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HD **China is under control, rates are steady, mid-caps ones to watch**

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BT Investment Management's top stock picker is readying for more takeover activity in the mid-cap arena as local and offshore buyers take advantage of cheap finance to lift earnings.

Crispin Murray says that with the likes of Aurora Oil & Gas, PanAust, Goodman Fielder and Treasury Wine Estates attracting bids or interest in recent months, "we think this M&A cycle will be more focused on mid-caps".

TD

"So we like the mid-cap area. I think there will be a lot of activity in the sector as companies look to get scale and foreign buyers come in," BTIM's long-time head of equities said on a flying visit to Perth.

He also sees increased sales of individual assets and businesses as companies restructure. Such piecemeal deals are likely to be more attractive for the big companies reluctant to take a risk on bigger acquisitions.

"When you put all that together, we quite like stocks like Macquarie Group and Computershare because they benefit from this activity," Mr Murray said.

BTIM is Australia's biggest listed pure funds manager, with about $62 billion under management, including $15 billion held in Australian shares across various funds and products.

Westpac spun the group out in 2007 but retains 50 per cent. Staff own another 13 per cent of BTIM, which is capitalised at $1.85 billion.

Mr Murray noted the concerns around China, but painted an optimistic outlook for the Australian stockmarket, supported by moderate earnings growth.

"We're actually reasonably positive," Mr Murray said.

"History shows the market is re-rated higher on the back of lower interest rates. And we think interest rates will stay where they are for 12 months."

He sees average medium-term returns from Australian stocks at mid to high-single digits.

"So even with all the concerns about economy being in trouble, the reality is that most companies have adapted to their environment; they've taken costs out and are doing what they need to meet the market's expectations."

While the easing in the Chinese economy, hurt by a property slump and slowing investment and retail sales, has sparked global jitters, Mr Murray believes Beijing's efforts to control the slowdown is averting the risk of an economic jolt.

"We see Chinese economic growth slowing to, say, around 7 per cent, and then every year it's just going to be little bit less," he said. "But at least it's a manageable slowdown. So we look at it as short-term pain removing the risk of something major going wrong.

“We all knew iron ore prices were going to come down to between $US90 and $US105 a tonne. Maybe it got here a bit sooner than we thought, so it’s a matter of having to adjust.”

Mr Murray noted sentiment around mining stocks remained subdued but said investment was now more selective.

“The days of just saying the sector is going up or down on a thematic are probably over,” he said. “It’s more stock specific.”

“You’re going to get buying opportunities because people are overreacting to sentiment over China.

“We’re probably near a point now where stocks are over-sold, so there’s some short-term opportunities in the sector.

“And then you have some opportunities in, say, nickel . . . which will be quite specific to a few companies but not the broader sector.”

Mr Murray still sees enough in WA to keep him interested.

He has positive outlook for the energy sector and keeps watch on Woodside Petroleum, but prefers companies such as Oil Search.

“We’re not a believer in the theory that US LNG is going to suddenly bring prices down materially,” he said. “We think that there is substantial demand for LNG.”

The BTIM portfolio includes Wesfarmers and iiNet.

Like the rest of the market, Mr Murray has keenly watching for an acquisition by Wesfarmers, which is actively scouting for new opportunities. He doesn’t believe the WA group will strike out overseas and questions the value in buying more cyclical assets. He says there is no guarantee Wesfarmers will get the deal it wants.

“They are very disciplined, they wait for the cycle to turn,” Mr Murray said. “Markets have gone up quite a bit and there’s not a lot of cheap assets out there. They may just have to wait.”

The reality is most companies have adapted . . . they’ve taken costs out and are doing what they need to . . . ”Crispin Murray

CO	btivmn : BT Investment Management Ltd | fdgl : Goodman Fielder Ltd | mcqbnk : Macquarie Group Limited | trzwn : Treasury Wine Estates Ltd | barto : Aurora Oil & Gas Ltd
IN	i1 : Energy | i13 : Crude Oil/Natural Gas | i41 : Food/Beverages/Tobacco | i426 : Wine | i814 : Banking | i81502 : Trusts/Funds/Financial Vehicles | i8150211 : Unit Trusts/Mutual Funds | i831 : Financial Investments | i83101 : Investment Banking | ialco : Alcoholic Beverages/Drinks | ibevrge : Beverages/Drinks | ibnk : Banking/Credit | icnp : Consumer Goods | ifinal : Financial Services | iinv : Investing/Securities
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