AFR Friday 11 September 2015
www.afr.com | The Australian Financial Review

Five household names racing up the ASX

Vanessa Desloires

During the sharemarket rout, investors could be forgiven for losing faith in some of the country's most tightly held stocks.

The slumphas shaved 15 per cent off the S&P/ASX 200 since April and has been led by the banks, which are teetering around a bear market, or a fall of 20 per cent or more from their most recent high.

While it might not be time to give up on the great Australian blue chip just yet, it might be an opportunity to consider small-cap stocks.

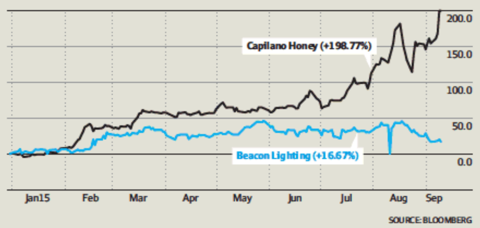
Generally considered a more volatile, and therefore riskier place to put your money, the small-cap space is not limited to speculative stocks.

In fact, while the top 200 fell more than 11 per cent in August, the small-cap index fared better. It was down about 9 per cent.

Here are five household-name small-cap stocks that have also outperformed the market, or achieved better than the average market return, during the rout.

Buzzing

Comparative performance (%)



SOURCE: BLOOMBERG

Capilano Honey

Shares in the pantry staple have raced up from $7 at the start of 2015 to $21.20.

The stock surged in August, after the Queensland-based company said it had bought Australia's largest manuka honey operator for $6 million. Chinese customers value manuka honey highly for its medicinal benefits

Capilano removed its bulk-sized offerings in supermarkets, which created a de-facto price rise and was a key factor in the company's 70 per cent rise in full-year net profit to $7.8 million, UBS' co-portfolio manager Victor Gomes said.

"A lot of Australian farmers might be feeling the pinch from Woolies and Coles, but with significant export demand for your product, particularly when the Australian dollar goes down, the ability for the supermarkets to lever you effectively goes out the window," Mr Gomes said.

Sealink is a well-managed company.
ST Wong, Prime Value Asset Management

ARB Corporation

If someone you know drives a four-wheel-drive, chances are they have an accessory from ARB. The bull-bar maker's share price is up 16 per cent since the start of 2015 to $13.29.

Not content to sell just to the tradie set, it has its sights set on overseas, aiming to boost foreign sales from 25 per cent of revenue to 50 per cent.

The $1 billion company reported a 3.6 per cent rise in net profit to $44.1 million in 2014-15.

"It is a testament to the company. With the resources boom ending you would think the company would have a really tough 18 months, but such is the quality of the brand they've outperformed the market," Mr Wood said.

Beacon Lighting

If you find yourself humming "it has to be Beacon", you're well familiar with the lighting retailer. Shares in the family company have more than doubled since its April 2014 listing.

The company had tapped into the rising demand for LED lighting and had also benefited from the housing construction boom, he said.

SeaLink Travel Group

SeaLink operates the Kangaroo Island ferry and Captain Cook cruises in Sydney.

The stock has risen 28 per cent from $1.95 in January to $2.50.

"Sealink is a well-managed company that is well positioned to leverage its brands, locations and assets as the Australian tourism sector grows with the rising in-bound trend," Prime Value Asset Management joint chief investment officer ST Wong said, adding the falling Australian dollar would give it a boost.

Amaysim

The recently listed mobile provider was the fourth-largest by subscribers, Mr Wong said. Amaysim would benefit from the trends of people bringing their phone to work and eschewing lock-in contracts.

The stock has risen 23 per cent since listing in mid-July, from $1.80 to $2.21.

Copper's strong rally bodes well for markets

Vanessa Desloires

If copper lives up to its reputation as an indicator of turns in the economy, its latest rally could spell an end to the doom and gloom that has been driving markets down lately.

The benchmark three-month London Metal Exchange copper price rose 3.8 per cent overnight on Wednesday to $US5345 a tonne, its highest point in almost a month.

The rally began in late August after the price of the base metal fell to as low as $US4855 a tonne, a level not seen since the global financial crisis, the brunt of which was borne through China's tumbling sharemarket.

This was good news for the global economy, because copper – often referred to as "Dr Copper" – may be showing that the underlying economy was not as bad as many feared, IG chief market strategist Chris Weston said.

"Copper is used not only in Chinese housing but all types of industrial production and is therefore a very good barometer of the health of the global economy," he said.

That could spell the end to global market turmoil, which had been driven by fears over the slowdown in China's economy, and the broader disinflationary effect on other economies. It has even pushed back many economists' expectations that the US Federal Reserve would lift rates in September to December or even 2016.

Mr Weston said copper's rally was spurred on by mining giant Glencore's announcement on Monday that it planned to slash 400,000 tonnes of copper output in its African mines over the next 18 months.

"The perception of a tighter copper market will obviously positively [affect] price," he said.

National Australia Bank economist Amy Li said Glencore's announcement meant a cut of 2 per cent to global copper supply.

Wall Street's overnight surge upon returning to trade after the US Labor Day holiday also boosted support buying in copper, as did Chinese sharemarkets' return to trade after a two-day hiatus following World War II commemorations.

Mr Weston said on a technical basis, copper was experiencing an upwards trend, characterised by higher highs and higher lows in its intraday chart movements.

"But we do need to see a breakthrough of its $US2.45 a pound price to see that momentum continue," he said. On a price-per-pound basis, it was testing highs at $US2.42.

Ms Li said she expected copper's rally to be short-lived.

"We are not that optimistic about China's demand in 2015-16, the market is still well supplied and we have two new mines coming on board," she said.

She pointed to weak manufacturing data from China, which slumped to a three-year low in August.

"It depends on how the data comes out in China and whether other suppliers will take similar actions to Glencore," she said.

Copper is not the only commodity to rally and shrug off the recent market turmoil. The benchmark iron ore with 62 per cent content for delivery to the Chinese port of Qingdao gathered pace overnight to hit $US58.18 a dry metric tonne. It has rallied close to 30 per cent since it fell to a six-year low of $US44.59 in July.

The rally came despite China's trade data on Tuesday showing iron ore imports slid 14 per cent in August, a number that was shrugged off by investors who bought heavily into the big miners, despite iron ore being Australia's number one export and China our biggest importer.

Fonterra forecasts NZ milk drop of 2-3pc

Jared Lynch

The world's biggest milk exporter, Fonterra, is predicting steeper-than-expected falls in production this year as New Zealand dairy farmers slaughter more cows to combat the global milk rout.

The New Zealand dairy giant is forecasting milk production volumes to sag 2 to 3 per cent in 2015-16 compared with the previous year.

But it said that number could slip further as more farmers slaughter cows in an effort to seek a better return from rising beef prices.

"Market data from several independent sources show that cows are being culled at higher rates than last season," said Fonterra corporate affairs director Miles Hurrell.

"However, it is still early in the season, and any forecast at this point is very dependent on weather conditions, which have so far been poor for production."

Australian milk processors have been waiting to see the response from Fonterra and New Zealand dairy farmers to a near halving of global prices for key dairy commodities.

PAC Partners director and senior industrials analyst Paul Jensz said the forecast 2-3 per cent drop in production was "a good start" to helping stem the global oversupply of dairy commodities. But he expected further drops in coming months, despite the last two global dairy trade (GDT) auctions delivering price rises of 10.9 per cent and 14.8 per cent respectively to an average of $US2226 ($3174) a tonne.

Global prices for dairy commodities have nearly halved.

"We have had two rises in the GDT after 10 falls so we are not back to ... sustained wholemilk prices of around $US3500 a tonne," Mr Jensz said.

"It needs to be a bit higher than that to get new production going."

Dairy Australia analyst John Droppert said similar cuts in production were needed from Europe and the US, the world's second and third biggest dairy exporters. Demand has waned for key dairy commodities after Russia slapped trade sanctions on most Western countries over tensions in Ukraine, and the world's biggest buyer China stepped out of the market to run down months of inventory it had stockpiled.

"At the moment demand is still sluggish," Mr Droppert said.

"A 2-3 per cent drop [in production] from New Zealand on its own isn't going to get commodity prices back [to sustainable levels] but it is a departure from the continuous growth we have seen from New Zealand over the past few years."

Rabobank dairy analyst Michael Harvey said Fonterra's forecast was conservative and the cuts to production this season could be "more severe".

"It comes down to the fact that the milk prices farmers are being paid in New Zealand are well below the cost of production. So they have to make adjustments on farm to cope with that and cut out cost," Mr Harvey said.

"That's why you are going to see a drop in the herd, and we have already seen slaughter rates in New Zealand quite high. That's keeping in mind that beef prices are quite high so that gives farmers an added incentive to cull cows".

Cromwell investors edgy after Redefine share sale

Taking stock

Mercedes Ruehl and Robert Harley

Cromwell Property Group may have beaten guidance during last month's company reporting season, but it has lagged the top property stocks on the S&P/ASX 200 over the past month.

On Thursday securities in the property owner and fund manager fell back below $1 to 99¢, mirroring a fall by the broader equities market. Over the year to date Cromwell securities are down more than 3 per cent and over the past month it is down more than 8 per cent.

The recent weakness may have something to do with a reshuffle of ownership by Cromwell's largest shareholder, the South African-based Redefine.

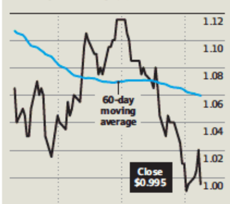
Cromwell this week reassured investors that the transfer of shares had no bearing on Redefine's future commitments to Cromwell in Australia. One of Redefine's other companies picked up the majority of the stake.

More broadly, Cromwell may have been affected by its exposure to the office sector and by a "cash drag" from more than $200 million on the balance sheet that the group will not invest till it sees "superior risk-adjusted returns through the cycle".

CLSA downgraded its recommendation on the stock last week to underperform, largely due to leasing costs and high incentives in the office sector. The broker has a 12-month price target of $1.10. "Leasing costs and incentives increased more than three times to $37.7 million in FY15, reflecting the challenges in the market," the broker said.

Cromwell Property

Share price daily ($)



52wk high	$1.20	Fwd EPS	$0.09
52wk low	$0.94	Fwd P/E	11.3x
1yr return	6.8%	Div yield	7.9%

Credit Suisse maintained its underperform recommendation following Cromwell's result, saying the stock is now "fully priced". Macquarie also kept its underperform rating.

Cromwell described its outlook as conservative but the group expects earnings to rise by not less than 7 per cent, and distributions to rise to not less than 8.10¢ per security, which, on Thursday's close, shows a prospective yield of 8 per cent.

AFRGA1 A023