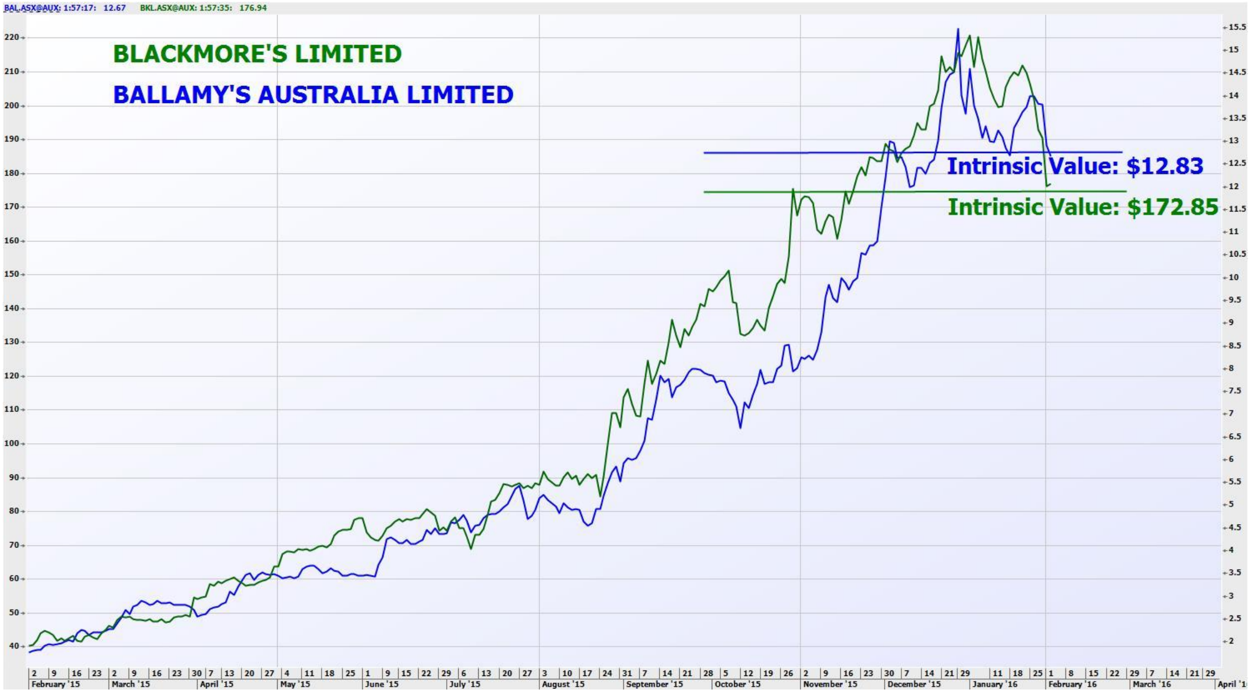
WHEN VITAMINS GO BAD AND OTHER POSITIVE INSIGHTS

If you have Asian relatives like I do there's a good chance you are aware of their huge appetite for Australian made natural health products. After all, natural medicine has existed in their culture since 168BC making it one of the oldest and long-standing health care systems in the world. Although I am yet to visit China, I have spent plenty of time in Malaysia and you would be surprised to know although companies like Blackmore's have established distribution channels in Malaysia it's difficult to find good brands and when you do the cost is almost always bad for the health of your wallet. Fish oil, multivitamins, Cq10 and baby formula are among the most popular items they stock up on before they leave simply because **a) The price is cheaper and b) Australian made products are trusted**.

The rapid industrialization of China has led to the contamination of water, soil and air in many provinces creating widespread health issues, but these factors are not the only reason behind the growing distrust of Chinese made natural health products. The 2008 Chinese Milk scandal which left 300,000 victims seriously ill (including a number of Infant Deaths) and the 2015 seizure of $500 million dollars worth of **decade old meat** on its way to unknowing customers reveal regulatory shortcomings that have further inflamed the distrust. It's for these reasons, not to mention the all important Free Trade Agreement (FTA) with China signed last year, that companies like Blackmore's and Ballamy's Australia have experienced significant demand for their products resulting in considerable appreciation of their share prices.



New York Securities Pty Ltd

AFSL: 317392 ABN: 70 111 049 800

Shop 11 "South Shore Piazza" 85 South Perth Esplanade, South Perth, WA 6151 | PO Box 1196, South Perth, WA 6951 | P: (08) 9363 1700 | F: (08) 9367 2450 |

E: reception@nysecurities.com.au

W: www.nysecurities.com.au

The risk in following the herd in these situations is being the last person to "ring the bell", that is **the one who buys the stock at the ultimate high just prior to the share price collapsing**. Thankfully it wasn't any of our clients but somebody out there paid the grand price of $220.00 per share on the 21st December 2015 for Blackmore's limited, **a case of vitamins gone bad.** In their defence over the longer term $220.00 per share will likely be a good buy but our view is they simply got caught up in the enthusiasm, media hype and simply paid too much in the interim, the side-effect of an irrational decision. ***Situations like this are a great example of why the concept of intrinsic value is so important. It helps you make a rational decision among an irrational market by setting a limitation to how much you should pay for a company at any given time.***

So let's see how our intrinsic values stacked up against the current market price. *If you would like to know how these values are calculated in detail please refer to our November 2015 newsletter available here .*

COMPANY	INTRINSIC VALUE	CURRENT SHARE PRICE	SAFETY MARGIN	BUY BELOW
BLACKMORE'S (ASX:BKL)	**$172.85**	**$175.03**	**-1.25%**	**$172.85**
BALLAMY'S (ASX:BAL)	**$12.83**	**$12.55**	**+2.23%**	**$12.83**
BEGA CHEESE (ASX:BGA)	**$2.21**	**$6.56**	**-66.3%**	**AVOID**

Yesterday Blackmore's share price experienced heavy selling, down 7.51% to $176.25 due to concerns over weak Chinese PMI numbers and Bega being told by Coles of their intention to change suppliers for its "own brand" cheese products. The relevance of Bega to Blackmore's is these companies signed an agreement late last year (Oct 2015) to jointly develop nutritional dairy products, including a range of baby formulas. The negative sentiment reflected in Bega due to the Coles announcement fed directly into the Blackmore's share price. **But we believe this was a miscalculation by the market**. Bega has 12 months to redirect its supply and it was disclosed from the outset the contract was for a five year period, meaning the risk of Coles not extending the contract beyond the five years was priced in a long time ago. **It's far more likely this event will push Bega to work with Blackmore's on its joint venture sooner than later**. Furthermore it should be remembered Blackmore's is a quality company on its own accord, with or without the presence of Bega Cheese.

The result from all the market noise yesterday was a decline in the share prices of both Blackmore's and Bega Cheese with **value emerging only in one, albeit intraday**. Bega Cheese by our calculations is grossly overvalued with an intrinsic value of $2.21 against its current share price of $6.56. Historically Bega has struggled to achieve earnings growth and along with other reasons including falling margins, it's easy to conclude Bega is not worth adding to your portfolio at this point in time, hence its low intrinsic value. Had I released this write-up on Friday (as intended) when Blackmore's was trading around $190.57, it would have been difficult to imagine it would take only one trading day before the stock would trade lower than our intrinsic value calculation of $172.85, but yesterday's move did just that. Despite closing at a price of $176.25, the stock traded during the day as low as $168.00 providing plenty of opportunities to buy below our calculated intrinsic value of $172.85. Although this opportunity has been and gone **there may very well be another opportunity to acquire this company at a price below the intrinsic value of $172.85 in the coming weeks.**

The same applies to Ballamy's Australia except **Ballamy's today is in buying territory**. Ballamy's has enjoyed strong demand for its shares due to its product line of popular baby and toddler food which it exports to China, Hong Kong, Taiwan among other countries. Ballamy's short history from a financial perspective is robust and supports our intrinsic value calculation of $12.83. **Today the share price sits at $12.55 below our intrinsic value calculation offering a small safety margin. The bigger the safety margin the better but in saying that at this price we consider Ballamy's to be in buying territory and would make an excellent addition to your portfolio.**

ASX TRANSITION TO T+2 SETTLEMENT – MARCH 2016

The ASX has indicated in March 2016 they will reduce the settlement period for Equities and Warrants from Trade Date + 3 business days (T+3) to Trade Date + 2 Business days (T+2). The ASX has announced the current target date is now the 7th March, subject to change. This means all clients will need to ensure funds are available in their nominated bank account a day earlier than what is currently required. **The ASX has produced a brochure in relation to the change of settlement period. We recommend clients to view this brochure by clicking here**