

Discovering hidden value

The only problem with a booming sharemarket is that everything costs too much. Good stocks that are also relatively cheap are impossible to find, leaving investors to either buy in at inflated prices, or sit out the boom altogether. Luckily, recent volatility in Australian shares is spawning hope that value is finally back. We asked the experts for their best bet.

<p>ABC LEARNING</p>	<p>AUSTRALIAN INFRASTRUCTURE FUND</p>	<p>BHP BILLITON</p>	<p>COMMONWEALTH BANK</p>	<p>WESTPAC BANKING CORP</p>
				
<p>GREG TOLPIGIN MANAGING DIRECTOR GT FINANCIAL</p>	<p>DAVID WHITE CHIEF EXECUTIVE PRESCOTT SECURITIES</p>	<p>LEANNE PAN PORTFOLIO MANAGER PRIME VALUE ASSET MANAGEMENT</p>	<p>SCOTT MARSHALL HEAD OF INDUSTRIAL RESEARCH SHAW STOCKBROKING</p>	<p>KARL MORRIS CHIEF EXECUTIVE ORD MINNETT</p>

BEST VALUE BET

Our favoured value stock is ABC Learning Centres (ABS). It has retreated from highs of \$8.50 to about \$6.20 as the market has discounted its US expansion strategy. We believe this is unfounded. The fact the company trades on a price-earnings multiple of 15 times 2007 forecasts and 12 times 2008 forecasts (excluding the US potential) reflects enormous value.

IS VALUE BACK?

Finding value in the market is based on two things: future economic growth and the length of time commodity prices remain at current levels. If you think both remain "stronger for longer" as we do, it is not difficult to find value in the market. However, fully valued sectors at risk of downside are building materials, retailers, domestic media and insurance.

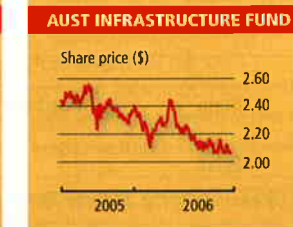


BEST VALUE BET

The Australian Infrastructure Fund (AIX) is good value, trading below its net tangible assets after the recent market sell-off of infrastructure due to expectations of rising interest rates. It has interests in most major Australian, and several major European, airports, along with holdings in Australian seaports, tollways and light rail.

IS VALUE BACK?

There is still value, you just need to look harder and be patient. Price-earnings ratios and dividend yields are little changed from early 2003 despite the market almost doubling in value. Profits look likely to grow substantially in 2006-07 although it will be healthcare, financials, constructors and developers that are likely to do best.



BEST VALUE BET

Despite the tightening stance by central banks around the world, global growth is likely to remain strong, particularly in China and Japan. This augurs well for BHP Billiton (BHP), which has benefited from massive rises in commodity prices. It will further benefit from acquisitions and organic production growth. It also has strong cash flow and a strong balance sheet.

IS VALUE BACK?

In times of interest rate uncertainty and less expansive global liquidity, stock picking to find value becomes even more important. Also, we notice that some "growth" stocks have been sold down during the past few months. Thus, we remain selective in our exposure and we seek out good buying opportunities where there has been indiscriminate overselling.



BEST VALUE BET

The banking sector fell with the market correction and we believe this created a buying opportunity. The earnings outlook for Commonwealth Bank (CBA) is relatively strong with business investment, while declining, still strong for the next year. CBA is well-positioned to take advantage, and any housing-sector recovery will add to this trend.

IS VALUE BACK?

There has been a lot of talk of volatility. This partly reflects the market adjusting for a lower economic growth outlook and, hence, a more defensive bias with consumer staples, property trusts and other sectors doing well. Volatility does not impact our ability to find value. More importantly, lower prices have led to more stocks becoming of value.



BEST VALUE BET

I believe Westpac (WBC) offers value. The shares are at a discount to the weighted average forward market price-earnings ratio, it has a grossed-up yield greater than the bond yield and EPS growth of about 9 per cent. Revenue growth has exceeded expense growth and return on equity has been above 20 per cent. We expect this trend to continue.

IS VALUE BACK?

It is difficult to find true value, more so in a bull market. Expectations are high and confidence runs high. That said, the inevitable corrections create opportunities to buy value at attractive entry prices, provided you have done your homework. Volatility, while enhancing the buying opportunity, tends to mask the underlying fundamentals.

