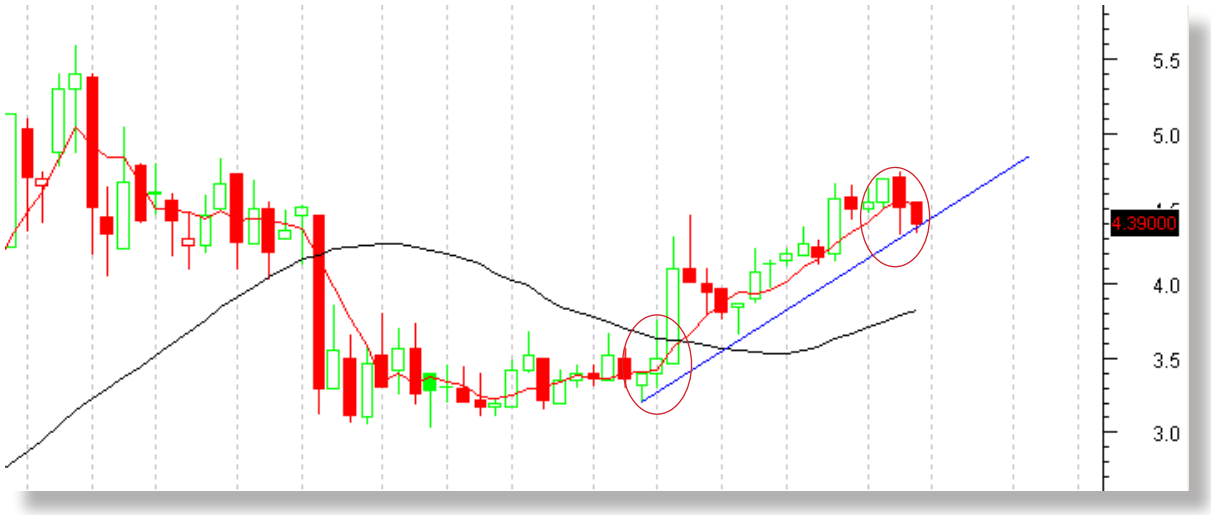
CMC Markets

PREVIEW

Trade Ideas
From the desk of CMC Markets' Chief Market Analyst

New Hope Corporation Limited (NHC) – LONG

One of the most interesting things about this particular stock is the combination of strengths that exist and also the opportunity to post close stop losses based not only on trendlines but on previous support/resistance lines.



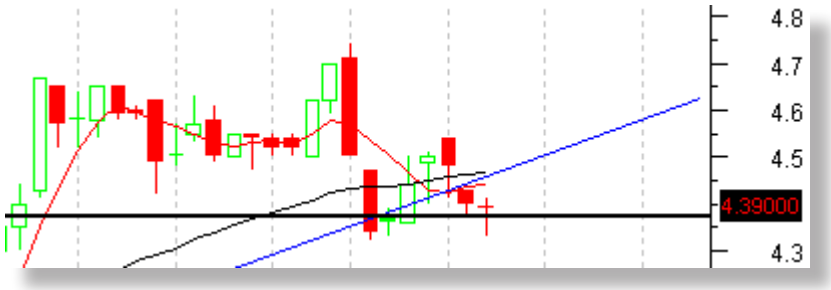
You may not think there is a great deal of evidence of a trend here, but this is a weekly chart so the price has been on the rise for a while now. You can see the cross of the 5- and 30-week moving average illustrating the point where the momentum started to swing higher.

Based on what you can see on the weekly chart, I think there are a few different ways in which this trade could be approached. I think the two most recent candles tell an interesting story, with the price falling each time to around the $4.30 mark but not being able to push lower – it is important that this coincides with a retracement to the trendline. Although reasonably aggressive, I think you could do a lot worse than placing your stop on the downside from here.

Looking on the daily chart, you can see much the same story being played out. There are a couple of ways to approach this trade:

- Firstly get in if the price rallies and place your stop a little below $4.30. This gives you the best risk/reward but at the same time it gives very little confirmation of a price reversal actually occurring.
- The second option is to wait for the price to bounce and hold above the trendline before the entry and use the same stop loss placement. As I say, this doesn't do your risk/reward any favours but it allows for a little more certainty – which a lot of people are fond of.

Setups



Immediate Entry

Entry > $4.39
Stop ~ $4.25
Long 715 CFDs per $100 risk (not including commission in the equation)
3R Target = $4.81

Price Increase Entry

Entry ~ $4.50
Stop ~ $4.25
Long 400 CFDs per $100 risk (not including commission in the equation)
3R Target = $5.25

An alternative way to look at the two entries is as a means of scaling in. If you divided your risk by 2 and then applied it accordingly to your entries, you have a way of entering immediately but with a less aggressive footing. If you do this you will need to be sure that you can adjust your stop up in such a fashion as to put yourself at breakeven if you are subsequently stopped out of the position.

If you follow a more conservative option, then you will be able to see if the weekly and the daily charts align. At the moment you can see the daily chart has slid below the trendline and in a couple of days, at the completion of the weekly candle, you will get extra confirmation as to whether the price held above the weekly trend or not.

Overview

New Hope Corporation is an energy company producing coal for export to Japan, Korea and Chile thermal coal markets. New Hope also produces coal for domestic consumption in south-east Queensland.

Based in Ipswich, Queensland, New Hope is involved in each stage of the coal production process, from exploring and mining, through to delivery.

New Hope holds various tenements in central Queensland, and on the Darling Downs in southern Queensland. It owns Queensland Bulk Handling and sizeable land holdings around Ipswich.

The future of Australian coal producers has been question in recent times based on the environmental impact of coal. Its investments in land and property, combined with its push into coal seam gas, and a well-diversified export portfolio, will see the company generate solid earnings into the future.

Analysis

P/E 15.81

EPS 29.6

DPS 84.4

Dividend Yield 10.3%

Beta 1.16

New Hope has consistently produced a dividend over the past few years, which, in the current environment, is an encouraging sign. Indeed, its dividend growth over five years is over 61 per cent. New Hope also has solid earnings growth.

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