

Is there still Value in the Market?

20 October 2009

Looking at the relatively high P/E ratios and low yields expected for bank stocks due to report in the next two weeks (see yesterday's Morning Note review) one might wonder if there is still value in the market.

First, as to Bank stocks. We agree with most commentators that for the short term Bank stocks look quite fully priced. The P/E ratios we showed yesterday ranged from 15.7 times (NAB) to 17.3x (ANZ) with WBC between; Yields were 4.2% to 4.7%. But these were consensus expectations for the year that ended on 30 September 2009 – an annus horribilis. P/E is the ratio of Price to Earnings and will improve (become lower) as price falls or earnings improve. Looking ahead to the new year ending September 2010, Bank P/E's are expected to fall slightly, to 15.5x to 15.9x. Yields to inch up to 4.3% to 4.7%. For the next year, FY11 ending 30 September 2011, the recovery from the GFC – global financial crisis – is expected to be substantially complete and estimates for earnings are much improved. Thus FY11 P/E's are estimated in the range of 11.5x to 12.8x; fully franked yields to rise to 5.5% to 5.7%. Attractive indeed for the long-term investor!

We look today at the larger non-bank industrial companies with a market capitalisation on ASX of over \$1billion, an estimated current year P/E below 15.5x and a yield of 5% or more. The criteria select the few that – on these measures – match or exceed the three banks. That is not to say that others are not attractive. Many of our Preferred Stocks may have either a higher P/E or a lower yield or fail on both counts but have other positive attributes for investors, as do others across the market. But these are useful measures of value, especially at a time like this when uncertainties still remain.

The table shows 22 stocks over \$1bn with estimated current year P/E under 15.5x and yield over 5%:

Preferred	ASX Code	Company Name	Share Price	Market Cap	Earnings Per Share			Price Earnings Ratio			Dividend			Dividend Yield			Franking	ROE
					Last	FY1	FY2	Last	FY1	FY2	Last	FY1	FY2	Last	FY1	FY2		
as at 19 October 2009			\$	\$m	cps	cps	cps	x	x	x	cps	cps	cps	%	%	%	%	%
#		<i>Capital Goods</i>																
	MND	Monadelphous	\$13.69	1,088	86.3	88.9	97.7	15.9	15.4	14.0	74.0	77.0	84.0	5.4%	5.6%	6.1%	100%	60.6%
		<i>Consumer Services</i>																
	TAH	Tabcorp	\$7.21	4,310	93.3	90.4	92.2	7.7	8.0	7.8	65.0	60.0	60.0	9.0%	8.3%	8.3%	100%	16.0%
	TTS	Tatts Group	\$2.49	3,170	21.9	22.5	23.4	11.4	11.1	10.6	21.0	21.0	22.0	8.4%	8.4%	8.8%	100%	10.7%
		<i>Food & Staples Retailing</i>																
#	MTS	Metcash	\$4.55	3,500	29.5	32.1	36.2	15.4	14.2	12.6	24.0	23.0	25.0	5.3%	5.1%	5.5%	100%	17.7%
		<i>Food Beverage & Tobacco</i>																
	FGL	Foster's	\$5.50	10,598	37.7	38.9	42.0	14.6	14.1	13.1	27.3	28.0	29.0	5.0%	5.1%	5.3%	100%	19.4%
	GFF	Goodman Fielder	\$1.59	2,100	14.1	14.7	16.0	11.3	10.8	9.9	10.5	11.5	12.5	6.6%	7.2%	7.9%	24%	11.7%
		<i>Health Care Equipment & Services</i>																
	SIP	Sigma Pharma.	\$0.97	1,138	8.8	10.1	10.3	11.0	9.6	9.4	6.7	7.0	7.3	6.9%	7.2%	7.5%	100%	6.7%
		<i>Insurance</i>																
#	QBE	QBE	\$22.71	23,452	205.5	193.1	195.8	11.1	11.8	11.6	126.0	128.0	130.0	5.5%	5.6%	5.7%	20%	16.7%
		<i>Materials - industrial</i>																
#	AMC	Ancor	\$5.45	6,743	42.6	37.8	49.9	12.8	14.4	10.9	34.0	29.0	36.0	6.2%	5.3%	6.6%	0%	11.9%
		<i>Media</i>																
	SEV	Seven Network	\$6.28	1,191	56.5	55.7	56.4	11.1	11.3	11.1	34.0	34.0	34.0	5.4%	5.4%	5.4%	100%	5.6%
		<i>Real Estate</i>																
#	CPA	Commonwealth Property	\$1.00	1,848	7.0	6.6	6.7	14.3	15.2	14.9	8.8	5.3	5.3	8.8%	5.3%	5.3%	0%	5.7%
	DXS	Dexus Property	\$0.84	3,949	9.9	7.3	7.0	8.4	11.4	11.9	7.3	5.1	5.0	8.7%	6.1%	6.0%	0%	7.4%
	GMG	Goodman Group	\$0.66	3,908	15.0	5.7	6.0	4.4	11.6	11.0	8.8	3.4	3.4	13.3%	5.2%	5.2%	0%	11.8%
	IOF	ING Office Fund	\$0.64	1,812	11.6	5.8	5.8	5.5	11.0	11.0	9.7	3.9	3.9	15.2%	6.1%	6.1%	0%	9.9%
	MOF	Macquarie Office	\$0.34	1,418	-18.0	3.8	3.9	-1.9	8.8	8.6	3.8	2.9	2.9	11.3%	8.7%	8.7%	0%	-26.0%
		<i>Retailing</i>																
#	PMV	Premier Investments	\$8.00	1,182	62.4	52.5	56.0	12.8	15.2	14.3	75.0	69.0	66.0	9.4%	8.6%	8.3%	100%	7.2%
	WHS	The Warehouse Group	\$3.56	1,167	22.7	24.9	26.5	15.7	14.3	13.4	24.6	18.7	19.8	6.9%	5.3%	5.6%	93%	27.7%
		<i>Telecommunication Services</i>																
	SGT	Singapore Telecommunication	\$2.48	1,195	21.6	245.0	27.0	11.5	1.0	9.2	12.5	14.5	16.0	5.0%	5.8%	6.5%	0%	18.4%
	TEL	Telecom NZ	\$2.06	3,787	21.1	18.0	17.5	9.8	11.4	11.8	19.3	19.0	19.0	9.4%	9.2%	9.2%	0%	17.7%
#	TLS	Telstra	\$3.12	34,604	32.9	34.2	36.7	9.5	9.1	8.5	28.0	29.5	31.5	9.0%	9.5%	10.1%	100%	32.8%
		<i>Utilities</i>																
#	DUE	DUET Group	\$1.63	1,362	18.7	15.4	15.7	8.7	10.6	10.4	24.1	20.0	20.0	14.8%	12.3%	12.3%	5%	9.2%
	SPN	SP AusNet	\$0.90	2,315	8.2	7.4	8.0	10.9	12.1	11.2	11.5	8.0	8.0	12.8%	8.9%	8.9%	0%	8.0%

Note: Intersuisse Estimates are shown for the last reported year ('Last'), the current year ('FY1') and the following year ('FY2')
The year-end is 30 June except: QBE Dec '08, SIP Jan '09, SGT & SPN Mar '09, MTS Apl '09, PMV & WHS Jul '09
The # in the Preferred column and stocks shown in bold highlight those on our current Intersuisse Preferred Stocks list.

We conclude that there is certainly still Value in the market!
The above table shows a wide selection across sectors, and features eight of our preferred larger stocks. Many smaller are still cheaper!
Discuss with your Intersuisse Adviser the suitability of these or others of our Preferred Stocks for your own investment at this time.

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