



New York Securities Pty Ltd

COLLINS CORNER AND THE INDUSTRIAL SECTOR – APRIL NEWSLETTER

COLLINS CORNER

It is a pleasure to write alongside Tim's Newsletter which has for some time now covered the Macro conditions of the market with a number of revealing Charts to support his views, and now and then, specific quality stocks.

However the market is beginning to show signs of a revitalization of the junior commodities sector, and I thought it was time to have a small section with comments on the Commodities and junior stocks with a sprinkling now and then of other sectors and stocks of interest.

Uranium, Graphite and Lithium stocks have been driving the spec end of the market for a period now, providing short term profits followed by Zinc trying to get into the game, with comments by leading writers that a shortage is looming and Zinc will be the runner in due course. And of course now Cobalt gets a run. Copper is being touted also but is having a hard time breaking through to grab the attention of the investors, and the day traders are not yet having any of it.

I am going to over look the hottest sector of Marijuana, not because the day traders will not make a bundle on trading them, but I suggest as many as possible should be looking for a chair when the music stops.

Iron Ore is strangely enough sneaking back into consideration by some as the Iron Ore price is defying all the informed writers doom and gloom and a collapsing price. Anywhere in the US\$60 to \$65 tonne range will still make the major producers very good margins, but juniors who will need large CAPEX infrastructure will have a hard time getting attention by those who know how to analyze the market and individual stocks, including the financiers.

I am an open and unashamed Gold believer based on the big picture of what is happening globally, and especially in the USA. If you have a common belief in my views, let me know and we will start churning out some stocks in gold and all sectors of interest over the coming months. We may also be sending out random buy suggestions to those interested, so be sure to ensure we have your email address and expressions of interest in receiving them.

The big money will be made in the exploration stage juniors as confidence lifts, and the bid prices rise to meet and take out the nervous sellers. Producers always get priority attention as the sector gains attention, but it is in the new discoveries and surprise results where the large profits are made, and especially in the low priced stocks that have a higher % gain ratio, compared to higher priced stocks. It was reported only this week that the top movers in New York and Toronto were very much in the junior category, with all 10 having a market capitalization of less than US\$6m.

I should point out that this Corner is for Speculative Investors only and as General Advice, as we will not know each person's individual financial position and or appetite for risk.

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If you have an interest in any stocks and or sectors and you are categorized as a speculative investor, now is the time to talk to Tim, Justin or me. It is nearly time for fun in the sun again in the junior stocks.

INDUSTRIAL SECTOR REVIEW

Since the beginning of the year the S&P/ASX200 (XJO) has put in an impressive performance rising 23% from 4800 to 5900 index points by end of March, largely driven by two sectors Banking and Resources. While earlier this month the fundamentals suggested a modest pullback was lurking, the market has taken on a life of its own, content in allowing the technical's to maintain their course;



Technically the Index continues to respect the boundaries of the Rising Wedge Pattern (*as shown above*) indicating an advance to 6000 index points in the immediate term. A move beyond will prove challenging given the bearish bias consistent with this pattern and the stretched valuations among the main drivers behind the recent rise. We suggest clients employ the basic strategy of “sector rotation”, *if applicable to their objectives*, and seek value in alternative sectors of the market that have not been privy to the moves shown by the main drivers and meet investment grade criteria.

The **Industrial Sector** is a fitting example of this and to assist clients we reviewed 169 companies, identifying **12 companies deemed to be portfolio worthy investments**. We considered key metrics including but not limited to, **Return on Equity, Return on Assets, Net Gearing, Free Cash Flow and the Payout Ratio**.

1. COMMERCIAL AND PROFESSIONAL SERVICES

Companies in the Commercial & Professional group provide business support services. These services are classified into two categories: Commercial Services & Supplies and Professional Services. This sector contains companies that tend to have a low beta, because demand for their services tends to remain very stable.

Company	IVE Group Ltd	IPH Limited	SG Fleet Group Ltd	Smart Group Ltd	Wellcom Group Ltd
ASX Code	IGL	IPH	SGF	SIQ	WLL
Price	\$2.35	\$4.83	\$3.44	\$6.52	\$4.90
Div Yield (unfranked)	6.36%	4.41%	4.46%	3.76%	4.69%
Franked	100%	100%	100%	100%	100%
DRP	None	None	None	None	None
EPS	\$0.23	\$0.23	\$0.21	\$0.30	\$0.29
P/E	10.21x	21x	16.4x	21.7x	16.9x
Payout Ratio	65%	95%	72%	83%	79%
Net Gearing	45%	None	32%	40%	None
Return on Equity	22%	20%	25%	25%	17%
Return On Assets	9%	15%	11%	12%	12%
PEG Ratio	0.38	1.24	N/A	N/A	N/A

BUSINESS SUMMARIES:

IVE Group Limited (IGL)

Price: \$2.35 (3.4.17)

Shares on Issue: 119,280,624

Market Cap: \$280,905,870

IGL is an integrated marketing and print communications provider. IVE enables its customers to communicate more effectively with their customers by creating, managing, producing and distributing content across multiple channels. IVE has an unparalleled product and service offering in Australia and operates the following divisions **Kalido, Blue Star Direct, Blue Star Web & Blue Star Prin, Blue Star Display, Blue Star Promote and Blue Star Connect.**

IPH Limited (IPH)

Price: \$4.83(3.4.17)

Shares on Issue: 191,684,225

Market Cap: \$925,834,807

IPH is an intellectual property services firm. IPH offers a wide range of services for the protection, commercialisation, enforcement, and management of intellectual property. It provides these services across Australia, New Zealand, Papua New Guinea, the Pacific Islands, and Asia. Its operations can be summarised as **Patent** and design, **Trademarks** and **Legal**.

SG Fleet Group Limited (SGF)

Price: \$3.44 (3.4.17)

Shares on Issue: 253,030,869

Market Cap: \$870,426,189

SGF is a provider fleet management services to corporate and government customers, as well as salary packaged vehicles for customers' employees. The Company operates in the outsourced **fleet**

management and salary packaging sectors, primarily in Australia, with a presence in New Zealand and the United Kingdom.

Smartgroup Corporation Ltd (SIQ)

Price: \$6.52 (3.4.17)

Shares on Issue: 122,695,552

Market Cap: \$799,974,999

SIQ provides outsourced administration, primarily salary packaging, software, distribution and group services (SDGS) and fleet management services to employees of State and Federal Government departments, Public Benevolent Institutes and corporate employers. **SIQ has portfolio of brands including Smartsalary, Advantage Salary packaging, PBI Solutions, Smartleasing, Smartfleet, Autogenie, Health workforce solution and Smartequity.**

Wellcom Group Limited (WLL)

Price: \$4.90 (3.4.17)

Shares on Issue: 39,052,001

Market Cap: 191,354,805

WLL is an Australian production and content management company. WLL offers its clients a range of services including graphic design and cross-media adaptations, 3D and 2D illustration, photography and creative retouching, online and digital services, TVC production, video and animation, pre-media, image and asset libraries, and online workflow processes. WLL offers its pre-media and data management services in Australia, UK, New Zealand and Asia.

2. CAPITAL GOODS

The Capital Goods group is the largest group of the Industrial sector. In the Capital Goods group, companies produce durable goods that are used in the production of other goods and services.

Company	NRW Holdings	Reece Ltd	Silver Chef Ltd	SRG Limited	Service Stream Ltd
ASX Code	NWH	REH	SIV	SRG	SSM
Price	\$ 0.67	\$40.80	\$7.33	\$1.53	\$1.16
Div Yield (unfranked)	N/A	2.31%	5.13%	4.58%	2.59%
Franked	N/A	100%	100%	100%	100%
DRP	None	None	None	None	None
EPS	\$ 0.08	\$2.00	\$0.49	\$0.10	\$0.07
P/E	8.4x	20.4x	15x	15.3x	16.6x
Payout Ratio	N/A	47%	77%	50%	46%
Net Gearing	40%	0.04%	2.19%	None	None
Return on Equity	11%	20%	24%	8%	11%
Return On Assets	7%	13%	9%	5%	7%

BUSINESS SUMMARIES:

NRW Holdings Limited (NWH)

Price: \$0.67 (3.4.17)

Shares on Issue: 321,786,348

Market Cap: \$215,596,853

NWH is an Australian company providing diversified services to Australia's resource and infrastructure sectors through its three business divisions, being **NRW Civil and Mining, Action Drill** and **Blast and AES Equipment Solutions**. NWH conducts its operations in WA, NT, QLD and Guinea, West Africa.

Reece Limited (REH)

Price: \$40.80 (3.4.17)

Shares on Issue: 99,600,000

Market Cap: \$4,063,680,000

REH is a supplier of bathroom and plumbing products with over 570 trading outlets throughout Australia and New Zealand. REH's activities include importing, wholesaling, distribution, marketing and retailing. REH operates in Bathroom Life showrooms and caters for more specialised industries through Irrigation, hvac-r and Civil businesses as well Onsite which services commercial plumbers and volume home builders.

Silver Chef Limited (SIV)

Price: \$7.33 (3.4.17)

Shares on Issue: 37,738,587

Market Cap: \$276,623,843

SVH provides equipment funding to small to medium sized businesses in a numerous sectors. The Company operates two segments namely Hospitality and GoGetta. Both divisions offer a tried and tested equipment funding solution through the Rent-Try-Buy and Rent-Grow-Own solutions. Silver Chef's head office is based in Brisbane Australia.

SRG Limited (SRG)

Price: \$1.53 (3.4.17)

Shares on Issue: 64,149,181

Market Cap: \$98,148,247

SRG is a diverse international contractor in Building, Civil, Mining, Products and Services. SRG has offices throughout Australia as well as in the Middle East and Hong Kong.

Service Stream Limited (SSM)

Price: \$1.16 (3.4.17)

Shares on Issue: 365,189,454

Market Cap: \$423,619,767

SSM is a provider of essential network services, including Access, Design, Build, Installation and Maintenance. These services are provided to copper, fibre and wireless telecommunications networks as well as to a range of private and public energy and water entities nationally. The Company has offices in Australian Capital Territory, New South Wales, Queensland, South Australia, Victoria and Western Australia.

3. TRANSPORTATION

The transportation group provides companies with passenger and goods transportation services and related management and maintenance services.

Sydney Airport (SYD)

Price: \$6.70 (3.4.17)

Shares on Issue: 2,249,825,201

Market Cap: 15,073,828,847

BUSINESS SUMMARY:

SYD owns and operates an airport in Sydney, Australia. SYD consists of two main business units which are Aviation (Sydney Airport) and Leasing & Advertising Opportunities.

Sydney Airport (85%): Sydney Airport is an Australia's international gateway serving 34 international airlines, nine domestic and regional carriers and 10 dedicated freight carriers, which fly to a network of 97 destinations (46 international, 23 domestic interstate and 28 regional destinations).

Leasing & Advertising Opportunities: SYD also provides (i) Retail Leasing which available at T1 and T2 for airport shopping environments; (ii) Property Leasing which provides a combination of modern office towers, retail facilities, food outlets, hotels, convention centres and multi storey car parks; and (iii) Advertising Opportunities: SYD offers outdoor sites in the airport precinct, as well as sites within the T1 International and T2 Domestic Terminals. Advertising sites at Sydney Airport are managed on behalf of its subsidiary, Sydney Airport Corporation Limited.

One look at its financial metrics below and you would wonder why anyone would touch this company at all, but if you delve deeper into their financials you begin to realize this company is a lot better than it looks.

As a stapled security the share you buy is one part debt and one part equity which essentially means as an investor you are both lending to and buying the company at the same time. The benefit to Sydney airports is they are able to distribute income to shareholders as "interest" on a loan which is tax deductible and so their profits are "under reported" in their profit and loss. This creates the distorted financial metrics you see in the below table.

One metric you'll note is the payout ratio of 216.78%, calculated by dividing its Dividend by its EPS (31 cents/14 cents). We now know of course the EPS is a distorted figure. The real figure if you delve deeper into their annual report 2016 (and is fully disclosed) is a payout ratio of 100% **fully covered** by the company's Net Operating Receipts which provides a proxy for cash flows available to pay its shareholders (NOR = \$696 million/2237.4 million shares on issue or 31.1 cents per share). The same

can be said in relation to its P/E which is really around 22 x and not 48 x earnings as shown in the below table. So while its standard metrics may look terrible on paper its one of those cases where you must look further into the financial statements, because you'll soon find out this company is instead a high quality asset and is a lot better than most market participants would believe.

Company	Sydney Airports
ASX Code	SYD
Price	\$6.70
Div Yield (unfranked)	4.62%
Franked	100%
DRP	Active
EPS	\$0.14
P/E	47.86x
Payout Ratio	216.78%
Net Gearing	750.80%
Return on Equity	24%
Return On Assets	3%
PEG Ratio	2.2

If you would like to discuss the above companies in further detail please call Tim on
(08) 9363 1700

Happy Investing!

ASX CLOSURE DATES

Good Friday – Friday 14th April

Easter Monday – Monday 17th April

ANZAC Day – Tuesday 25th April

No Trading or Settlement will occur on these days.

DAYLIGHT SAVINGS HAS ENDED

Daylight savings has now ended and won't return until the 1st October 2017.

Accordingly the ASX opens at 8am (AWST) and closes at 2pm (AWST).

Our opening hours have been adjusted from 7:30am to 4:00pm (AWST)

Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5903.83	+142.84	+2.48%
S&P/ASX200	5864.91	+152.90	+2.68%
Dow Jones (US)	20663.22	-149.02	-0.72%
NASDAQ	5911.74	+86.30	+1.48%
S&P500	2362.72	-0.92	-0.04%
FTSE 100 Index	7322.92	+59.48	+0.82%
Nikkei 225 (Japan)	18909.26	-209.73	-1.10%
10-year bond rate (US)	2.38%	-0.01%	-0.36%

RBA releases

**Reserve Bank Board Meeting – Monetary Policy Decision – Held Steady at 1.5%
Minutes of March – 18th April**

ABS releases

**International Trade in Goods and Services (February) - 4th April
Housing Finance (February) - 10th April
Building Approvals (February) - 10th April
Lending Finance (February) – 12th April
Labour Force (March) – 13th April
Sales of New Motor Vehicles (March) – 19th April
Consumer Price Index (March) – 26th April
Producer Price Indexes (March) – 28th April**

Upcoming US Economic Releases

**International Trade – 7th April
FOMC minutes – 5th April
EIA Petroleum Status Report – 5th April
Jobless Claims – 6th April
Employment Situation – 7th April
Producer Price Index – 13th April
Consumer Price Index – 14th April
Retail Sales – 14th April
Housing Starts – 18th April
Industrial Production– 18th April
Philadelphia Business Survey – 20th April
PMI Composite Flash – 21 April
Existing Home Sales – 21st April
Durable Goods Orders – 27th April
International Trade in Goods and Services – 27th April
GDP – 28th April**

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