

Yovich & Co. Weekly Update

July 28th 2014

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD
Previous Week	5108.93	5519.16	2059.07	6749.45	17100.18	4432.15	0.9248	0.8688
Week Close	5194.27	5574.23	2126.61	6791.55	16960.57	4449.56	0.9103	0.8555
Change	1.67%	1.00%	3.28%	0.62%	-0.82%	0.39%	-1.56%	-1.53%

This Week's Themes

- The New Zealand market was strong last week, reaching another record high as the Reserve Bank indicated that the recent increases in interest rates will pause as they measure the impact that these have had on the economy and the inflation rate.
- Expectations for the upcoming reporting season across the Tasman are improving with investors pushing the market higher after some positive manufacturing data was released from China.
- It was shaping up for another positive week for the three U.S indices, but a poor result from Visa on Friday dragged the Dow to below the 1,700 level.
- The New Zealand Dollar was hit hard and fell from its recent highs after the announcement from the Reserve Bank that they will pause with the interest rate rises. The lower NZD will have a positive impact in export driven companies and those that earn income outside of New Zealand.

Investment News

Australian Banks – Value in ANZ Bank and National Australia Bank.

Below is a summary of the research from First NZ Capital with Target Prices and forecasted Dividend Yields for the Australian Banks. On the following page, there is a 10 year performance graph of these investments.

Code	Aussie Bank	Current Price	FNZC Target Price	Forecasted Div Yield		
				2014	2015	2016
ANZ.au	ANZ Bank	\$ 33.52	\$ 37.50	5.30%	5.60%	5.90%
NAB.au	National Australia Bank	\$ 34.69	\$ 38.00	5.80%	6.00%	6.10%
WBC.au	Westpac Bank	\$ 34.18	\$ 34.50	5.30%	5.50%	5.70%
SUN.au	Suncorp Group	\$ 14.17	\$ 13.75	7.10%	7.10%	7.10%
CBA.au	Commonwealth Bank of Australia	\$ 82.00	\$ 77.00	4.90%	5.00%	5.00%

Of the four large cap banks, ANZ and NAB appear to be of good value. Over the past ten years, they have lagged behind CBA and WBC and FNZC has target prices significantly above the current share prices. Our views on both of these Banks are below:

ANZ Bank (ANZ.asx – ANZ.nz)

ANZ has recently been touring Asia and the key messages from these presentations are that ANZ is comfortable with the existing strategy and footprint of expanding into Asia, but will now focus more on execution, reflecting the maturity of the Asia platform. This change in focus will see financial management of the Asian business shift incrementally from growth to returns, with improved Return on Equity coming from higher revenues and the pursuit of higher quality clientele. ANZ is currently trading at cheaper multiples to its peers and FNZC has an Outperform recommendation and \$37.50 Target Price. Current price is \$34.69.

National Australian Bank (NAB.asx)

Yesterday NAB announced that they have agreed to sell a parcel of the non-performing loans from its UK Commercial Loans Business. This part of NAB's business has been providing headwinds since the Global Financial Crises and should free NAB from this anchor. The new CEO, Andrew Thorburn has clearly started to clean up the balance sheet to provide a spring board for NAB to leverage from an improving local and global economy. FNZC has an Outperform recommendation and a \$38.00 Target Price. The current price is \$34.69 and we have added NAB to our preferred list.

Jarrold Goodall (FSP 198885)

CBase (ANZ.ASX@TM): 185.6035 CBase (WBC.ASX@TM): 204.0508 CBase (CBA.ASX@TM): 262.6521 CBase (NAB.ASX@TM): 130.0712 CBase (SUN.ASX@TM): 115.8568



Source: IRESS Market Data.

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