

HOT STOCKS



Paul Adams
DJ Carmichael

SPECULATIVE BUY Paradigm BioPharmaceuticals (PAR) \$0.650

PAR is re-purposing the historic drug pentosan polysulphate sodium, which has non-steroidal, anti-inflammatory properties and has potential for its novel use in the treatment of diseases such as allergic rhinitis. PAR announced that a scientific paper on the pre-clinical trial of the efficacy of PPS on hay fever has shown that PPS has a statistically significant treatment efficacy over controls. We re-iterate our speculative buy recommendation and \$1.34 price target.

HOLD Graincorp (GNC) \$10.00

GNC reported strong earnings for the first half with underlying NPAT increasing 212 per cent more than a year ago. The strong results were achieved after GNC was able to benefit from record Australian crop and ongoing strength was seen in the malt business. Its well advanced capital investment program is also starting to see projects contribute to the bottom line. We recommend continuing to hold the stock.

HOLD Sonic Healthcare (SHL) \$22.46

With 70 per cent of SHL's services from the medical centre division bulk-billed, the recent Federal Budget reinstating the indexation of Medicare rebates is seen as being positive for SHL. We continue to be encouraged by growth from the global pathology business, which makes up about 57 per cent of revenues, and recommend that investors continue to hold the stock, which we have a fair value of \$24 on.



Heather Zampatti
Bell Potter Securities

BUY National Australia Bank (NAB) \$30.38

NAB has delivered a strong quarter result with solid income growth and cost discipline across all categories. The management has effectively executed its organisational review. The capital position is resilient and is aided by strong organic capital generation. Income improvement and lower debt charges offset increased staff expenses. The dividend is attractive at more than 6 per cent.

BUY Transurban (TCL) \$11.89

Transurban continues to deliver on its strategy to work with governments on toll road initiatives. There are \$9 billion worth of projects in the pipeline, with growth prospects along Australia's east coast and in the US. Revenue for the company remains well covered with toll and traffic volume increases, network expansions and efficiency management.

BUY Challenger (CGF) \$12.70

CGF has seen its fund under management book continue to expand after a 10 per cent increase last financial year to a possible 15 per cent rise this year. The net book growth has been assisted by its retail annuity sales, up 53 per cent. The number of platforms making CGF annuities available may continue to grow going forward, potentially adding further funds inflow for their products. With the solid funds inflow CGF has reaffirmed its full-year guidance.



Ian Clarke
Morgan Stanley

UNDERWEIGHT Orica (ORI) \$18.83

Without the benefit of asset sales, Orica's earnings fell about 4 per cent year-on-year, highlighting the extent of the structural headwinds Orica is facing. The medium-term outlook for Orica remains challenged, with demand potentially now at risk from weaker bulk commodity prices, competitive dynamics among ammonium nitrate producers, and ammonium nitrate oversupply presenting a major overhang to pricing.

UNDERWEIGHT Harvey Norman (HVN) \$3.82

HVN has – like most retailers – reported a considerable slowing in sales growth during the recent quarter. It appears the housing tailwind is slowing and the Australian consumer environment has become more difficult. HVN is the most levered to the Australian housing market within our coverage universe, so slowing house price growth, falling auction clearance rates and out-of-cycle interest rate increases by the banks point to further earnings risk.

EQUAL WEIGHT Tox Free Solutions (TOX) \$2.24

Daniels management has the skills to drive continued growth, despite the departure of the founder of the business. We see a strong cultural alignment between Daniels and Tox Free Solutions, which enables mutual enhancement of business practices. Sustained Daniels revenue growth, beyond medical inflation and population growth, will be driven by upselling of innovative solutions and Total Waste Management.