The Research Monitor

March Quarter 2018

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Shaw and Partners

Content

Shaw and Partners

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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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December Quarter 2017 Performance

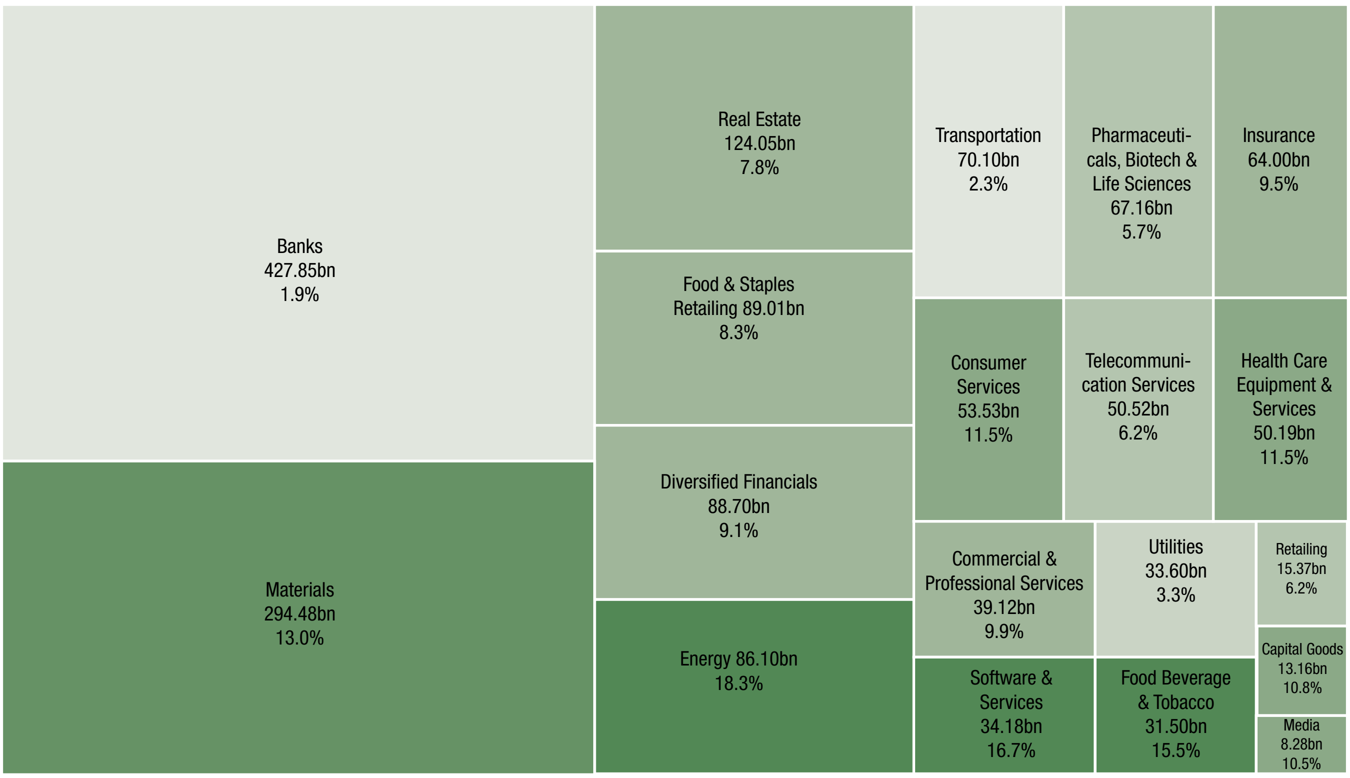
The Australian Share Market, as measured by the S&P/ASX 300 Index, rose by 6.9% on a price basis and by 7.7% on an accumulation basis during the December quarter, ending a pattern of low returns.

Looking beneath the index level, however, there was much movement with the best performing sector – Household and Personal Products – outperforming the worst performing sector – Banks - by 28.6%.

Although Household and Personal Products was the best performing sector, it only contains three stocks – Blackmores (BKL) (up 43.4%), BWX (BWX) (up 31.6%) and Asaleo Care (AHY) (down 2.9%) – and only makes up 0.21% of the index. Amongst the larger sectors, it was the case of Energy (up 18.3%) and Materials (up 13.0%) against the Banks (up only 1.9%). Energy/Materials make up 23% of the Index and Banks make up 26% so this was the key to performance in the quarter.

A number of sectors rebounded after a lacklustre September quarter and some of the standout sectors and stocks included Healthcare Equipment and Services (up 11.5%) thanks to strong performances from Resmed (RMD) and Cochlear (COH) each up 12+%. The Food and Beverage sector was also up strongly (15.5%) thanks to a2 Milk Company (A2M) up 25.8% and Treasury Wine Estates (TWE) up 16.6%. The big underperformer – Banks – saw three of the big four post share price falls for the quarter with ANZ down 2.9% (ex $0.78 dividend), NAB down 6.1% (ex $0.99 dividend during the quarter) and WBC down 1.8% (ex $0.94). Of the big four, only CBA (up 6.8%) rose.

Global markets performed well in the December quarter, and the Australian dollar was essentially flat over the period. NASDAQ index was up 6.3% as technology stocks continued their recent strong gains, the broader S&P500 was up 6.1%, European stocks fell 0.9%, Japanese stocks rose 8.4% and the World index was up 5.0%. Fixed income markets were slightly better as some bond yields drifted lower, with the Bloomberg AusBond Composite (0+Y) Index up 1.4%.



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).

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.

Matthew Johnston
Analyst

Matthew joined Shaw in August 2015 as an Associate 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.

Jonathon Higgins
Analyst

Jonathon joined Shaw and Partners in July 2017 as an Analyst in the Small-Cap team. Jonathon previously worked as an equities research analyst at Bell Potter Securities for 2 years in both a research and research dealing role, covering industrial and technology focussed companies. Jonathon holds a Bachelor of Science (Civil Systems) from the University of Melbourne and a Master of Commerce (Finance) from RMIT University.

Large Cap Model Portfolio

Our Australian Large Cap Model Portfolio outperformed its S&P/ASX100 benchmark by 1.1% in December, gaining 2.79% versus 1.71% for the market. Over the year, we returned 14.8% against an index return of 11.0% - outperformance of 3.8% picking up on 2016's 0.8% outperformance.

December's outperformance can be attributed to being overweight the Materials and Energy sectors. These two sectors comprise one third of our model portfolio versus around one quarter of the index. Both sectors returned in excess of 6% for the month versus 1.7% for the broad market. Our other two large overweight sectors – Diversified Financials and Banks – did rather poorer underperforming the index in December. Being underweight utilities and transport also helped as these sectors performed poorly.

We see no need to make changes to our model portfolio at this point, having recently increased our holding in ANZ Banking Group (ANZ). We upgraded ANZ to a BUY recommendation and increased the weight by 2%. We funded this by taking profits in CYBG PLC (CYB), which has performed strongly and is moving up to our $6.30 Price Target.

From a sector perspective, we remain heavily overweight Diversified Financials (+9.8% versus the benchmark), Materials (+8.4%), Banks (+6.9%) and Energy (+3.1%). Our largest underweight positions on a sector basis are Transport (-4.3%) and Pharmaceuticals (-4.1%).

Model Portfolio @ 31 December 2017		
BHP	BHP Billiton	10.20%
WBC	Westpac Banking Corp	8.60%
CBA	Commonwealth Bank of Aust	8.50%
ANZ	ANZ Banking Group	7.30%
MQG	Macquarie Group	7.00%
NAB	National Australia Bank	5.40%
OSH	Oil Search	4.70%
RIO	Rio Tinto	4.60%
SUN	Suncorp Group	3.40%
WPL	Woodside Petroleum	3.30%
SGP	Stockland	3.20%
MFG	Magellan Financial Group	3.20%
WOW	Woolworths	3.10%
FMG	Fortescue Metals Group	3.00%
IFL	IOOF Holdings	2.90%
FLT	Flight Centre Travel Group	2.70%
CYB	Clydesdale Bank	2.40%
OZL	OZ Minerals	2.30%
LLC	Lendlease Group	2.30%
ILU	Iluka Resources	2.20%
CGF	Challenger	2.20%
VCX	Vicinity Centres	2.00%
BOQ	Bank of Queensland	2.00%
AWC	Alumina	1.90%
NCM	Newcrest Mining	1.60%
	Total	**100.0%**

Accumulation Performance to 31 December 2017

Period	Portfolio	ASX300	ASX100	Relative
Month	2.8%	1.9%	1.7%	1.1%
Quarter	6.6%	7.7%	7.1%	-0.5%
Year	14.8%	11.9%	11.0%	3.8%
Year to Date	14.8%	11.9%	11.0%	3.8%
Fin Year to Date	9.9%	8.6%	7.5%	2.4%
Inception	90.6%	77.1%	81.6%	9.0%

* Inception date is 20 July 2011

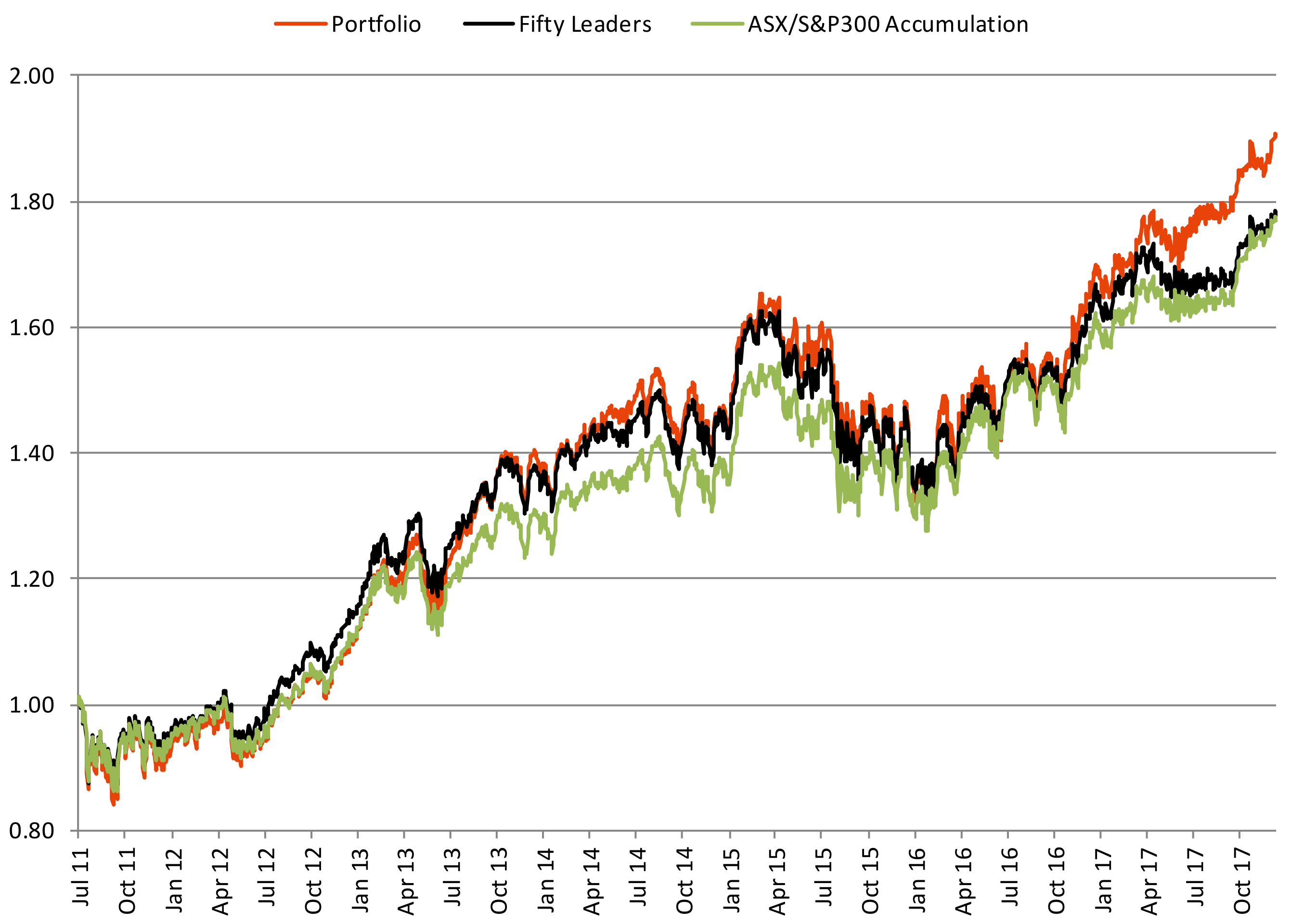
Recommendation

It is becoming increasingly difficult to remain bullish about equity markets given the significant run up we have seen globally in 2017. We remain neutral in a balanced portfolio setting but this is because the alternatives (bonds) are worse. 2018 will be a game of two halves – the first we are kicking with a strong breeze and so must all-out attack. In investment terms we must dial up beta to capture the last gasp of the reflation trade. Second half will be kicking into the stiff wind blown up by central bank policy normalisation, rising fears of inflation and recession and rising interest rates.

Portfolio Attribution

December was a good month. Our strategy of positioning the portfolio for a return of "the reflation trade" proved prescient and our best performing stocks all hailed from the Materials sector. Materials and Energy were the stars, followed by the bouncing Telco sector. If investors avoided the Utilities and Transport sectors, as we did, they also fared well.

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.

Portfolio Holdings – Top 5		
ASX Code	**Issuer**	**Security Type**
WBCPG	Westpac Bank	Capital Note IV
CBAPD	Comm bank	PERLS VII
NABPC	Nat Aust Bank	Capital Note
WBCPF	Westpac Bank	Capital Note III
ANZPG	ANZ Bank	Capital Note IV

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	4.7%
Expected Gross Running Yield (including franking)	5.3%
Expected Cash Running Yield (not including franking)	3.8%
Expected Years to Maturity	4.9
Number of Securities	22
Floating Rate exposure	100%
Fixed Rate Exposure	0%

Markets Returns

Return	1 Month	3 Month	1 Year
ASX200 Accumulation	1.81%	7.63%	11.78%
RBA Cash Rate	0.13%	0.38%	1.51%

Portfolio Highlights

- Positive new hybrid listing performances underpin margins. The Total portfolio return has exceeded its return objectives based on a period of 1 month, 3 months, 6 months, 12 months and since inception. For the month the total portfolio return was 1.18%, which was well above its objective of 0.40%. The total portfolio return for the quarter was 2.13%, higher than its return objective, 7.6% for the 12 month period and 8.29% pa since inception (Sep 2015).
- December is a significant dividend month. The Total Income Return (Gross) was 0.95% for the month and 1.14% for the quarter, whilst the commensurate income return since inception (Sep 2015) is +5.67% p.a. A total of thirteen securities (CBAPE, WBCPG, NABPD, IAGPD and ANZPG being the largest payments) traded ex distribution this month.
- The main contributors to performance during the month were MBLHB (+3.2%), MQGPB (+2.8%), and CGFPB (+2.1%). There were no detractors to performance during the month with NABPB (+0.3%) being the lowest returning security in the portfolio.
- During the month we reduced our weighting to MQGPB and NABPB and increased the portfolios' exposure to WBCPG. Our cash holding rose slightly to 3.3% of the portfolio.
- 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	6 month	1 year	2 year	Inception
Income Return (Gross)	0.95%	1.14%	2.73%	5.32%	5.44%	5.67%
Capital Return	0.23%	0.99%	1.17%	2.28%	3.14%	2.62%
Total Portfolio Return (Gross)	1.18%	2.13%	3.90%	7.60%	8.58%	8.29%
Portfolio Return Objective	0.40%	1.10%	2.30%	4.60%	4.70%	4.80%
Excess Return v Objective	0.78%	1.03%	1.60%	3.00%	3.88%	3.49%

Our Preferred Stocks

Apiam Animal Health (AHX)

Apiam Animal Health (AHX) operates as a veterinary practice and products supplier. The Company practices across the pig, dairy, feedlot, sheep, equine, and companion animal sectors. Apiam Animal Health has headquarters in Australia.

Axsesstoday (AXL)

Axsesstoday (AXL) provides finance services to small to medium sized enterprises (SMEs) for equipment. It operates through the following segments: Hospitality, Transport, and Other Equipment. The Hospitality segment includes coffee machines, display units, cooking, refrigeration and dishwashing equipment.

BWX (BWX)

BWX (BWX) manufacture body, hair and skin care products. The Company produces and distributes moisturizers, oils, lotions, scrubs, creams and other related products.

Fortescue Metals Group (FMG)

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

IOOF Holdings (IFL)

IOOF Holdings (IFL) is a financial services company operating in Australia. The Company's services include personal superannuation, allocated pension services, employee superannuation retirement services and investment services.

Lendlease Group (LLC)

LendLease Group (LLC) designs, develops, and manages property and infrastructure assets. The Company constructs apartments, commercial buildings, government offices, retirement living, and educational facilities. LendLease serves customers worldwide.

Money3 Corp (MNY)

Money3 Corp (MNY) provides consumer lending services in Melbourne and Geelong Australia. The Company offers loans, check cashing, and money gram services.

Navigator Global Investments (NGI)

Navigator Global Investments (NGI) provides investment management services. The Company provides hedge fund solutions to retail, wholesale, and institutional investors. Navigator Global Investments serves clients worldwide.

P2P Transport (P2P)

P2P Transport (P2P) as a fleet management and transportation company. The Company focuses on point-to-point passenger transportation services. P2P Transport serves clients in Australia.

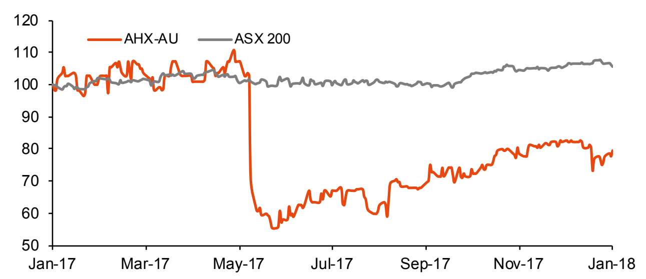
Woodside Petroleum (WPL)

Woodside Petroleum (WPL) explores for and produces oil and gas from offshore and onshore facilities located in Western Australia and Northern Territory. The Company operates numerous oil and gas fields and pipelines throughout Australia, United States and Mauritania and its products include liquefied natural gas, domestic gas, condensate, crude oil and liquefied petroleum gas.

Apiam Animal Health (AHX)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 19 January 2018)	$0.89
Target Price	$1.20
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(1.8%)	9.6%	(23.6%)

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

Strong Markets and Progress Against Strategic Initiatives

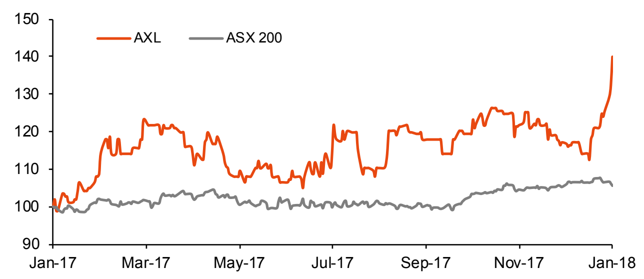
- At its November AGM AHX confirmed that key drivers for the production animal sector are positive for FY2018. In addition we note that Dairy producers are now getting good milk prices which has seen recovery through 2H17 and 1Q18, the pig industry has returned to normal procurement patterns, feedlot cattle prices remain high as expected, but volumes are understood to be up on pcp.
- Progress against strategic initiatives is coming through now. AHX has invested significant resources in putting in place a foundation for ongoing development and expansion of its business over the last 12 – 18 months. It now has a robust infrastructure in place capable of carrying it through the next few years of growth. Developments to date include: i) Operating infrastructure in place with significant investment in ERP systems & personnel, ii) its Practice Management System "VetLink" is being rolled out over FY2018, iii) 3 significant acquisitions announced during FY17 & FY18 YTD and, iv) Enhanced efficiencies are being realised from the investment with back office, delivery & procurement fully integrated and delivering benefits.
- AHX is now showing how it will capitalise on the investment it made in systems and staff over the last 12-18 months. Its future scale won't need a lot of additional investment/costs, which should enable revenue growth to be leveraged. This presents investors with an opportunity to acquire a business positioned for long term growth at a very reasonable multiple.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	5.0	5.8	8.5
Dividends cps	1.6	1.7	2.5
PE x	14.0	15.7	10.7
Yield %	2.3	1.9	2.8
Franking %	100	100	100

Axsesstoday (AXL)

Recommendation	BUY
Risk	HIGH
Share Price (as at 19 January 2018)	$1.83
Target Price	$2.11
Analyst	Jonathon Higgins

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	20.3%	11.5%	31.4%

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

Accessing Exponentially Growing Australian Leasing Fin-Tech

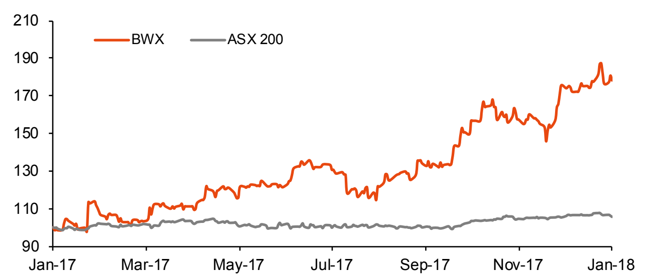
- AXL provides equipment leasing solutions across the segments of hospitality, transport and other sectors. Leases are originated across merchant checkout, brokers and directly, with the company offering a white label and Axsesstoday branded product. AXL is integrated in 450+ merchants POS, primarily targets SME's of prime credit quality, offers leases up to 5 years in length and $500k in size although on average leases are <$25k in size.
- AXL delivers a product that involves a homogenous solution across multiple industry sectors, with real time approval (within minutes) available across merchants and brokers. AXL originates, pulls credit/banking data, has automated DD, collections and delivers the fastest approval in the market, compared with incumbents that can take days.
- We expect AXL to demonstrate consistent double digit EPS growth over the medium term, grow its market share and achieve a $400m+ receivables book by FY19.
- Driving our investment thesis is the following drivers: 1) Continued structural shift away from banks (AXL to benefit) to alternative lessors within a large and growing market; 2) Recurring income and predictability of earnings stream diversifying the profile and risk of this microcap; and 3) Scalable platform that should drive operating leverage and earnings growth outpacing top-line.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	10.6	12.4	16.5
Dividends cps	2.2	3.6	4.7
PE x	13.4	14.8	11.1
Yield %	1.5	2.0	2.5
Franking %	100	100	100

BWX (BWX)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 19 January 2018)	$7.74
Target Price	$7.61
Analyst	Jonathon Higgins

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.9%	10.1%	72.0%

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

Number 1 With Domestic and International Irons in The Fire Delivering Scale and Distribution

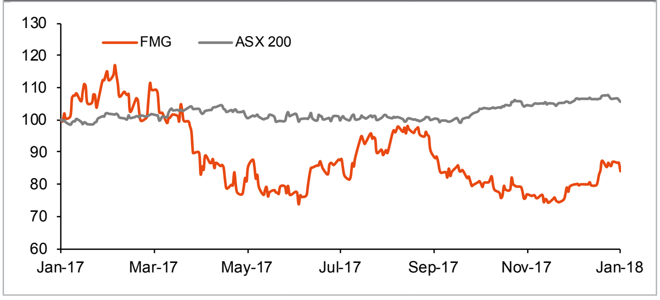
- BWX is a vertically integrated body, hair and skin care company headquartered in Australia. BWX primary brands include the popular Sukin available in Australia and overseas as well as recent brand additions including Andalou Naturals and Mineral Fusion which operate primarily in North America.
- An investment in BWX delivers exposure to the 'natural' skincare category both domestically and globally, a category that is growing double digits and provides high gross margin exposure both domestically and internationally.
- The company has a number of drivers over the next 12 months that could continue to drive performance and these include: 1) Domestic Sukin sales performance exceeding expectations, particularly in the grocery segment with recent Coles entry; 2) Integration of Andalou Naturals and Mineral Fusion progressing to plan, achieving growth in these businesses and possible synergies beyond currently assumed; 3) Performance of Sukin across multiple overseas markets, with multiple jurisdictions, distribution agreements and growth.
- Currently valued at a discount to Australian listed FMCG peers with what we consider to be a more transparent earnings profile, we continue to see BWX as providing USD exposure, access to positive category growth and multiple growth levers.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	19.1	24.7	34.5
Dividends cps	6.7	8.0	14.0
PE x	30.8	31.3	22.4
Yield %	1.1	1.0	1.8
Franking %	100	100	100

Fortescue Metals Group (FMG)

Recommendation	BUY
Risk	HIGH
Share Price (as at 19 January 2018)	$5.12
Target Price	$6.40
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.6%	3.7%	(23.6%)

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

The "Cheapest" (P/NPV basis) Name in our Coverage

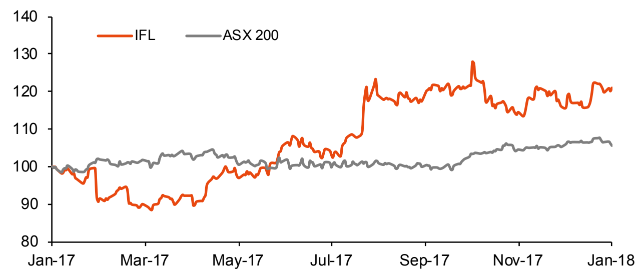
- The FMG journey over the past two years has been extraordinary to say the least with the share price tracking higher with mining cost reductions, cashflow generation, balance sheet deleveraging and ultimately the whims of the iron ore market and of course the iron ore price. These key drivers are expected to continue over the next several years.
- Quality differential priced in – The price differential received by FMG was a tough headwind in late DQ2017. In our view the discount issue is more "cyclical than structural" and we think that it has largely run its course. Moreover the share price is currently imputing a long term price discount well beyond reasonable expectations. Hence we consider that the current headwind is now adequately priced into FMG's share price.
- Capital management opportunities. FMG's cash generation and deleveraging potential, even at lower prices is sufficient to see the company move to net cash over the next few years and to dividend a significant amount of income to shareholders (Fully franked).

Forecasts			
YE Jun (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	27.2	67.3	38.9
Dividends cps (AUD)	14.8	44.5	32.6
PE x	9.6	6.1	10.5
Yield %	4.1	8.2	3.9
Franking %	6.2	100	100

IOOF Holdings (IFL)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 19 January 2018)	$11.10
Target Price	$13.00
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.0%	(7.8%)	14.5%

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

ANZ Wealth: A Materially Accretive Acquisition

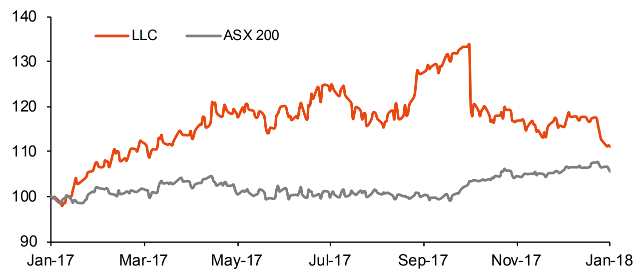
- Incorporation of the impeding ANZ Wealth acquisition sees near term earnings diluted by share issuance but the market is missing the potential for serious synergy benefits from the ANZ acquisition and the stock has underperformed. We see this as a buying opportunity.
- We incorporate the ANZ Wealth acquisition which probably won't complete until the end of 2018 but has been "paid for" by shareholders now. We are sticking with management guidance of $130m in separation and integration costs over three years and $65m of pre-tax synergies from 2021. We reckon they can pull out more.
- IFL have been able to hold their adviser market share and have been growing their adviser footprint steadily via organic and acquisitive means. ANZ was bleeding advisers and this is one of the fears the market has about this deal. IFL has shown it has kept most acquired advisers and added more.
- This acquisition optimises the capital structure of the group and lowers the WACC, subsequently raising our DCF valuation to $14.54. A sum-of-the-parts valuation of $11.43 supports a 12 month target price of $13.00. We see IFL earning in excess of $1.00 per share once ANZ Wealth is fully integrated and costs are minimised.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	56.5	53.5	65.9
Dividends cps	53.0	52.0	60.0
PE x	17.3	20.7	16.8
Yield %	5.4	4.7	5.4
Franking %	100	100	100

Lendlease Group (LLC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 19 January 2018)	$15.53
Target Price	$18.17
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(3.0%)	(7.1%)	6.3%

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

Look Beyond Sentiment

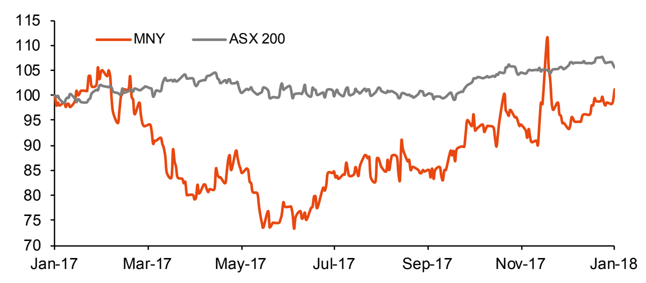
- We see recently announced engineering and construction wins as a positive for the group – including the ~$6m Melbourne Metro project. In addition, LLC has secured a ~$1.7b urban renewal project in Tottenham UK and has also received planning approval for its final commercial tower at Melbourne Quarter.
- We suggest LLC's recent sell-off has been on the back of negative sentiment surrounding (1) the previously announced impairment at three engineering projects and (2) general concern over a slowdown in Australian residential markets – with particularly focus on the apparent decline in foreign buyers. On the first point, we expect greater clarity at the upcoming 1H18 result in February, and on the second point, we remain unconcerned about settlement risk from foreign buyers of LLC's residential projects.
- Looking beyond sentiment, from a capital position, LLC is in very good shape. It has a robust development workbook and continues to grow its annuity income from both investments and funds under management.
- We remain comfortable in our earnings outlook for FY18 and suggest FY19 will be an even better year due to the number of apartment projects due to complete and settle that year.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	130.1	131.5	145.1
Dividends cps	66.0	66.2	72.6
PE x	12.8	11.8	10.7
Yield %	4.0	4.3	4.7
Franking %	0	0	0

Money3 Corp (MNY)

Recommendation	BUY
Risk	HIGH
Share Price (as at 19 January 2018)	$1.74
Target Price	$2.27
Analyst	Jonathon Higgins

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	9.5%	7.2%	(2.2%)

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

All The Headwinds Now Tailwinds

- Money3 (MNY) is primarily a provider of secured automotive loans, as well as other products such as longer term unsecured credit and shorter term unsecured credit. The company has progressively decreased its reliance on unsecured credit lending and has advised that it will cease lending within this space by the 1H19. Secured automotive now accounts for ~80% of the total loanbook of the company.
- MNY is a lending company that is organically growing its automotive lending by ~20% a year and makes NPAT of over $30m, whilst being reasonably priced at an attractive sub market PER.
- We expect MNY to organically grow its NPAT ~$45m by 2020 within the current funding envelope for the business and see the current market share of the business ~4% doubling within this time period.
- Catalysts for the stock within the near term include: 1) Divestment or sale of unsecured lending division within the next 12 months, leading to possible re-rating or funding expansion; 2) Expansion and delivery of organic automotive growth, delivering a more attractive returns profile and increasing investor confidence around growth in earnings; 3) Further debt and dry powder structure improvements, including possible securitisation; 4) Possible opportunistic and accretive loanbook acquisition opportunities in a cottage type industry.

Forecasts			
YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	17.2	18.7	21.3
Dividends cps	5.7	6.0	7.0
PE x	7.4	9.3	8.1
Yield %	4.4	3.5	4.0
Franking %	100	100	100

Navigator Global Investments (NGI)

Recommendation	BUY
Risk	HIGH
Share Price (as at 19 January 2018)	$3.78
Target Price	$3.95
Analyst	Martin Crabb

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	20.0%	24.1%	58.1%

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

Strong FUM Growth and Lower US Tax Provide a Boost

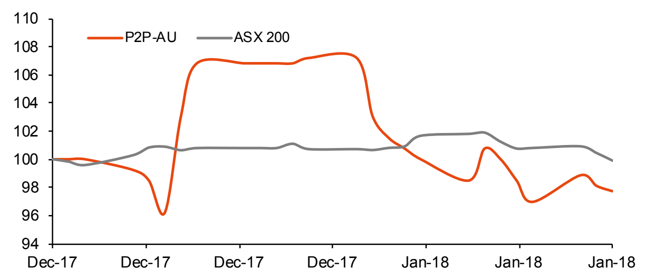
- We review our earnings and valuation for NGI following release of December FUM ($US10.46bn from $US9.97bn in September) and the reduction in the US Federal tax rate from 2018. Momentum is with the business at the moment and a strong pipeline of new business augers well for further inflows into 2018. Maintain BUY recommendation.
- Assets under management grew by 4.91% over the December quarter thanks to ~1% investment returns and $US330m of net flows, mostly ($US300m) into the lower margin customised solution business. In the past six months, NGI has attracted $US660m of inflow and $US330m of investment performance.
- 2018 is shaping to be a tricky investment environment as first half melt-up will be replaced with inflationary fears and a bond bear market. Market neutral products may well become vogue for asset managers and NGI's enviable long term track record sees it well placed to attract flows. Its recent build-up of institutional sales capability, especially in 'new' markets such as the Middle East and Japan are set to deliver this year.
- The reduction in US Federal tax rates from 35% to 21% is a double edged sword for NGI. On one hand, longer term earnings will be boosted by ~20%. In the short term however, the value of US tax losses become worthless and so the point at which the company starts actually paying tax is drawn closer. We calculate a discounted cashflow valuation of $A3.51 and add $A57m of surplus cash to derive a $A3.95 price target.

Forecasts			
YE 30 Jun (USD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	17.7	21.6	27.4
Dividends cps (AUD)	18.6	22.6	27.0
PE x	10.4	14.0	11.1
Yield %	7.6	5.8	7.1
Franking %	0	0	0

P2P Transport (P2P)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 19 January 2018)	$1.33
Target Price	$1.68
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.4%	(1.9%)	(5.5%)

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

Initiation of Coverage

- Shaw and Partners recently completed P2P's IPO and initiated coverage with a BUY rating and a $1.68 twelve month target price. P2P the largest and most efficient fleet operator in Australia is listing to further capitalise on a very profitable model. P2P is the largest vertically integrated point-to-point (ptp) fleet operator (taxis, UBER cars, hire cars) in Australia. It listed on the ASX in December raising $30.0m to continue its vertical and horizontal growth.
- Unassailable cost advantages make P2P disruptive and likely to take significant market share. P2P has begun consolidating the Australian industry which is fragmented (most owners having less than ten cars and only a handful have ~100), it had 720 on listing (going to a forecast 1084 by year end) giving it an east coast market share of ~6%, first mover advantage and it is the only group we are aware of consolidating the industry. P2Ps ROI on additional cars is exceptional at ~50% and is forecast to move higher. High returns from operating fleets are only, as shown overseas, possible with scale. On listing every additional car P2P puts on the road has a ~24 month pay back and with improved scale and a number of industry changes is forecast to increase to ~12 months.
- P2P is an industry consolidation opportunity that presents both acquisition upside and significant organic growth. Trading at 7.25x FY18 EBITDA and 5.8x CY18 EBITDA, P2P is trading at a 33% discount to AMA, 28% discount to G8 and 49% discount to PSQ. We believe it has better growth prospects than these companies, a relatively low risk profile and a very strong board and management team. BUY.

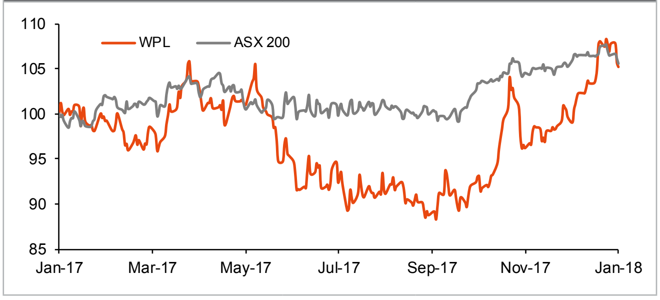
Forecasts

YE 30 Jun (AUD)	2017 (A)	2018 (E)	2019 (E)
Earnings cps	0.1	8.1	16.1
Dividends cps	0.0	0.0	8.1
PE x		16.3	8.3
Yield %	0.0	0.0	6.1
Franking %	100	100	100

Woodside Petroleum (WPL)

Recommendation	BUY
Risk	HIGH
Share Price (as at 19 January 2018)	$33.35
Target Price	$35.00
Analyst	Stuart Baker

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	4.9%	7.5%	12.1%

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

Under-Appreciated and Undervalued

- We have revised our oil prices higher. The changes are significant in 2018 and then diminishing, reflecting the current shape of the forward oil curve, which in the past 3 months has changed in profile from steep contango to backwardation.
- With increased domestic ownership following the Shell sell-down, we think there will be more pressure on the Board to pay-out the very substantial franking account which approximates US$1.9B, or US$2.2/share. The chances of a buy-back, special dividend or some other form of capital management have gone up, although we would not expect any move to do so until the 2017 results are revealed in February 2018.
- WPL are in the enviable position of being able to contemplate higher shareholder returns, without compromising re-investment for growth. Production growth from Wheatstone, followed by Greater Enfield in 2019, coupled with higher oil prices amplifies the free cash flow from operations. The money has to find a home. The balance sheet is already strong so there is no need to divert cash into fixing it. If excess cash flow is banked, then gearing would fall to 15% by year end 2020 and net debt to US$2.9B. This is low for a company with EV of more than A$40B.

Forecasts

YE 31 Dec (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	68.5	120.3	147.2
Dividends cps	111.6	125.5	149.3
PE x	32.9	22.2	18.1
Yield %	3.7	3.6	4.4
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 CYB and P2P in a corporate capacity within the past 12 months for which it received a fee.

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Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

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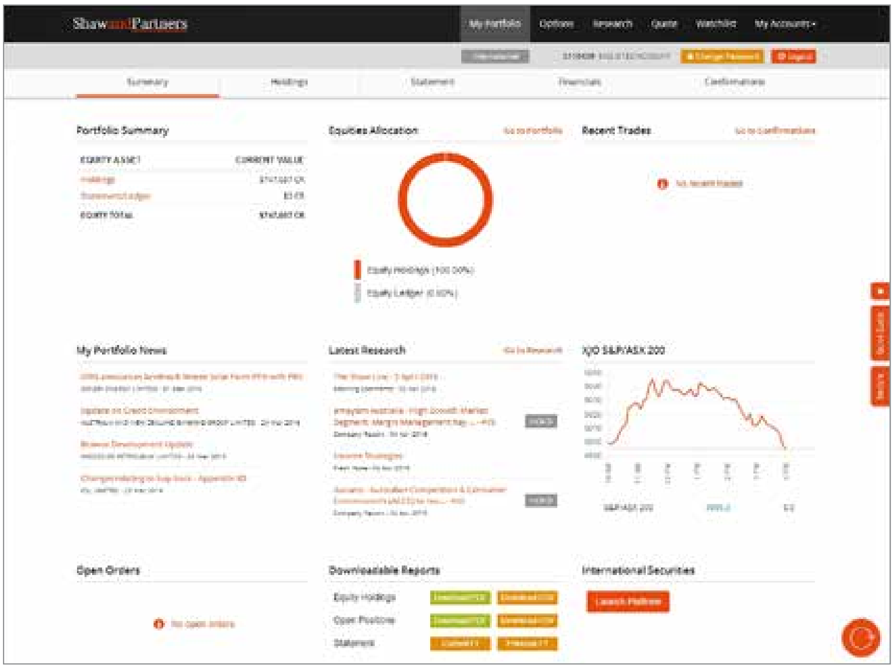

Wide range of information included

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- Details of your CHESS holdings and derivatives positions
- Cash balances in your cash management account
- Access to confirmations and statements records of each trade you have made through Shaw
- 20 minute delayed ASX prices, quotes, announcements, company profiles and historical prices, and
- 'Watch lists' along with a charting package to compare ASX listed stocks.

To register for online access please speak to your adviser, alternatively visit http://www.shawandpartners.com.au/#/online-registration

How the Shaw Managed Accounts work

Shaw Managed Accounts (SMA) are a sophisticated investment and reporting platform incorporating advanced features to assist in the management of your overall investment strategy and portfolio.

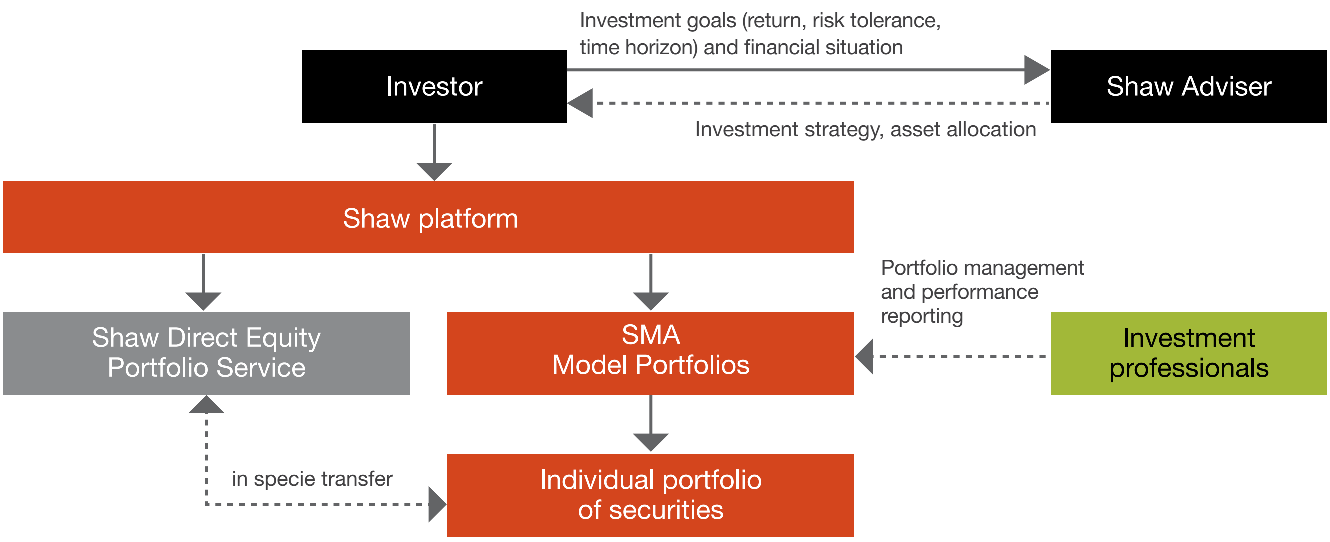
Shaw Managed Accounts are established and offered within the registered managed investment scheme known as the Separately Managed Accounts. Each investor has a separate "account" to which their investments are allocated.

Your account can be constructed by using a range of available investment strategies (referred to as Model Portfolios) that you can select from the investment menu together, with your Shaw and Partners adviser.

Once you decide which Model Portfolios are best suited to your investment needs and objectives, Shaw and Partners will purchase securities to be included in your account so that it reflects the Model Portfolio, or a combination of Model Portfolios.

The Model Portfolios are managed in a disciplined and consistent manner; overseen by a dedicated team of investment professionals with many years of experience in securities markets.

With Shaw Managed Accounts, not only are you the beneficial owner of the portfolio (and shares), you will also enjoy the ownership benefits (such as dividends and franking credits) and have the ability to see the exact make up and market value of the portfolio at any time, via our online service.



SMA Investment Options

At Shaw and Partners, we understand that your investment decisions may vary depending on your stage of life and attitude towards risk. Shaw and Partners offers 10 portfolio strategies designed to meet your investment needs and objectives.

Portfolio Strategy	Objective / Benchmark Index	Indicative number of securities	Minimum suggested investment timeframe
Asset Class Portfolios			
Shaw Debt Securities Income Portfolio	RBA Cash rate + 1.5%	15 – 25	3+ years
Shaw Hybrid Income Portfolio	RBA Cash rate + 3% (inclusive of franking credits)	10 – 25	3+ years
Shaw Australian Equity (Large Cap) Income Portfolio	S&P/ASX 100 Accumulation Index	15 – 25	3+ years
Shaw Australian Equity (Large Cap) Core Portfolio	S&P/ASX 100 Accumulation Index	15 – 25	3+ years
Shaw Australian Equity (Large Cap) Growth Portfolio	S&P/ASX 100 Accumulation Index	15 – 25	3+ years
Shaw Australian Equity (Small and Mid-Cap) Growth Portfolio	S&P/ASX Small Ordinaries Accumulation Index	15 – 25	3+ years
Shaw International Equity Portfolio	MSCI World Index (ex–Australia unhedged)	15 – 25	3+ years
Goal Based Portfolios			
Shaw Income Goal Portfolio	RBA Cash rate + 3% (Gross Income and Total Return)	15 – 25	3 – 5 years
Shaw Balanced Portfolio	RBA Cash rate + 4% (Gross Income and Total Return)	15 – 25	3 – 5 years
Shaw Growth Goal Portfolio	RBA Cash rate + 5%	15 – 25	3 – 5 years

Speak to your Adviser for more information about Shaw Managed Accounts and to obtain a copy of the Product Disclosure Statement.

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