



SPECIAL REPORT

The High Performing Mini-Income Portfolio

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With over a 20-year track record of beating the market, clear and straightforward language, and an 'open book' approach to stock research and analysis, Intelligent Investor offers actionable, reliable recommendations on ASX-listed stocks.

In 2014, Intelligent Investor became a part of the InvestSMART family, extending our expertise to even more Australian investors seeking quality analysis and advice.

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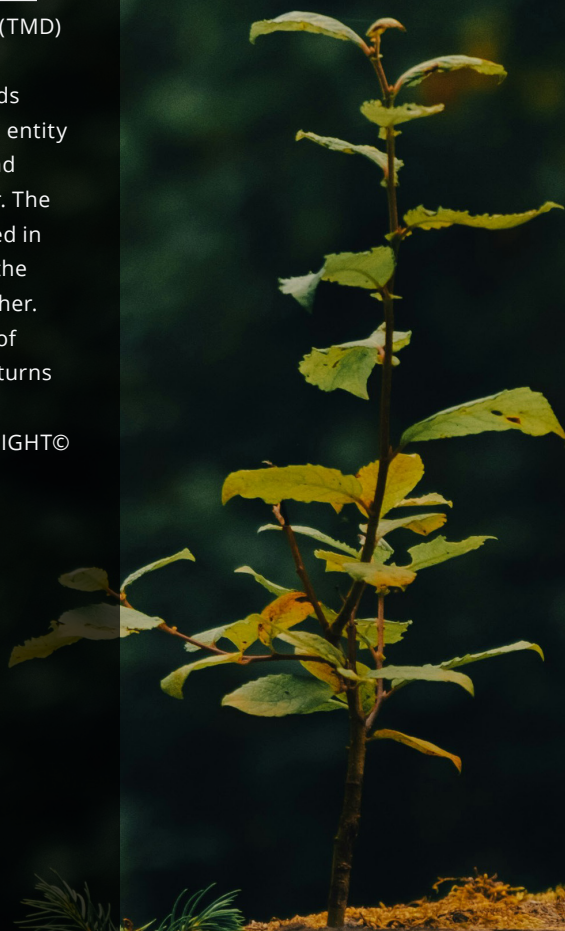
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Key Points

- **New mini-income portfolio launch**
- **Unconventional but attractive selections**
- **Updated quarterly**

Members holding cash face a dilemma: what to do with it if the real returns from a term deposit are not enough? The stocks detailed in this special report offer a solution.

We know income-focused members follow our [**model income portfolio**](#), which replicates the positions and trades of the [**Intelligent Investor Equity Income Fund**](#). This mini-portfolio is more opportunistic and, as you'll see, in some respects unconventional. We'd argue it is all the better for it.

It is also a riposte to the times. Stock prices are stretched, our [**Buy List**](#) is thin and the conditions call for patience. This mini-portfolio offers an attractive parking spot for members biding their time but also delivers plenty of opportunity for capital growth. And if you're fully-focussed on income, it should slake your thirst for reasonable yields at a reasonable—and sometimes cheap—price.

A few points are worthy of note. Firstly, each stock is accompanied by a price guide, which shows our suggested Sell and Buy prices, plus recommended portfolio weightings. Please pay attention to them.

Second, in reference to our price guide, not all the stocks in this mini-portfolio are on our Buy List. That should not worry you. The Sell price we place on a stock generally represents fair value. In environments where Buys are scarce, it can pay to buy appropriate stocks with a Hold recommendation, especially if they offer a respectable yield.

There may not be as much margin of safety as a Buy, but a moderately underpriced stock with a Hold recommendation might be better for your portfolio than the alternatives. Between a Hold and a Buy recommendation exists a grey area more visible in times of low returns.

In those cases where a stock is a Hold, their respective prices are much closer to our Buy prices than Sell prices, offering a sensible, if not highly attractive, margin of safety.

Finally, these stocks aren't traditional income picks. You won't find any banks for starters. And we've opted for just one infrastructure stock and one REIT. The remaining selections, however, offer reliable, attractive yields.

Some are also classically cheap; in addition to income, we'd expect this portfolio to produce some capital growth, too.

Company	Latest Recommendation	Price @ 30 May 25	Forecast Yield	Franked? (Y/N)	Max. Port Weight
Chorus (CNU)	17 Mar 25 (Buy - \$7.14)	\$7.57	6.9%	N	6%
Dicker Data (DDR)	19 May 25 (Buy - \$8.49)	\$8.26	5.6%	Y	4%
Endeavour Group (EDV)	6 May 25 (Buy - \$4.16)	\$4.05	4.9%	Y	3%
Woolworths (WOW)	1 May 25 (Buy - \$31.99)	\$31.75	3.2%	Y	7%
New Hope Corp (NHC)	11 Apr 25 (Buy - \$3.55)	\$3.71	7.8%	Y	4%
Sonic Healthcare (SHL)	11 Apr 25 (Buy - \$24.69)	\$26.67	4.1%	N	5%
Waypoint REIT (WPR)	28 Feb 25 (Hold - \$2.34)	\$2.60	6.5%	N	5%

Chorus tuned to deliver

Higher interest rates will feed into higher returns for this New Zealand-based monopoly.

Chorus **CNU**

BUY

BUY

HOLD

SELL

below \$7.50

up to \$9.00

above \$9.00

\$7.14

Price at 30 May 25

\$7.14

Max Portfolio Weighting

6%

Business Risk

Medium-Low

Share Price Risk

Medium-Low

Our first pick is an income stock that looks like an income stock. **Chorus** was split from New Zealand’s dominant telco to build and run the country’s national fibre monopoly, transitioning from a copper business to a fully regulated monopoly.

We first upgraded the stock in 2019 in **Chorus: A yield stock in hiding**, arguing that the market had not correctly recognised how the business had changed. The stock has risen 56% since, paying decent dividends along the way but for income investors, there’s plenty left on the table.

Valuation is often thought of as a mysterious art. There are tomes and academic papers written on the subject, yet the value of a stock is a simple thing. Take future cash flows generated from a business and discount them to today’s value. That’s it.

In the case of Chorus, it’s easy. So easy in fact that we’re amazed so few analysts noted the value on offer.

Over each regulatory period, the NZ regulator, the Commerce Commission, determines how much revenue Chorus can earn. It does this by determining a regulated asset base (RAB) and allowing the business to earn a rate of return on it.

The RAB during the first regulatory period, which ran from 1 January 2022 to 31 December 2024 was NZ\$5.4bn, with an allowable rate of return of 4.72%. The risk-free rate, a key variable in the returns calculation, was just 0.51% and inflation, used to revalue assets, was just 1.8%.

By April last year, the risk-free rate in NZ had risen to 5.5%, higher than the returns locked in for Chorus in its first regulatory period. Inflation was also higher and growth on maintenance spending and revaluations based on inflation saw the RAB climb to NZ\$5.7bn. We believed the yield could rise to 8%, which returned the stock to our **Buy List**.

However, the prospect of higher returns from higher rates hadn’t gone unnoticed. Chorus’s enterprise value (market cap plus net debt) of NZ\$6.2bn was higher than the RAB, reflecting expectations of higher returns. But it still wasn’t high enough.

We’d argue it still isn’t. New Zealand is in the throes of a deep recession but, in the company’s latest result, revenue and EBITDA fell just 1%. With capital expenditure down 14%, Chorus was able to increase the interim dividend 21% to 23 cents per share.



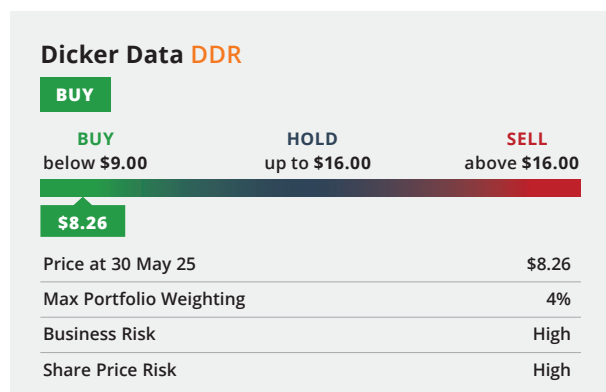
The RAB rose to NZ\$5bn and is expected to rise to NZ\$5.4bn over the current regulatory period, due to last through to 2029. Chorus left full-year guidance unchanged, expecting to pay full-year dividends of 57cps for a running yield of about 7%. We expect dividends to grow to over 60cps over the regulatory period. At current prices, that should generate a yield of 7.5%. These are handy returns for a low level of risk.

One point to consider is that management is exploring new revenue ideas, including other infrastructure assets. These are in the early stages, but it does introduce capital allocation risk in the future.

Chorus is a rare idea that ought to be protected from the madness of markets. For conservative investors seeking income, or for worried investors seeking harbour, a low-risk return of 7-9% per year over the next four years is appealing. We’re lifting our Buy price from \$7 to \$7.50. **BUY**.

Dicker Data in recovery

A prolonged industry downturn has produced a great opportunity.



Technology hardware, software, and cloud distributor **Dicker Data** is a perfect fit for this mini-income portfolio. Since 2012, its dividend has risen from 5.3 cents to an expected 45 cents per share this year—and we expect more growth ahead.

Since its 2010 IPO, its reseller base has increased from 3,000 to 12,300, and vendor partnerships have grown from 12 to over 100, with Adobe added last year. The top five vendors constitute 42% of revenue compared to 90% in 2012 making it a better, more resilient business.

While global IT distributors face headwinds after the Covid replacement boom, history shows businesses can only delay tech upgrades for so long. The latest results offer signs of a recovery.

After the post-pandemic sales plateau, fourth-quarter revenue increased 10% with operating profits up 9%. Revenue for the full year increased by 3% to \$3.4bn while net profit fell 4% to \$78m due to higher interest costs and bad debts. The middleman maintained its 100% payout ratio, with dividends reaching 44 cents for the year.

Tough economic conditions have forced global distributor Arrow ECS to exit the market. Dicker, however, didn't lose a single small business client

and increased its market share lead in Australia while closing in on the top spot in New Zealand. With vendors shifting to larger, more resilient distributors like Dicker, management expects this to continue.

The looming PC refresh cycle, driven by the October end of Windows 10 support, is expected to boost sales and explains the company's stockpiles. As Microsoft's exclusive go-to-market partner for AI PC adoption, Dicker stands to benefit the most. Beyond hardware, cybersecurity and software products offer further growth.



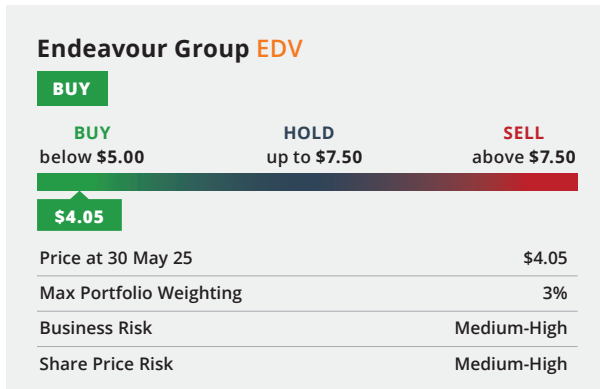
Legal entities were also established in Singapore and the Philippines. Acquisitions pairing an established customer list with Dicker's existing vendor ties is easier than starting from scratch, although overseas expansion is always risky.

Governance is also improving. The board is revamping executive pay after last year's second strike at the AGM. The new plan introduces share-based payments linked to long-term goals. Truthfully, we're not fussed either way. Every key executive except the **recently departed** founder David Dicker, bought shares on-market again last year.

Despite potentially being on the cusp of a cyclical upturn, Dicker trades at 17.5 times earnings with a 5.6% fully franked yield that will grow with earnings. **BUY.**

Raise a glass to Endeavour

This liquor giant won't shoot the lights out, but there's plenty of value on offer.



In 1944 — World War II in full swing — Nobel Prize-winning economist Paul Samuelson predicted trouble. A Depression, he warned, would engulf the world when the war was over. Instead, a new phase of economic growth began that would be the largest and longest in history.

It would be crackers to suggest what **Endeavour** is going through is anything like World War II. Our point is that calamities reduce expectations, making it easier to beat those expectations. Turnarounds always start with a surprise.

If you believe there's money to be made in alcohol, Endeavour will be the one to make it. The company is Australia's largest liquor retailer with a 45% share of the retail liquor market, dwarfing the industry's number two, Coles Liquor with a 15% share. Endeavour has unrivalled negotiating power in procurement, which is necessary to face large suppliers like **Diageo**.

Profitability is glazed further by some vertical integration. Endeavour's Pinnacle Drinks division owns various private label brands, which allows it to quickly launch new products based on demand shifts spotted in stores. Amazon is known to front run third-party sellers with in-house products and Endeavour has successfully adopted the same strategy: Pinnacle accounts for around 18% of liquor sales and is growing faster than the segments it emulates.

Endeavour also has one of the largest loyalty programs in Australia with 5.4 million active members. This is being used to personalise online ads and promotions based on prior buying history, so marketing dollars go further.

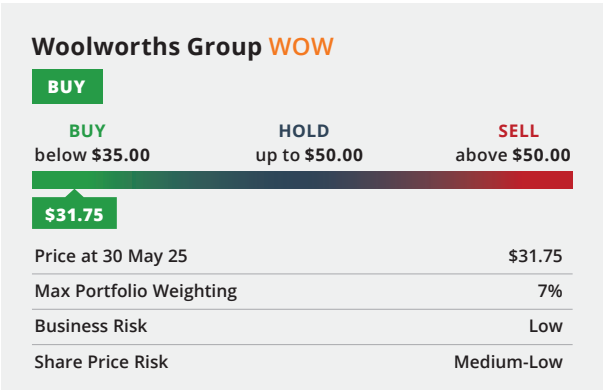
Endeavour's vertical integration, marketing superiority, and economies of scale deliver far better margins than competitors: last year, the retail operations earned \$9.9bn in revenues and \$658m in operating profits, a 6.6% margin against Coles Liquor's 4.3%. For a business selling commodity-style products like beer and wine, that's a major difference.

One round doesn't make a party, but Endeavour's **third quarter result** suggests its bottle shop issues may be easing while Hotels continued its strong recent performance. Management expects flat or low-single digit growth in Retail and mid-single digit growth in Hotels.

We expect Endeavour's earnings to grow steadily thanks to population growth and small gains in margins. While risks remain—particularly from weaker retail sales or tighter gambling regulations—the current valuation offers a decent safety net. As we explained in **Endeavour: Splitting the tab**, with a 4.9% fully franked yield and a price-to-earnings ratio of 17, there's enough upside to justify the risk. **BUY.**

Woolworths fights back in supermarket wars

One result does not make a trend...but we sense a rebound.



For a while, it wasn't a competition between **Coles** and **Woolworths**—it was a knockout. Australia's supermarket giants released their interim results in February. The numbers painted a clear picture: Coles outpaced Woolworths in sales growth, expanded its market share, and saw stronger profitability.

Woolworths' interim result was mired by last year's 17-day strike that dented both revenue and earnings. In response, Woolworths has aggressively lowered prices and increased promotions.

With profits declining, cutting prices seems like an odd move as it puts even more pressure on margins. But it starts to make sense when you consider that the company appointed a new chief executive, Amanda Bardwell, in September last year.

New chiefs sometimes accept or even encourage weaker results early on. Firstly, it sets a low baseline, making future improvements appear more impressive and strengthening their position as a turnaround leader.

Secondly, frontloading expenses in early reporting periods can clear the slate of inherited issues. Bardwell has a small window when she can blame poor results on prior management, so, from her perspective, it may be better to hold market share

at any cost—with shareholders footing the bill—so that future periods are more attractive once her new policies start to take hold.

The **latest result** showed early evidence of the approach. Woolworths has regained some balance—and possibly some market share.

Australian Food sales rose 3.6% to \$13.1bn for the three months to March, driven by 3.0% comparable sales growth and a 15% increase in online sales. Coles posted similar growth, with supermarket sales up 3.7% to \$9.4bn and comparable sales also rising 3.0%.

Coles' online sales were ahead of Woolworths', up 26%, thanks to increasing range and tech improvements. However, penetration was still lower at 11%, compared to Woolworths' 14%.

Despite identical comparable sales growth, Woolworths' average prices were down 0.5% excluding tobacco, while Coles reported a 1.1% increase in average prices.

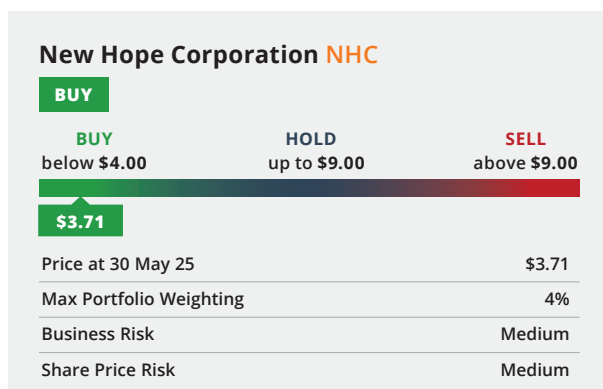
Woolworths is leaning hard into value, cutting prices across 340 products and pushing promotions and Own Brand sales, which rose 5.7%. The fact it could match Coles' comparable sales growth while lowering prices can only mean one thing—customers are buying more stuff.

This is all good news: on a revenue basis, Woolworths' market share losses have halted, and on a volume basis, it is gaining market share again. It's too early to declare victory, but this could be the first sign of a rebound.

Woolies trades on a price-to-earnings ratio of around 26 based on consensus estimates for 2025 earnings. Despite the share price rising 15% since **ACCC backs II Buy on Woolies, BUY.**

New Hope from old coal

Coal prices have fallen, but cash flow and dividends persist.



Miners face volatile commodity markets and can be most dangerous when the dividend is most alluring. Amid high prices, yields will look high and earnings multiple low. That is a trap - the market's way of warning that those conditions won't last. For **New Hope**, it might be different.

New Hope's reputation is for sensible capital allocation and patient, long-term management. To that list, add outstanding operating miners.

Since buying a stake in Bengalla in 2015, mine output has increased from 8 million tonnes per annum (mtpa) to over 9mtpa with minimal capital expenditure. The miner is targeting 10mtpa without significant new cash outlays.

As output has risen, costs have been contained. Low costs and more output were key to an outstanding full-year result **last September** (Hold - \$7.74).

New Acland produced 1 million tonnes and is expected to ramp production to 5mtpa over the next three years. Costs here are likely to match the low costs of Bengalla. New Hope also owns a 20% stake in Malabar Resources, which is developing an underground metallurgical mine with stunning success.

By 2028, output will rise to 6mtpa by 2028, netting another 1.2mtpa of coal to New Hope's account. Margins are expected to be high and creeping ownership of the asset is likely.

Over the next four years, output will rise from just over 7mtpa to 14mtpa, doubling output. Some of this is reflected in the price of New Hope, which is the dearest coal miner on the market. Yet the numbers justify the price.

New Hope has won a 14-year battle to reopen a new mine and will see output double over the next few years. That should allow higher cash flows to fund higher dividends. The company's two mines are among the lowest cost in the country and should still spit out cash in a downturn.

Over the last three years alone, New Hope has paid \$1.9bn—more than 60% of its current market capitalisation—in dividends. Sensible capital allocation, the most elusive thing to find in mining, is a given here.

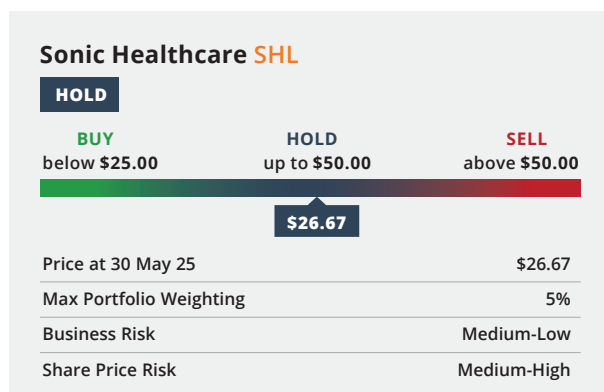


At the current price, New Hope remains attractive. Received coal prices of \$195 last year are lower than the current spot price, and output is still climbing, so the outlook for profits and dividends is good.

The stock currently yields about 7.8% fully franked. Even amid lower coal prices, this yield is sustainable for years. We note, however, that although New Hope trades on a low single-digit multiple, returns won't come from capital gains. We will need dividends to generate returns. Chances are good that we will get it. **HOLD**.

Sonic's local domination

Forget this pathology company's slow US business. In Australia, Sonic dominates and is getting stronger.



Sonic Healthcare is a vital part of the Australian healthcare system, capturing a dominant 45% market share of the pathology market. It also has operations in the US, and Europe. But you do wonder what the company needs to do to impress investors these days.

Between 2000 and 2020, the Australian pathology market grew an average of 4% a year. And yet Sonic reported an 8% revenue increase in the six months to December, reaching \$4.7bn. Excluding acquisitions, organic revenue growth was 6%, with the Australian pathology division enjoying 9% growth, while Germany, the UK, and Switzerland had 7%, 8% and 6% growth respectively. Aside from the covid mania, Sonic is growing faster than at almost any time in its history.

Better yet, it's expanding market share in most regions, making solid gains in Australia, outpacing industry rival Healius with 9% growth versus 7%—despite already holding a dominant 45% share compared to Healius's 30%.

Margins should also benefit from the acquisition of German diagnostics group LADR, which is set to complete on 1 July, adding \$610m in revenue and \$82m in operating profits (see **Sonic's German expansion**). Management expects significant cost cuts to be made through lab consolidation and procurement efficiencies.

The biggest—perhaps only—stain on the result was slow growth in the US market, which came in at just 2% excluding acquisitions and lagged some peers. But the balance sheet isn't a worry and management reaffirmed its guidance for operating profits of \$1.70bn to \$1.75bn in 2025, up around 10%. With strong organic growth, cost pressures easing, and recent acquisitions expected to contribute meaningfully to earnings, Sonic is well positioned.

Due to the impact of Covid testing and then its abrupt end, the company's earnings have been on a rollercoaster. Underlying the last few years' volatility, however, is a stable earner based on an essential service enjoying significant economies of scale.



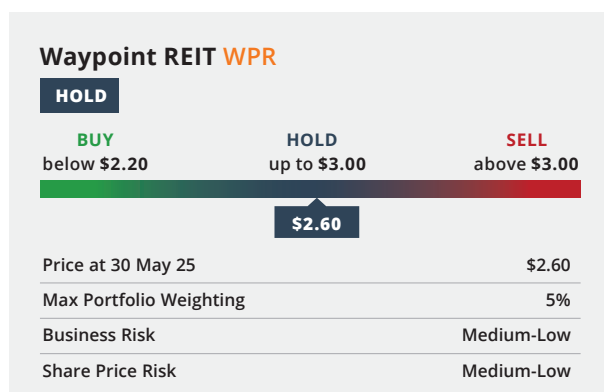
Excluding the sluggish—though far from dismal—US performance, this was a good result. With a price-to-earnings ratio of 22 based on consensus estimates for 2025, we're increasing our Buy price from \$23 to \$25 and sticking with **HOLD**.

Regulatory changes can occasionally shake things up, but growth in the mid-single digits is likely, making it an attractive addition for members seeking a large, steady blue-chip company with a modest yield and decent growth prospects.

With a current unfranked yield of 4.1%, the stock isn't the highest-yielding company on our list, but it is one of the most reliable, having paid a dividend for more than 25 years—with increases in each of the last 12 years. We expect that pattern to continue.

Waypoint REIT fills the tank

With high occupancy, long-term leases and steady rental growth, this petrol station REIT is poised to benefit from falling rates.



Waypoint could be a contender for the most boring stock on this list—and that's why we love it. Steady performance is exactly what income investors should want from a company that owns a portfolio of 400 petrol stations, leased to major fuel retailers.

For the year to December, rental income was up 3% to \$162m, in line with the 3% escalator built into most of Waypoint's lease agreements. Distributable earnings came in at \$111m, or roughly 16.5 cents, unchanged from the previous year as higher interest expenses offset the rent increases. Occupancy was steady at 99.9%, while the weighted average lease expiry stood at 7.1 years.

Waypoint's property portfolio was valued at \$2.8bn at 31 December, reflecting a 1.1% increase from the previous year, for net tangible assets of \$2.76 per share. The company recorded a \$28m valuation gain due to the rental growth but this was partially offset by an increase in average capitalisation rates from 5.7% to 5.72%.

We were pleased to see the sale of two properties bring in \$6.6m, a 4% premium to book value. Twelve properties, valued at around \$60m, remain under review, with three in due diligence worth around \$15m. As these sales take place, we'll get a better idea of how well management's valuation of its properties matches genuine market conditions, but so far there's a slight conservatism in book values.

On the debt front, Waypoint extended its weighted average debt maturity to 4.1 years, supported by \$600m in new or extended debt facilities. Debt represents 32.6% of assets (down from 32.8%) which is at the low end of management's 30-40% target range. We're glad to see the company deleverage as its portfolio grows and hope the trend continues.

With 87% of debt hedged until 2028, interest rate risk is limited in the short term, but refinancing at higher rates could still pressure earnings in the future. Thankfully, the company trades at a 5% discount to its net tangible assets, which offers some downside protection. Waypoint is a solid investment, albeit one with a higher starting yield and low single-digit growth.

The company's interest expenses are likely to rise from 4.5% in 2024 to around 5.0% in 2025, which will probably dampen any dividend growth this year. Nonetheless, with high occupancy, long-term leases, and steady rental growth, Waypoint is well-positioned for when interest rates start to ease.

With a 6.5% unfranked dividend yield, there's plenty of reason to **HOLD**.



Disclosure: The Intelligent Investor Australian Ethical Shares Fund, Income Fund and Growth Fund own shares in many of the stocks mentioned, as do Intelligent Investor staff.

