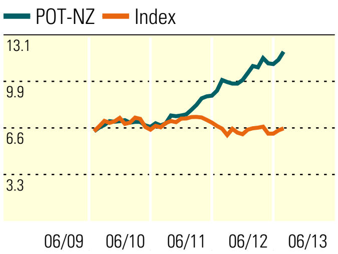
Port of Tauranga Limited POT-NZ

Snapshot

Business Risk	Medium
Price Risk	Medium
Moat Rating	Wide
Fair Value $	11.00
Market Cap $Mil	1,603
Morningstar Style Box	
Last Price $	11.95
52 Week High/Low $	12.25/9.19
Shares Issued Mil	134
Sector	GICS - Transportation

Price vs. Market



	06/11	06/12	06/13e	06/14e
NPAT ($Mil)	58.4	74.4	82.3	87.3
EPS ¢	43.6	55.5	61.4	65.2
EPS Chg %	19.0	27.4	10.6	6.1
DPS ¢	31.0	31.0	35.0	36.5
Franked %	100.0	100.0	100.0	100.0
Div Yld %	4.1	3.0	2.9	3.1
P/E x	17.5	18.3	19.5	18.3

Source: Morningstar analyst estimates.

Business Description

The Port of Tauranga Limited (POT-NZ), situated in the Bay of Plenty on the east coast of New Zealand, is a provider of wharf and cargo facilities. Its principal activities also include the leasing of land and buildings, container terminal ownership and a link to Auckland (MetroPort).

FY12 result: POT gains at rivals expense, profits exceed expectations

Analyst Recommendation: **Reduce** 29 August 2012

▼**11.95** Last Price

Buy	Accumulate	Hold	**Reduce**	Sell
$	7.70	9.90	12.12	14.84

Investment Rating

POT is the largest port in NZ by trade volumes and one of the most productive and efficient ports in Australasia. The firm has a very strong balance sheet and a sizeable land bank. It is therefore well placed to grow its container and bulk businesses. However a high NZD and an uncertain global economic outlook are potential risks that could derail growth. At the right price the stock will suit long-term investors with a modest appetite for risk.

Event

► Port of Tauranga (POT) delivered stellar full-year result underpinned by 20% growth in trade volumes. Underlying group NPAT was up 28.5% to NZD 74.4 million, ahead of our forecast of NZD 71.3 million.

► Container volumes grew significantly reflecting the commencement of six new shipping services during the year and market share gains from rival Ports of Auckland (POA).

► Group EBITDA increased 19% but margins declined 170 basis points to 57.1% due to an adverse mix shift in favour of container trade.

► In light of the solid growth in underlying earnings, the company's dividend increased 25% to NZ39cps.

Impact

► As a result of the strong full year performance we are lifting our FY13 NPAT forecast to NZD 82 million from NZD 76.2 million, which is predicated on 5.7% growth in trade volumes to 19.5 million tons.

► Our long term view on the company hasn't changed. POT's high productivity levels, low cost structure, sizeable land bank, excellent rail connectivity to Auckland and a non unionized work force gives it a significant competitive advantage.

► POT reaffirmed the need to spend on growth projects to support volume growth. In our view, the stupendous increase in volumes seen by the company and the possibility of significant growth in container trade warrants this investment.

Recommendation Impact

Trading at a P/E of 19.9x and EV/EBITDA of 13x we think the shares are modestly overvalued.

Port of Tauranga Limited POT-NZ

Nachi Moghe
Morningstar Analyst

Analyst Note

Port of Tauranga (POT) delivered stellar full-year result underpinned by 20% growth in trade volumes. Underlying group NPAT was up 28.5% to NZD 74.4 million, ahead of our forecast of NZD 71.3 million. The company's core port business achieved an impressive 32% NPAT growth to NZD 60.2 million. Group EBITDA increased 19% but margins declined 170 basis points to 57.1% due to an adverse mix shift in favour of container trade. Container volumes grew significantly reflecting the commencement of six new shipping services during the year and market share gains from rival Ports of Auckland (POA). In light of the strong full year performance we are lifting our FY13 NPAT forecast to NZD 82 million from NZD 76.2 million, which is predicated on 5.7% growth in trade volumes to 19.5 million tons. This coupled with the roll forward of our model causes our valuation to increase to NZD 11.00 from NZD 9.60 per share. Trading at a P/E of 19.9x and EV/EBITDA of 13x we think the shares are modestly overvalued.

Our long term view on the company hasn't changed. POT's high productivity levels, low cost structure, sizeable land bank, excellent rail connectivity to Auckland and a non unionized work force gives it a significant competitive advantage. As a result, we envisage POT to gain market share from POA overtime. The ongoing industrial action at POA is only accelerating this trend. Shipping lines are also increasingly consolidating their services and are looking to call at fewer ports in New Zealand. We believe POT will be the biggest beneficiary of that trend. The container business in particular is likely to benefit significantly. They now represent half of the total trade and we estimate volumes to rise by double-digit in the medium term. The logs business will be influenced by export growth, particularly to China. Volumes have held up well in the first eight weeks of the current fiscal year but the reported slowdown in China is a cause for concern.

POT reaffirmed the need to spend on growth projects to support volume growth. It estimates spending NZD 180 million over the next three years to expand the port infrastructure. The vast majority of the capex is uncommitted and will depend on market signals. In our view, the stupendous increase in volumes seen by the company and the possibility of significant growth in container trade warrants this investment. However, in the near to medium term we expect free cash flow and returns to decline. We also expect debt to rise from NZD 195 million to NZD 240 million in 2015, although gearing will still be within manageable levels.

Total trade volumes increased by a whopping 20% to 18.5 million tons in FY12. We estimate containerized trade grew 38% to nearly 9 million tons and non containerized business grew 4% to 9.5 million tons. Trans-shipments grew 88% to 2.5 million tons and were the principal driver of growth in container traffic. The increasing trend towards trans-shipments highlights POT's role as New Zealand's leading hub port.

The addition of seven new shipping services in FY12 and the strike action at Auckland led to container volumes surging 35% to 796,024 TEU's (Twenty foot equivalent unit). The new services contributed over 200,000 TEU's to the volume handled and we estimate around 107,500 TEU's shifted to POT from POA. This includes 42,500 TEU's from Maersk's Southern Star service, which shifted to POT in Dec 2011. We think POT gained around NZD 25 million in revenues from POA in FY12 and we expect that to increase to around NZD 35 million in FY13 reflecting the full impact of the Southern Star's service. Net-net we expect container volumes to rise to 850,000 TEU's in FY13, representing a gain of 7% on FY12.

The log business continues to do exceptionally well, registering export growth of 11% to 4.9 million tons. We were expecting a slowdown in the second-half which did not materialize. Given the strong performance in FY12 we think management's medium term target of 6 million tons is achievable. Dairy also had an outstanding year with volumes increasing 126% to 1.33 million tons. This essentially reflects favourable dairy production and Fonterra's decision to consolidate freight operations at the port. Overall exports increased 20% to 12.3 million tons.

Import volumes were up 19.2% to 6.2 million tons mainly driven by containerized cargo. Imports of oil products, bulk liquids, fertilizers and animal food supplements remained steady.

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Nachi Moghe
Morningstar Analyst

Other divisions achieved NPAT growth of 6.6% to NZD 11.8 million. Northport achieved 21% profit growth on the back of increased log throughput. C3's NPAT was a tad lower than the previous year because of a poor first-half. Profits grew by 6.4% in the second-half. Management expects Northport and C3 profits to be modestly higher this year.

Port of Tauranga Limited POT-NZ

Efficient operator with a fine track record

Bulls Points

- The company will spend around NZD 150m over the next three years well in excess of depreciation in developing its infrastructure to handle higher cargo. We expect the company to earn a favorable return on this investment
- A favourable economic environment and burgeoning world trade could increase exports of key commodities through the port.
- The consolidation of cargo at fewer ports could propel container volumes as the port increasingly functions as a hub for cargo in New Zealand.

Bears Points

- Cash flows will likely remain constrained as capital expenditure is slated to increase dramatically over the next three years. Arguably this could put a lid on dividend growth.
- A significant slowdown in China could lead to lower forestry and log exports which in turn could dramatically impact trade volumes and hurt associate earnings because of their leverage to forestry trade.
- Loss of key management personnel who have been instrumental in the success of the company could be a setback.

Key Valuation Assumptions

Cost of Equity %	10.0
Weighted Avg Cost of Capital %	8.8
Long Run Tax Rate %	25.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	27.0
Perpetuity Year	11.0

Thesis Last Updated: 29 Aug 2012

Port of Tauranga is the largest port in New Zealand handling 78% more international cargo than its nearest competitor. This reflects the company's massive scale, high productivity and a sizeable land bank which gives importers and exporters enough room to store cargo. It has been voted as the most efficient container port in Australasia and ranked as achieving upper decile crane productivity globally by the Ministry of Transport and the Australian Productivity Commission. Given these attributes we think the firm deserves a wide moat. In the short term revenues will be influenced by international trade which can bounce around, but in the long term the company is well placed to grow its container and bulk businesses. Port of Tauranga competes with Ports of Auckland for container volumes in the North Island. Other smaller ports generally tend to act as feeder ports.

Operating margins for the company have improved over the years thanks to cost efficiencies and strong volumes particularly in the bulk business. The firm's margins of 47% are well ahead of Ports of Auckland's margins of 33%. This is due to the company's lower cost structure and a higher mix of bulk revenues compared to Ports of Auckland which has a higher proportion of revenues coming from containers. The bulk business does not face pricing pressure given the company dominates the log and forestry trade in the North Island. The container business on the other hand faces some pricing pressure from time to time as the two ports vie for market share.

The trend towards port rationalization in New Zealand is favourable for the company. The forecast of larger international ships calling at fewer ports is fast becoming a reality. Other shipping lines will introduce larger ships in the coming year, and we expect international lines and shippers will make further use of rail and coastal shipping to consolidate cargo at hub ports. Consequently we expect the emergence of two hub ports servicing the North Island and the South Island of New Zealand with the infrastructure to handle the majority of container cargoes on large vessels, with substantial efficiencies for exporters and importers.

Notwithstanding recessionary conditions the firm has seen a respectable increase in its earnings and profitability. We think this boils down to good execution, trade diversification and cost efficiencies. The forestry sector in particular is seeing good demand from China and India and this is slated to continue for some time. In addition containers will see solid growth in the medium term through increased trans-shipment volumes.

Valuation Last Updated: 03 Apr 2012

We are increasing our fair value estimate for Ports of Tauranga to NZD 9.60 per share from NZD 8.65 per share. This implies forward price/earnings of 18x, enterprise value/EBITDA of 11.6x, and a free cash flow yield of 3.3%. The increase in fair value is predicated on stronger growth in the company's container business as it continues to take market share away from rival Ports of Auckland (POAL). Consequently we continue to expect double-digit growth in containerised cargo as the port increasingly becomes a hub for major shipping lines. At the current rate it will not t be long before POT overtakes POAL to become the largest container port in New Zealand.

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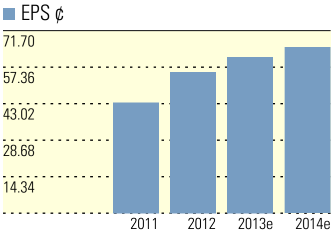
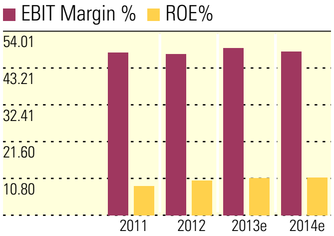
EPS



EBIT Margin vs. ROE



Risk Last Updated: 29 Aug 2012

Port of Tauranga is vulnerable to a slowdown in international trade or a substantial weakening in domestic demand resulting in lower imports. Export demand for logs and forestry products have been buoyed by solid Asian demand. Consequently a slowdown in that part of the world will have a material impact on export trade. The consolidation of large shipping lines is a threat to the bargaining power of port companies in general. Pricing on the container front is a risk but we see this as more of a short-term phenomenon and one that will continue to surface from time to time. In the end, the company and Ports of Auckland are the only two major hub ports in New Zealand so shipping companies really don´t have much of a choice. Ports of Auckland has a considerably weaker balance sheet and operates at much lower margin than Port of Tauranga. Consequently, it cannot afford to engage in a price war for a protracted time period. Mounting wage inflation is also a risk to earnings although we think other port companies are more susceptible to wage pressures because of union issues. Port of Tauranga does not have a unionized work force which is an advantage.

Financial Overview

Growth

We expect revenue growth excluding acquisitions to be around 8.9% annually over the next five years. We continue to expect double-digit growth in containerised cargo as the port increasingly becomes a hub for major shipping lines. At the current rate it will not t be long before POT overtakes POAL to become the largest container port in New Zealand

Profitability

Operating margins are likely to hover between 48% and 49% driven in part by cost efficiencies and a relatively better pricing environment for containers compared to the last few years. This will be somewhat offset by an adverse shift in revenue mix in favour of containerised cargo.

Financial Health

Port of Tauranga is in sound financial health. Total debt/capital is 22% and EBITDA covers interest 10 times. The strong balance sheet gives the firm the ability to fund capital projects using internal accruals and debt rather than resort to equity issuance. It is currently embarking on a massive capital expenditure program to support growth. We forecast debt to rise slightly as a result but gearing should remain steady.

Strategy Analysis Last Updated: 15 Sep 2011

Larger ports in NZ including POT are thinking about how best to accommodate larger ships when they ultimately start calling here. It is conceivable that within two to three years 5000-7,000 TEU container ships might start arriving at NZ ports because they are more cost effective to run. POT is preparing itself for this eventuality. It has lodged resource consent applications to be able to widen and dredge its harbor channels and sitting basins to provide for 14.5m draught at all tides. Once these resource consents are secured dredging could be initiated in a timely manner as and when required by market demand. POT reckons that the costs required to cater for larger ships are lower than other ports. We understand that this might involve a total capital expenditure of roughly $30m. It is also likely spend another $80-100m over the next 3 year on extending the container terminal in order to support volume growth. The company expects decent payback from these projects.

General Financials

Financials

Per Share	06/10	06/11	06/12	06/13	06/14	06/15
	Historical			Forecast		
Sales ¢	110.5	138.3	168.8	183.5	198.2	212.0
Adjusted Earnings ¢	36.6	43.6	55.5	61.4	65.2	70.2
Free Cash Flow ¢	41.2	36.7	34.6	26.6	38.1	54.7
Net Tangible Assets ¢	485.1	509.6	535.1	564.4	580.8	598.1
Book Value ¢	498.9	522.6	547.8	577.1	593.4	610.8
Dividends ¢	29.0	31.0	31.0	35.0	36.5	38.3
Franking %	100.0	100.0	100.0	100.0	100.0	100.0

Growth %	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	3.1	25.2	22.0	8.7	8.0	7.0
EBITDA	-14.4	55.5	17.4	12.5	8.2	7.0
Pre-Tax Profit	-13.1	43.8	24.6	13.0	6.1	7.7
EPS	8.5	19.0	27.4	10.6	6.1	7.7
DPS	7.4	6.9	0.0	12.9	4.3	5.0
Free Cash Flow per share	42.3	-10.9	-5.9	-22.9	42.9	43.8

Profit & Loss ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Sales Revenue	148.1	185.4	226.2	245.9	265.5	284.1
EBITDA	68.2	106.0	124.4	139.9	151.4	162.0
Depreciation	13.4	16.0	16.2	19.2	23.9	25.6
Amortisation	0.9	1.1	2.2	0.0	0.0	0.0
EBIT	53.9	88.5	107.0	120.7	127.5	136.4
Interest Expense	12.4	14.2	13.8	15.0	15.0	15.0
Interest Income	12.7	3.6	3.9	4.0	4.0	4.0
Profit Before Tax	54.2	77.9	97.1	109.7	116.5	125.4
Tax	16.2	19.5	23.8	27.4	29.1	31.3
Reported NPAT	38.0	58.4	73.3	82.3	87.3	94.0
Non-Recurring Items After Tax	-11.0	0.0	-1.1	0.0	0.0	0.0
Adjusted NPAT	**49.0**	**58.4**	**74.4**	**82.3**	**87.3**	**94.0**
Free Cash Flow	55.2	49.2	46.3	35.7	51.0	73.3
Effective Tax Rate %	29.8	25.1	24.5	25.0	25.0	25.0

Cash Flow ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
Receipts from Customers	148.0	183.1	218.6	239.0	262.3	281.0
Payments to Suppliers	-63.6	-79.3	-96.3	-114.6	-113.3	-121.3
Other Operating Cashflow	-28.3	-42.0	-47.8	-37.0	-40.2	-42.4
Net Operating Cashflow	**56.1**	**61.8**	**74.5**	**87.5**	**108.8**	**117.3**
Capex	-9.5	-22.2	-39.1	-60.0	-66.0	-52.2
Acquisitions & Investments	-11.3	0.0	0.0	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	0.2	0.2	0.0	0.0	0.0
Other Investing Cashflow	10.7	12.3	8.0	0.0	0.0	0.0
Net Investing Cashflow	**-10.1**	**-9.7**	**-30.9**	**-60.0**	**-66.0**	**-52.2**
Proceeds from Issues	0.1	0.0	0.0	0.0	0.0	0.0
Proceeds from Borrowings	-11.7	-1.0	-2.2	15.4	22.7	5.6
Dividends Paid	-36.2	-40.2	-44.3	-42.9	-65.5	-70.7
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Cashflow	**-47.8**	**-41.2**	**-46.5**	**-27.5**	**-42.8**	**-65.1**
Net Increase Cash	-1.9	10.9	-2.8	0.0	0.0	0.0
Cash at Beginning	3.3	1.4	12.3	9.2	9.2	9.2
Exchange Rate Adjustment	0.0	0.0	-0.2	0.0	0.0	0.0
Cash at End	1.4	12.3	9.2	9.2	9.2	9.2

General Financials

Financials

Balance Sheet ($Mil)	06/10	06/11	06/12	06/13	06/14	06/15
	Historical			Forecast		
Cash & Equivalents	1.4	12.3	9.2	9.2	9.2	9.2
Accounts Receivable	23.7	26.4	34.3	41.1	44.4	47.5
Inventory	0.2	0.4	0.5	0.5	0.6	0.6
Other Short-Term Operating Assets	0.3	0.3	0.0	0.0	0.0	0.0
Total Current Assets	25.6	39.3	44.0	50.8	54.2	57.3
Property Plant & Equipment, Net	844.8	852.4	889.0	929.9	972.0	998.6
Goodwill, Net	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangibles	18.6	17.7	16.9	16.9	16.9	16.9
Other Long-Term Operating Assets	27.7	25.0	21.9	21.9	21.9	21.9
Deferred Tax Assets	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Non-Operating Assets	39.7	56.3	62.0	62.0	62.0	62.0
Total Assets	**956.5**	**990.7**	**1,033.9**	**1,081.5**	**1,127.0**	**1,156.7**
Accounts Payable	12.5	14.8	19.8	11.1	12.0	12.8
Short-Term Debt	0.8	0.5	1.0	0.0	0.0	0.0
Other Short-Term Operating Liabilities	9.1	13.4	14.4	14.4	14.4	14.4
Total Current Liabilities	22.4	28.8	35.1	25.5	26.3	27.2
Total Long-Term Debt	202.1	197.8	195.1	211.5	234.2	239.9
Long-Term Operating Liabilities	9.1	5.5	3.5	3.5	3.5	3.5
Deferred Tax Liabilities	49.3	46.7	45.5	47.0	47.0	47.0
Long-Term Non-Operating Liabilities	4.9	11.4	20.8	20.8	20.8	20.8
Total Liabilities	**287.8**	**290.2**	**300.0**	**308.3**	**331.9**	**338.4**
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Total Equity	**668.5**	**700.3**	**733.9**	**773.3**	**795.1**	**818.4**

Profitability %	06/10	06/11	06/12	06/13	06/14	06/15
EBITDA Margin	46.0	57.2	55.0	56.9	57.0	57.0
EBIT Margin	36.4	47.8	47.3	49.1	48.0	48.0
Net Profit Margin	31.8	31.6	32.5	33.5	32.9	33.1
Free Cash Flow Margin	37.3	26.5	20.5	14.5	19.2	25.8
Return on Equity	5.8	8.5	10.2	10.9	11.1	11.6
Return on Assets	4.1	6.0	7.2	7.8	7.9	8.2
Return on Invested Capital(w/Goodwill)	6.1	7.9	9.0	10.6	10.1	10.2
ROIC (w/Goodwill) Less WACC	-2.7	-0.8	0.2	1.8	1.4	1.4

Leverage & Liquidity	06/10	06/11	06/12	06/13	06/14	06/15
Net Debt to Capital %	23.1	20.7	20.1	20.5	21.8	21.8
Net Debt/(Net Debt + Equity) %	23.2	21.0	20.3	20.7	22.0	22.0
Net Debt/Equity %	30.2	26.6	25.4	26.2	28.3	28.2
Net Debt/EBITDA x	3.0	1.8	1.5	1.4	1.5	1.4
EBIT/Net Interest Expense x	-205.9	8.3	10.8	11.0	11.6	12.4
Current Ratio (Current Assets/Current Liabilities) x	1.1	1.4	1.3	2.0	2.1	2.1
Dividend Payout Ratio %	79.3	71.2	55.9	57.0	56.0	54.6
Net Cash Per Share ¢	-150.4	-138.9	-139.4	-150.9	-167.9	-172.1

Valuation	06/10	06/11	06/12	06/13	06/14	06/15
Price/Earnings x	18.7	17.5	18.3	19.5	18.3	17.0
PEG Ratio x	2.2	0.9	0.7	1.8	3.0	2.2
EV/EBITDA x	16.4	11.4	12.5	12.8	11.8	11.0
EV/EBIT x	20.7	13.6	14.5	14.8	14.0	13.1
Free Cash Flow Yield %	6.0	4.8	3.4	2.2	3.2	4.6
Dividend Yield %	4.2	4.1	3.0	2.9	3.1	3.2
Price/(OCF per share) x	16.3	16.5	18.3	18.3	14.7	13.7
Price/(FCF per share) x	16.6	20.7	29.5	44.8	31.4	21.8
Price/Sales x	6.2	5.5	6.0	6.5	6.0	5.6
Price/NTA x	1.4	1.5	1.9	2.1	2.1	2.0
Price/Book x	1.4	1.5	1.9	2.1	2.0	2.0

Disclosure and Research Methodology

We seek undervalued stocks with a medium to long-term investment time horizon. Companies that make the best investments tend to be those able to grow earnings per share year after year and which are able to grow at rates above the average of the market. Earnings growth supports a solid and growing dividend stream which is the essence of shareholder return.

In searching for the best businesses in the market, we want to see an ability to turn revenue into profits and a record of strong returns to equity. The ability to generate strong free cash flow is critical as this is where the funds come from to pay dividends or to invest in new growth areas. The greatest free cash flow generators will have strong margins, good controls over working capital and limited requirement for capital expenditure. The best businesses will also have robust balance sheets including a not onerous level of debt. We believe in strong, experienced and disciplined management.

Recommendations

Our qualitative recommendations are simple and easy to understand:

- Buy: Substantially undervalued
- Accumulate: Modestly undervalued
- Hold: Appropriately priced, neither buy nor sell
- Reduce: Sell part holding
- Sell: Sell all holdings now
- Avoid: Not investment grade

Economic Moats

The pursuit of high quality businesses is central to our investment philosophy. These offer the greatest gains to the long term investor, so long as they are bought at a reasonable price. The concept of economic moats is valuable in assessing the quality of a business, with the phrase popularised by Warren Buffett and Charlie Munger. Just as wide moats protected castles from invaders in medieval times, businesses with wide economic moats have strong defences against their profits being competed away.

We ascribe a moat rating to each stock researched: Wide, Narrow or None.

The moat is the competitive advantage that one company has over other companies in the same industry. Wide moat firms have unique skills or assets, allowing them to stay ahead of the competition and earn above-average profits for many years. Returns on their invested capital will exceed the cost of that capital. Without a moat, highly profitable firms can have their profits competed away. Other companies will see how attractive the market is and try to move in to reap some of the rewards themselves.

Sources of economic moats include innovation skills or first mover advantages, a superior cost position, the ability to provide a range of products to suit the needs of a variety of markets, high switching costs or locking out of competitors.

The moat rating is just one of the ingredients used in determining whether a company is undervalued, though it is obviously an important one. We are not saying that no-moat companies should be avoided. Simply, the very best long term investments are in wide moat firms bought when they are undervalued.

Intrinsic Value

Intrinsic Value (otherwise known as Fair or Underlying Value) is the analyst's interpretation of what the stock is worth today. The stock is considered to be undervalued when the quoted price is below this point or overvalued where the price is above it.

Whether to invest in a stock will depend on consideration of the prospective return and the risk undertaken. Prospective return includes both share price moves and dividend yield. Our analysts incorporate the stock's risk in their intrinsic value. Other things being equal, lower risk stocks will have greater intrinsic value than higher risk ones. A stock becomes a buy when the quoted share price is at a discount to intrinsic value that provides a sufficient prospective return.

Business Risk

Business risk encompasses all operational risk and financial risk. Companies with low business risk have the most reliable earnings streams. A change in business conditions may reduce earnings predictability and therefore increase risk. Examples are market entry of a new competitor, unfavourable shifts in the economy, changes in key management personnel, major investment in an uncertain new venture or acquisition, and increased interest burden caused by higher debt levels or raised interest rates.

Pricing Risk

Pricing risk reflects the premium or discount implied in the current price of the shares. Many growth stocks trade on high earnings multiples giving them high pricing risk though they may have low business risk. Investors should consider their risk tolerance before investing in the share market. Many investors will decide to have only low risk stocks in their portfolio though others will accept higher risk levels in order to pursue higher returns.

Declaration

Declaration of personal shareholdings, disclosure list.

These positions can change at any time and are not additional recommendations. AAO, ABC, ACG, ACL, ACR, AFI, AGK, AGS, AGX, AKF, ALL, ALS, AMP, ANO, ANP, ANZ, APA, APN, ARD, ARG, ASB, ASZ, ATI, AVX, BEN, BFG, BHP, BKI, BKN, BLY, BND, BNO, BOL, BOQ, BSL, BTU, BWP, BXB, CAB, CBA, CCL, CDD, CGS, CIF, CND, COF, COH, CPA, CRK, CRZ, CSL, CSS, CTN, DOW, DTE, DUE, EGP, EPX, EQT, ERA, ESV, EVZ, FMG, FXJ, GBG, GFF, GMG, GPT, GWA, HIL, HSN, IAG, IFL, IGR, IIN, ILU, IPD, JMB, KAR, KCN, KEY, KMD, LEG, LEI, LLC, MBN, MCR, MFF, MIO, MPO, MQG, MSB, MTS, MUN, MYR, NAB, NEU, NHC, NMS, NUF, NUP, NVT, NWS, OSH, PBG, PBT, PGM, PMV, PNR, PPT, PRG, PRY, PTS, QBE, QFX, QUB, RCR, REX, RFE, RHC, RHG, RIO, RKN, RQL, SAKHA, SEK, SFW, SGP, SGT, SHV, SMX, SOL, SRH, SRX, STS, SUN, SVW, SWM, TAH, TCL, TEN, TLS, TOL, TPM, TRF, TRS, TSE, UGL, UXC, WAL, WAM, WBB, WBC, WCB, WDC, WES, WHC, WHG, WOW, WPL, ZGL.