



# Mediaportal Report

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► **HOT STOCKS**

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# HOT STOCKS

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## BUY

### ELK Petroleum (ELK) \$0.245

ELK provides investors with a cheap entry point into substantial near-term production underpinned by two high-quality enhanced oil recovery projects. ELK's discount to our valuation is mainly due to the market's lack of appreciation for EOR, which presents an attractive buying opportunity. We have initiated on ELK with a share price target of \$0.47.

## SPEC BUY

### Jacka Resources (JKA) \$0.15

A number of material catalysts are nearing for JKA in the coming months, including the drilling of the Hammamet West-3 (HW-3) appraisal well (111mmbbls oil P50 contingent resource, 17mmbbls net to JKA) and a project update on JKA's Aje development, offshore Nigeria. Success at HW-3 would be company-making, adding \$0.40/share unrisks to our valuation. Our share price target is \$0.48.

## SPEC BUY

### Sth American Ferro Metals (SFZ) \$0.13

SFZ holds a unique position as the only ASX listed pure-play iron ore producer in Brazil. The company owns 100 per cent of the Ponto Verde iron ore mine, located next to Vale in the heart of the Iron Ore Quadrilateral in Minas Gerais state. Ponto Verde is close to established mining operations, pig iron and steel plants and transport infrastructure. SFZ is looking to expand Ponto Verde to a capacity of 8mtpa from the current 1.5mtpa.

## BUY

### Wesfarmers (WES) \$34.26

WES's recent result showed a high-quality profit increase of 11 per cent, which was ahead of expectations. K mart delivered a standout turn-around performance on stronger margins and Coles was strong with margin momentum. Cash flow was higher, coupled with a strong balance sheet and earnings looking positioned to improve. The dividend is attractive and set to approach about 6 per cent by 2012-13.

## BUY

### AMP (AMP) \$4.33

AMP appears on track in its integration of the significant AXA transaction and beat consensus profit estimates. Realised AXA synergies are ahead of schedule and adviser growth is strong across the network. The company opted for a more conservative dividend payout given the volatile market and the one-off AXA integration costs. The yield is still strong at more than 6 per cent.

## ACCUMULATE

### Suncorp Group (SUN) \$9.24

SUN's core businesses of banking, and life and general insurances, should continue to sustain earnings growth. They have market share power and strong prospects because Australia is an under-insured market. SUN has worked to transform its business and is delivering top-line growth, strong capital generation and cost savings from the Building Block and Simplification program from 2016. The dividend payment target has also been increased.

**Ian Clarke**  
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## UNDERPERFORM

### Nufarm (NUF) \$6.09

NUF is on the recovery path as evidenced by its second consecutive year of profit improvement. The combination of new management and better systems and processes is bearing fruit. However, given stronger cash flow, the 3cps final dividend and low 9 per cent payout ratio were disappointing. We have downgraded NUF to underperform on valuation grounds.

## OUTPERFORM

### Arrium (ARI) \$0.545

ARI's volume growth to 11 megatonnes per annum appears to be on track. Its balance sheet remains highly geared, however, volume growth in iron ore sales should provide some covenant protection. The company remains positively leveraged to any decline in the Australian dollar and is supported by relatively consistent earnings in its mining consumables division.

## NEUTRAL

### Myer Holdings (MYR) \$1.745

MYR recently reported a 1.3 per cent decline in total sales revenue and a 12.7 per cent fall in profit. Management's presentation cannot provide sales or earnings guidance. Myer's reluctance to predict the future will add to uncertainty about the ability of the business model to increase sales and earnings in 2013. Inventory turns continue to decline (3.3 times in 2012 vs 3.8 times in 2010), and with surplus space there seems little near-term leverage in the business model.