

Best Stock Ideas



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Here we provide our monthly update of Morningstar's Best Stock Ideas which features our most vetted, highest quality investment ideas trading at attractive prices. These ideas are intended to have broad application in a variety of equity strategies, but individuals should consider their personal investment goals and positioning before investing. We provide brief descriptions of each best idea below and encourage investors to read our most recent stock reports for a more detailed appraisal.

Additions to Best Stock Ideas

Charter Hall Retail REIT CQR

Charter Hall Retail is a real-estate investment trust investing in sub-regional and neighbourhood malls. Though trading around fair value, the stock is attractive for its healthy 7.1% unfranked yield and capital protection qualities. Australian occupancy is 98% and weighted-average lease expiry is a lengthy 10.8 years. We like the fact that over half of earnings come from Woolworths and Wesfarmers (Coles, Kmart, Target) which are less exposed to discretionary spending cycles and online competition and encourage foot traffic, thereby supporting co-located speciality retailer sales.

Removals from Best Stock Ideas

Wotif.com WTF

Wotif has been a supreme performer since its addition to Best Stock Ideas at \$4.44 in September 2012, rising 30% since that time. It now moves into the hold

zone. Wotif is a leading online discount accommodation bookings provider. Modest earnings growth is being delivered by scale efficiencies and the growing use of the internet to make accommodation bookings.

How we select Best Stock Ideas

Best Stock Ideas comprise the most compelling stocks held in our equities model portfolios –Balanced, Income, Growth and Small Cap.

Naturally, we expend a great deal of effort to ensure that all of our approximately 230 Australia and New Zealand stock recommendations are accurate. However, our model portfolio holdings have passed through an additional layer of scrutiny—our rigorous portfolio committee process—making them the very best of our best ideas. These recommendations should have the widest application among our varied clients and their respective investment needs. The complete list of portfolio holdings, each portfolio's strategy, and each portfolio's performance are available on the Morningstar Adviser Research Centre™ platform, along with detailed company research reports produced by our experienced analyst team. Individual investors interested in including Morningstar's equities model portfolios in their investment planning should speak to their adviser.

In addition to starting with our model portfolio holdings, we have several additional criteria to

Best Stock Ideas

★ Denotes new entry to Best Ideas

Code	Name	2/10/12 Price \$	Fair Value \$	Price / FV	Mkt Cap \$bn	Rating	Business Risk	FY13 PE	FY12 Yld %	Franked %	Morningstar Recommendation	Notes
Banks												
ANZ	ANZ Bank	26.58	31.00	0.84	71.33	Narrow	Medium	10.9	5.9	100	Accumulate	Earnings growth is underpinned by ANZ's Asian expansion strategy, steady business and home lending, and cost savings. Management is strong, capital levels are high and the yield is attractive.
NAB	National Aust. Bank	27.64	31.00	0.87	63.62	Narrow	Medium	10.2	7.0	100	Accumulate	Continues to aggressively win market share boosting earnings, particularly in retail and business banking. Risks are higher than major bank peers, with NAB's UK banks continuing to drag on earnings.
WBC	Westpac	28.17	30.00	0.90	84.98	Narrow	Medium	12.0	6.5	100	Accumulate	WBC benefits from its multi-brand distribution strategy, strong market share, relatively low bad debts, improving margins and the best cost-to-income ratio.
Industrials & Infrastructure												
★ CQR	Charter Hall Retail	3.80	3.55	1.03	1.23	None	Medium	12.5	7.2	-	Hold	Aa real-estate investment trust investing in sub-regional and neighbourhood malls. Though trading around fair value, the stock is attractive for its healthy 7.1% unfranked yield and capital protection qualities.

Table 1 - Best Stock Ideas (Continued)

★ Denotes new entry to Best Ideas

Code	Name	2/10/12 Price \$	Fair Value \$	Price / FV	Mkt Cap \$bn	Rating	Business Risk	FY13 PE	FY12 Yld %	Franked %	Morningstar Recommendation	Notes
QUB	Qube Holdings	1.77	1.80	1.00	1.67	None	Medium	17.2	3.2	100	Hold	One of Australia's largest port logistics operators with majority stakes in stevedoring and land logistics businesses as well as minority stakes in several related businesses.
MTS	Metcash	3.83	4.40	0.83	3.23	Narrow	Medium	11.6	7.3	100	Accumulate	A defensive and reliable business with 20% marketshare in the Australian food and grocery market. Upside comes through new store expansion and hardware exposure through Mitre 10.
SPN	SP AusNet	1.16	1.10	1.05	3.91	Narrow	Medium	12.5	7.2	33	Hold	We like the capital protection qualities of this business and healthy distribution yield. Almost 90% of revenue is regulated, providing predictable and stable cash flow.
Insurance												
QBE	QBE	11.75	18.00	0.65	13.91	Narrow	Medium	11.1	6.4	14	Buy	Despite sharply lower recent profits due to higher individual and catastrophe claims and low bond yields, we expect a solid recovery in profits in the next few years. Long term value remains.
Resources												
BHP	BHP Billiton	37.62	50.00	0.74	119.82	Narrow	Medium	10.8	3.8	100	Accumulate	A balanced suite of world class, long life assets in conjunction with a power-house balance sheet and strong management.
ORG	Origin Energy	12.45	15.00	0.82	13.53	None	Medium	16.9	4.0	100	Accumulate	ORG is set to provide solid earnings growth through energy retailing, gas production and power generation.
RIO	Rio Tinto	67.12	95.00	0.70	131.7	Narrow	Medium	8.5	2.5	100	Accumulate	A large discount to fair value and world class, long life assets. Now recovered from balance sheet over-gearing.
WPL	Woodside Petroleum	36.00	70.00	0.51	29.41	Narrow	High	15.1	4.0	100	Buy	As Australia's premier oil play, Woodside Petroleum's operations encompass liquid natural gas, natural gas, condensate, crude oil and liquefied petroleum gas.
Small Cap												
REX	Regional Express	1.15	1.40	0.81	0.14	None	High	6.6	5.7	100	Accumulate	This independent regional airline faces limited competition as the majority of airline routes would be unprofitable for the majors to service.
SXL	Southern Cross Media	1.21	1.50	0.76	0.80	None	High	8.9	8.3	100	Accumulate	SXL own a series of regional TV and radio stations and the Austereo metropolitan radio assets. Regional TV and radio earnings tend to be less cyclical than metropolitan equivalents.
TGA	Thorn Group	2.19	2.00	1.05	0.31	None	Medium	10.1	5.0	100	Hold	The core electrical and household appliances business is delivering earnings growth despite declining installations of TVs and PCs through the gradual move to more expensive items like furniture and an expanded Thorn branded product offering.

increase the odds of outperformance and likelihood of meeting the average investor's portfolio needs. Namely, our Best Stock Ideas typically trade at material discounts to fair value, exclude companies that receive our very-high risk rating, and are biased toward companies with sustainable competitive advantages ("economic moats" in Morningstar vernacular). To keep the list manageable, we'll always provide around 15 best ideas, but of course depending on market conditions, the share of buy recommendations in our complete coverage universe will fluctuate.

Morningstar's Best Stock Ideas is not intended to represent a well diversified portfolio, so investors should consider each business with reference

to existing holdings and risk appetite. For example, depending on the opportunities provided by the market, we'll occasionally feature small capitalisation stocks on this list. Investors need to be comfortable with the tendency for these shares to be volatile due to lower scale, less diverse operations, and less share liquidity compared to larger capitalisation companies. Again, for a comprehensive portfolio approach, we recommend our model portfolios. Nonetheless, our Best Stock Ideas provide a solid starting point for a variety of investment strategies.