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HD **Target gives its suitor plenty to think about**

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Recall Holdings (REC) $7.61 WHEN fronted with an unsolicited takeover approach, target boards usually resort to vague protestations that their shares are worth far more than the price on offer.

Not this Brambles spin-off, which has documented why US suitor Iron Mountain (IM) would have to shell out much more than the $7 a share (cash and scrip) on offer.

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Recall asserts that IM could afford to pay at least $11 a share given Recall's earnings momentum and "potential value creation" of $US3.9 billion ($4.75bn).

Recall argues the combined entity would enjoy $US250 million of annual synergies. The $US3.9bn derives from multiplying the synergies by 13 times and taking into account the "multiple uplift" as the Recall business is valued at IM's superior multiple.

If the parties equally shared this value creation, IM would cough up $13.95 a share. Recall also contends that Recall shares are worth at least $11, based on assumed 10 per cent revenue and EBITDA growth in 2014-15.

The arguments sound a tad theoretical, but yesterday's 15 per cent share surge shows what investors think of the $7 on offer.

Of course, Recall is open to discussions with IM and it's the boys from Boston who have to offer a more attractive tea party. Hold.

Bellamy's Australia (BAL) $1.57 THE organic baby-food outfit is an antidote to the IPOs that over-egged their earnings forecasts and are trading under par as a result.

The Tassie-based Bellamy's has upped its full-year sales and net profit expectations by 20 per cent, citing the benefit of distribution initiatives including availability through Chinese supermarkets.

Locally, Bellamy's has upped its share of the heavily competed infant formula market from 12 per cent to 14 per cent.

Unlike many suppliers, Bellamy's isn't so exposed to supermarkets because its 30-strong product range is found in pharmacies, as well as Costco and Big W.

The upgrade implies Bellamy's will chalk up revenue of $100m and net earnings of $6m (earnings per share of 6.3c) Currently, Bellamy's relies on our local mewling infants for 85 per cent of its revenue. In the longer term Bellamy's is a food-for-China story and the free trade agreement shouldn't do any harm.

Bellamy's shares are not exactly cheap, trading on a multiple of 25 times. But the business momentum suggests it's on a winning formula. Long-term buy.

Telstra (TLS) $5.74 MINISTER for Telstra and spare PM Malcolm Turnbull made it clear the telco would receive not a penny less and not a penny more in renegotiating the terms and scope of the NBN project.

Unlike most other aspects of the NBN — or indeed the current government's utterances — this one actually rolled out as planned.

While Telstra receives the same amount ($11bn in 2010 terms) for shutting down its **copper** network, management won shareholder protection measures including a broader right to compo should the fibre-to-the node network not be fully built.

Importantly, Telstra retains its revenue hedge, in that it can continue to operate the **copper** networks until they are switched to the NBN.

There's also revenue potential through Telstra's involvement in designing and constructing the network.

With the terms of NBN mark two set in stone, Telstra's 5 per cent-plus yield now looks as certain as one can get in a troubled world.

Long-term buy.

Pacific Environment (PEH) 10.5c ENVIRONMENTAL compliance reporting invokes yawns in a corporate audience, not that anyone debates the importance of measuring aspects such as air and groundwater quality.

According to Pacific Environment chief Peter White, there's a more engaged reaction if, for instance, a mine manager is told he can allow two more blasts a year because of more accurate measuring. With a market cap of only $11m, the little-known entity is an environmental consultant with clients across the **mining**, smelting, hospitals and ports sectors.

Its blue sky resides in the "clouds": a software as a service offering called EnviroSuite 2.0.

EnviroSuite will be used to monitor air quality on Sydney's M5 road project. The deal, worth $4m over five years, is its biggest yet. EnviroSuite this month is being made available to existing clients including BHP Billiton, Rio Tinto and Anglo American.

Pacific Environment is too small (and illiquid) to register on even microcap fund managers radars. With revenue of $12m a year Pacific Environment also lacks scale, but there's the prospects of at least one **acquisition** to double this turnover.

Crucially, the **company** is profitable, having chalked up $1.31m of net earnings in 2013-14 and $1.02m the year before. Spec buy.The Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author holds Telstra shares.

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