McPherson's (MCP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 7 July 2017)	$1.31
Target Price	$1.85
Analyst	Andrew Moller

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	10.4%	(4.7%)	31.6%

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

Business Makeover To Drive Re-Rating

- Management have fixed prior issues with the business shedding underperforming units – impulse merchandising, unprofitable agency contracts, housewares and printing. A new CEO has re-focused on health, wellness & beauty producing solid free cash flow which in turn will driver further debt reduction.
- Renewed focus on health, wellness and beauty (HW&B). The business transformation has seen brand rationalisation and cost-out initiatives drive margin growth in key brands. Product development, new distribution channels and new agency arrangements will help drive domestic revenues; and offshore growth is targeted in China and Europe. We expect MCP to bed down the HW&B business, pay down debt and ultimately target acquisitions in this space.
- Sale of home appliances could be the next catalyst. As part of the refocus on HW&B, management are looking to sell this division over the next 12 months. A consideration of $25m at 5x EBITDA sale price would be a good outcome and help MCP with a re-rating to health and beauty peers.
- Compelling valuation. At 9.2x FY18 P/E, we believe MCP offers investors compelling value. Our target price is derived from a DCF and at our target, the stock trades at 13x FY18 P/E, which is hardly a stretch with small cap industrial trading at around 18x and global health beauty peers at more than 20x FY18 P/E.

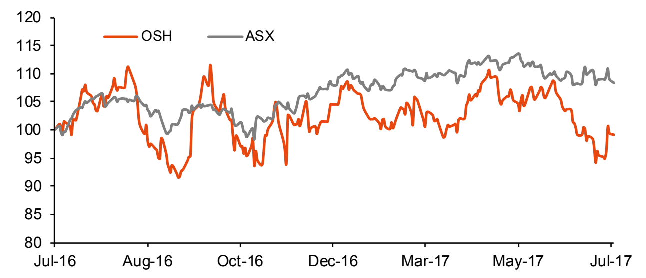
Forecasts

YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	11.9	12.2	14.2
Dividends cps	8.0	8.0	9.0
PE x	7.4	10.7	9.2
Yield %	9.1	6.1	6.9
Franking %	100	100	100

Oil Search (OSH)

Recommendation	BUY
Risk	HIGH
Share Price (as at 7 July 2017)	$6.61
Target Price	$7.50
Analyst	Stuart Baker

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(6.6%)	(8.1%)	(13.9%)

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

Our Preferred Energy Stock, Oversold On Recent Oil Price Lows

- Stock sold off sharply in late May, in line with other energy stocks, on fears of another downturn in oil prices. Fears of a correction in oil prices were driven by rising US supply, and potential for OPEC disunity following an escalation of tension between Qatar and other Gulf nations.
- Those fears have since evaporated with recent IEA reports of a continued improvement in oil fundamentals, albeit more slowly than previously anticipated. Oil prices have rallied since and we think may have passed a low point for this year.
- Upcoming quarterly and half year reports are expected to show higher average realized unit prices, and lower unit costs vs. peers, and expansion of FCF and ongoing debt reduction resulting in growing financial strength.

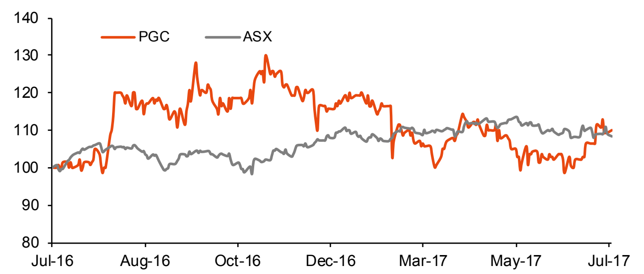
Forecasts

YE 31 Dec (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	7.0	15.3	15.5
Dividends cps (AUD)	4.7	10.2	10.2
PE x	74.2	32.7	32.3
Yield %	0.7	1.5	1.5
Franking %	0	0	0

Paragon Care (PGC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 7 July 2017)	$0.79
Target Price	$0.95
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	9.7%	1.1%	1.3%

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

A Successful Evolution Yet to be Matched by its Multiple

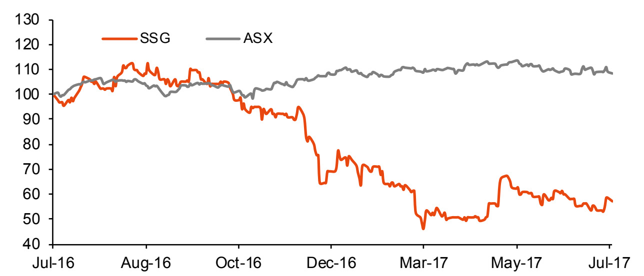
- An obvious evolution in earnings quality: PGC's earnings profile has evolved significantly over the last 18 months: it was always a defensive play on government funded hospital and aged care, but its acquisition program has made it considerably larger and more diversified. The lumpiness of the past has gone - with an increased level of long term consumables contracts delivering recurring earnings - and it now has a number of significant unrecognised growth opportunities.
- An unrecognised evolution in growth prospects: PGC has primarily grown through acquisition over the last few years acquiring $92m of revenue which now accounts for 80% of its sales. Subsequent growth from these businesses as a result of PGC successfully leveraging its client base has been masked by its original capital equipment business which surrendered agency agreements. We also expect PGC's capital equipment initiatives will rebuild lost sales at higher margins and that its Ehealth product has very exciting potential.
- A subtle evolution in acquisition strategy: Acquisitions are expected to continue going forward enabled by the capacity to comfortably raise both debt and equity. However, PGC's acquisition rationale has shifted from needing to smooth its earnings profile to a focus on leveraging its existing business to drive longer term sales growth and achieve the company's aspirational targets – sales $250m, 5-6 x stock turns and 15% EBITDA margins.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	5.6	5.8	6.8
Dividends cps	2.2	2.7	3.2
PE x	12.5	13.5	11.6
Yield %	3.1	3.4	4.1
Franking %	100	100	100

Shaver Shop Group (SSG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 7 July 2017)	$0.64
Target Price	$1.00
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.0%	18.1%	(49.8%)

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

Upgrade to FY17 Earnings as Momentum Builds into FY18

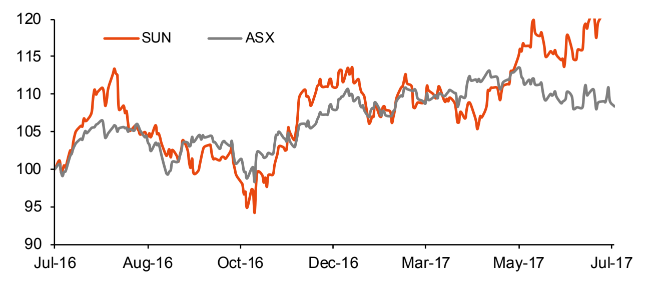
- Shaver Shop Group's (SSG) like-for-like (LFL) sales growth has stabilised: Shaw and Partners estimate that LFL sales growth (excluding Daigou bulk sales) over the recent Mother's Day period was in the mid-single digits range (i.e. +4-6%). To put this in perspective, in the 9 months to 31 March 2017, SSG's LFL network sales bounced back to +1.3% (vs. 1H17's -0.2% [vs. Prospectus +2.7%]) – given Shaw and Partners believe January was weaker than 1H17 and February even worse (-2% to -6% in our estimation for both months), back solving strongly suggests that that the March rebound was very significant (+20%) to achieve a LFL sales number of +1.3%.
- The great irony will be if SSG ends up exceeding the company's original $14.7m EBITDA Prospectus forecast. The continued improvements post 1H17 result that we noted should be mostly remediated and were not longer term structural issues. As we stated previously, the quantum of the earlier earnings downgrade (13% midpoint downgrade) vs. market reaction (>50% fall from listing price of $1.05) was both perplexing and irrational. Shaw and Partners considered this a gross over-reaction by the market (notwithstanding the cardinal sin of missing numbers in your maiden year of listing).
- SSG is too cheap to ignore, with strong metrics, net cash and strong cashflows to grow the business, and the benefits of the new store roll-out and buy-backs should be evident in FY18 and FY19.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	6.0	7.1	7.6
Dividends cps		2.6	3.0
PE x		9.0	8.4
Yield %		4.1	4.7
Franking %	0	100	100

Suncorp Group (SUN)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 7 July 2017)	$14.85
Target Price	$16.51
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	4.7%	15.6%	11.3%

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

Low Inflation Good For Insurers

- Low wage Inflation to drive higher reserve releases: We now assume reserve releases of 4.8%, 4.3% and 3.4% for FY17-FY19. This means bigger profits, excess capital and special dividends. 1% lower inflation is 252m pre-tax.
- Claims Provisions: General insurance stocks set aside assumed claims payments for the business they write. Good insurance companies over provision and have reserve release through the P&L each year. One of the key assumptions is wage inflation for CTP. Wage inflation is assumed to grow at 6.3% for commercial lines (including CTP), and 3.7% for personal lines of business. According to SUN's annual report (page 74-75), 1% lower inflation lifts profit $252m pre-tax. On this basis, SUN could have c.$700m reserve releases each year. That is a huge number. How much SUN releases is up to them, but what we can be reasonably sure of, is that SUN will have bigger reserve releases while inflation is lower.
- Valuation: 13.3x PE, 5.5% yield, continues to look good value v peers.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	83.6	98.1	112.1
Dividends cps	68.0	74.0	82.0
PE x	14.6	15.1	13.3
Yield %	5.6	5.0	5.5
Franking %	100	100	100

Vicinity Centres (VCX)

Recommendation	BUY
Risk	LOW
Share Price (as at 7 July 2017)	$2.56
Target Price	$3.05
Analyst	Peter Zuk

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(9.5%)	(9.1%)	(34.6%)

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

Compelling Value

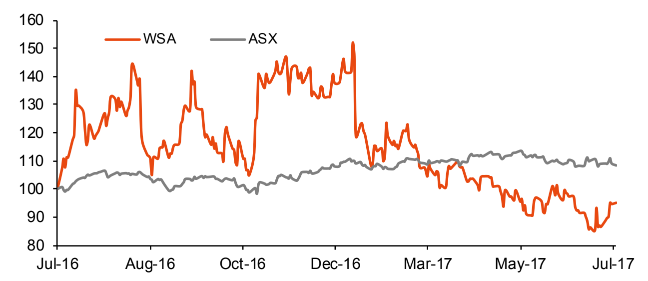
- Vicinity Centres (VCX) is trading at a 5% discount to its last stated NTA, meaning the market is ascribing zero value for (1) fees it generates from managing $9.6b of assets on behalf of co-investors/3rd parties and (2) potential upside from its $3.0b development pipeline. We think the stock has been oversold over concerns over the threat of Amazon/e-commerce and represents good value at current levels.
- Like all retail landlords, VCX faces challenges with managing its tenant mix to deal with store closures as well as changes in consumer lifestyle choices or preferences. Despite these challenges, occupancy within the portfolio remains strong at >99%.
- While some investors raise questions over the quality of VCX's portfolio, we note management has actively been disposing non-core assets and we see scope for further asset sales. While this could be EPS dilutive, if assets are sold at or above book value, then management could consider capital management initiatives, such as a share buy-back, that could be EPS accretive if the share price continues to trade at a discount to NTA.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	18.0	17.6	18.7
Dividends cps	17.7	17.5	18.5
PE x	18.5	14.6	13.7
Yield %	5.3	6.8	7.2
Franking %	0	0	0

Western Areas (WSA)

Recommendation	BUY
Risk	HIGH
Share Price (as at 7 July 2017)	$2.16
Target Price	$3.75
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	1.7%	(5.6%)	(20.8%)

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

Cheapest Miner in Our Coverage

- Cheapest in our universe: WSA screens well on P/NPV vs peers and on an absolute basis, trading <0.6x P/NPV and trading at the very low end of 52 week share price trading range. All it needs is a little nudge from a higher nickel price. Our "through the cycle NPV" highlighting an upside price well above $4/share.
- FY17 trading on track at high end of guidance: WSA posted two favourable trading updates over the past few weeks highlighting that net cash balance now stands around $140m Moreover FY17 guidance updates - nickel production at top end of guidance √; FY17 nickel shipments at high end of range √; Unit cash costs at the low end of guidance range √.
- Nickel market update: (i) Long term trend – Nickel is trading near multi year lows, (ii) Near term trend – price looks to have found a base around 13 June - industry supply side curtailments announced - and (iii) Stainless steel vs nickel price – Not surprisingly well correlated for both near term and medium term (70% of nickel demand is from stainless steel).

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	(10.9)	(0.7)	3.6
Dividends cps	0.0	0.0	1.8
PE x	(19.7)	nm	59.8
Yield %	0.0	0.0	0.9
Franking %	100	100	100

Xenith IP Group (XIP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 7 July 2017)	$2.26
Target Price	$3.60
Analyst	Martin Crabb

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	11.4%	8.3%	(51.6%)

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

Integration Remains Well On Track

- Xenith IP Group (XIP) has recently acquired the businesses of Watermark and Griffith Hack, making it the second largest player in the Australian Patent Attorney industry after market leader IPH.
- Management have been busy integrating the acquisitions with a number of Executive General Managers being put in place for the operating business and shared services areas. Both are subject to earn outs as at June 30, thus it is likely that operations of the acquired businesses would operate as per normal until that date. We expect synergy benefits to be back ended. Management guided to target annual pre-tax cost synergies by year 3 of $4-6m at the interim results in February.
- Given the low capital intensity and high cash generative nature of the business, we think it logical that the Board will use a target payout ratio of 70-90% of NPATA (currently NPAT) going forward which see us up our dividend payments.
- XIP remains a stand out on a valuation basis and the market is clearly taking a "no news is bad news" approach to the company. We remain of the view that management are busy integrating the acquired businesses and focussed on deriving both revenue and cost synergies. Staff morale is good with most key staff holding equity positions and escrow periods and client attrition has been non-existent.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	18.2	18.9	21.1
Dividends cps	7.0	6.5	16.9
PE x	21.8	12.0	10.7
Yield %	1.8	2.9	7.5
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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Shaw acted for XIP in a corporate capacity within the past 12 months for which it received a fee.

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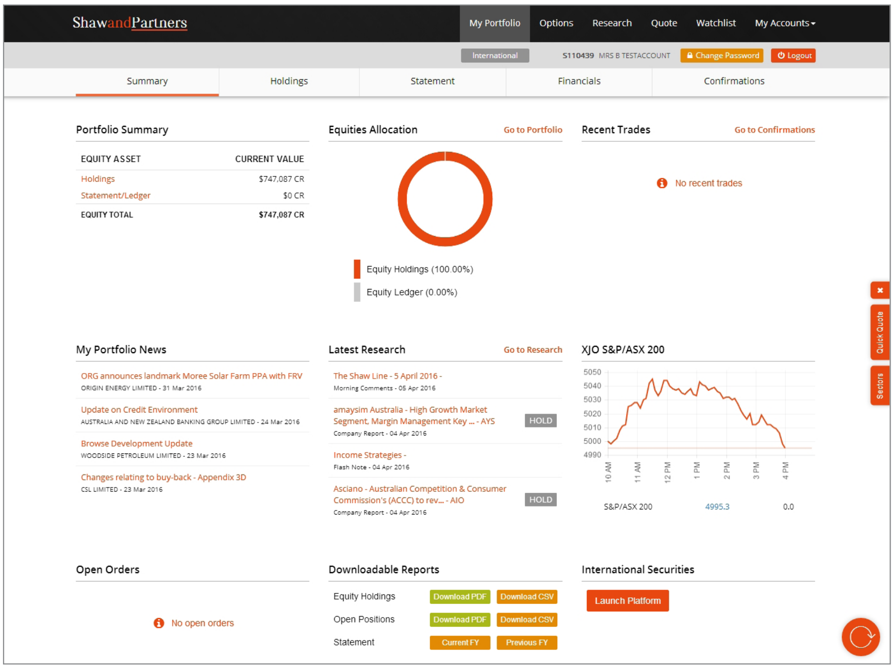

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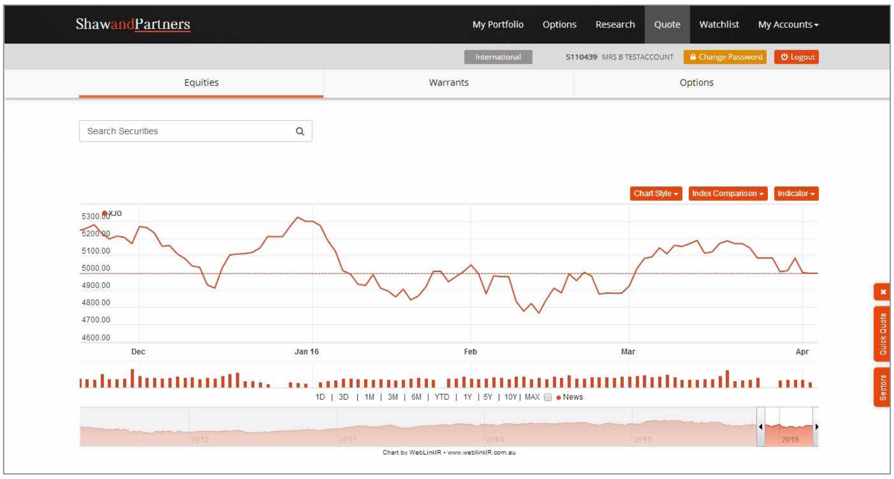

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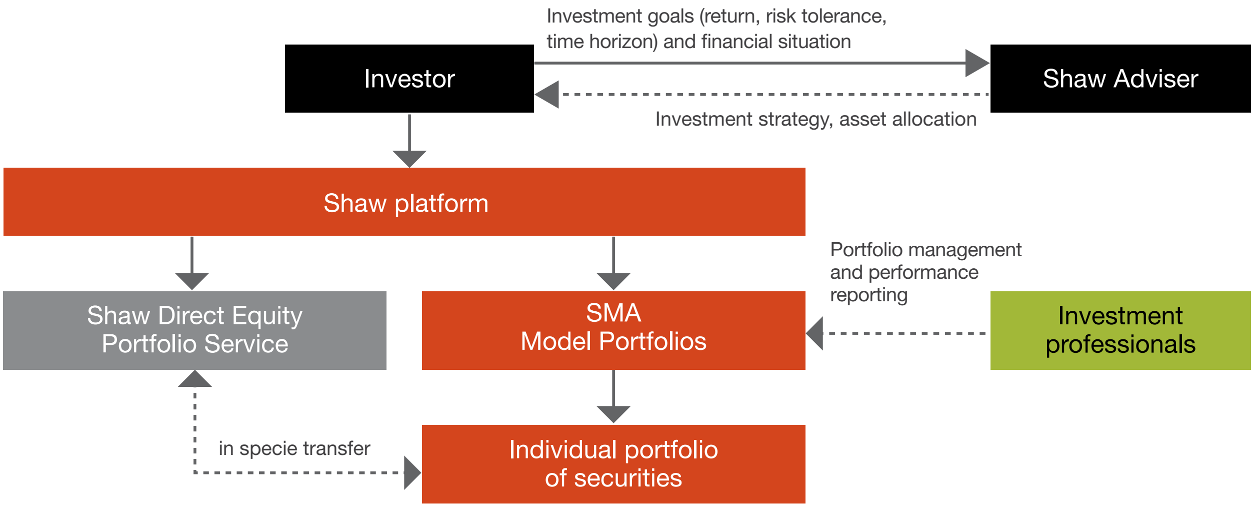

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In specie transfers	✓	–
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