

02-July-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	24271	6:56am 30/06/2018	55	0.23
▲ S&P 500	2718	6:56am 30/06/2018	2	0.08
▲ NASDAQ	7510	7:31am 30/06/2018	7	0.09
▲ FTSE 100 Index	7637	1:50am 30/06/2018	21	0.28
▲ DAX 30	12306	2:00am 30/06/2018	129	1.06
▲ CAC 40	5324	2:15am 30/06/2018	48	0.91
▲ Nikkei 225 (Japan)	22305	4:20pm 29/06/2018	34	0.15
▲ HKSE	28955	6:23pm 29/06/2018	458	1.61
▲ SSE Composite Index	2847	5:15pm 29/06/2018	61	2.17
▲ NZ 50	8972	8:57am 02/07/2018	29	0.33

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street's major stock indexes edged higher on Friday, as a surge in Nike shares helped the quarter close out on an upswing while concerns over US international trade relations ebbed.

For the quarter, the Dow, the S&P 500 and the Nasdaq all posted gains. The Dow edged up 0.7 per cent, the S&P 500 rose 2.94 per cent, and the tech-heavy Nasdaq jumped 6.33 per cent. The small-cap Russell 2000, whose components are more domestically focused than their large-cap counterparts, climbed 7.4 per cent.

Like the Russell, the S&P's major sectors reflected some skittishness over trade. Energy had the biggest percentage gains for the quarter as oil prices jumped, and growth sectors such as technology and consumer discretionary stocks had solid gains. But real estate and utilities, considered defensive sectors, also advanced.

On Friday, shares of Nike soared 13 per cent to hit an all-time high of \$US81 after the world's largest footwear maker reported a return to growth in North America in the last quarter and gave an upbeat forecast for the year.

Nike shares ended the day up 11.1 per cent to \$US79.68, their biggest one-day gain in nearly four years. Nike was the top boost to the Dow and the S&P 500.

The S&P 500 bank sector index ended the day barely changed after earlier touching a one-week high. The Federal Reserve late on Thursday reported that US lenders cleared the second part of the Fed's annual stress tests, though the Fed placed conditions on some, restricting Goldman Sachs Group Inc and Morgan Stanley from increasing capital distributions.

Wells Fargo & Co was a bright spot, rising 3.4 per cent.

Friday's session reflected momentary relief from trade concerns that rattled the market earlier in the week, several investors said, though the major indexes pared gains in the last hour of trading.

Atlas Iron Limited (AGO) -Atlas Iron Provides Interim Activities Update

Industria REIT (IDR) -Industria REIT Announces Regarding Acquisition of Industrial Warehouse and Debt Facility Increase, Refinance and Restructure

Pancontinental Oil & Gas NL (PCL) -Pancontinental Oil & Gas Trading Halted, Pending Company Announcement

IMF Bentham Limited (IMF) -IMF Bentham Provides Australian Case Update

Retail Food Group Limited (RFG) -Retail Food Group Provides Update on Debt Facilities

"There's really not a lot of headlines going on," said Ryan Detrick, senior market strategist for LPL Financial in Charlotte, North Carolina. "We're having a late-week bounce back from earlier worries."

Investors took in stride US Commerce Department data that showed consumer spending slowing as the core personal consumption expenditures price index, a measure of inflation, hit the Federal Reserve's two per cent annual target for the first time in six years. On several occasions this year, worries of rising inflation and a subsequent economic slowdown have sent stocks tumbling.

"People are squaring away positions going into the month and the quarter's end," said Mark Luschini, chief investment strategist at Janney Montgomery Scott in Philadelphia.

The Dow Jones Industrial Average rose 55.36 points, or 0.23 per cent, to 24,271.41, the S&P 500 gained 2.06 points, or 0.08 per cent, to 2,718.37 and the Nasdaq Composite added 6.62 points, or 0.09 per cent, to 7,510.30.

For the week, however, all three indexes registered losses. The Dow lost 1.26 per cent, the S&P 500 fell 1.33 per cent, and the Nasdaq shed 2.37 per cent. The Dow declined for three straight weeks for the first time in more than two years.

For the month of June, the Dow lost 0.59 per cent, while the S&P 500 rose 0.49 per cent and the Nasdaq gained 0.92 per cent.

Asian shares were at near nine-month lows despite small gains on Wall Street, as ongoing concerns over global trade frictions dampened sentiment, though a move to ease foreign investment curbs in China could boost markets there.

MSCI's broadest index of Asia-Pacific shares outside Japan was flat, Australian shares were 0.1 per cent higher, while Japan's Nikkei stock index was down 0.2 per cent on Friday morning.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	2154	8:30am 30/06/2018	-17	-0.78
▼ Copper	6625	8:31am 30/06/2018	-3	-0.05
▲ Nickel	14823	8:32am 30/06/2018	115	0.78
▲ Gold	1253	9:00am 02/07/2018	2	0.20
▲ Silver	16.1	8:59am 02/07/2018	0.1	0.42
▲ Oil - West Texas crude	74.2	9:00am 02/07/2018	0.7	0.95
▲ Lead	2405	8:32am 30/06/2018	13	0.54
▼ Zinc	2907	8:32am 30/06/2018	-32	-1.11
Ore	65	7:10am 30/06/2018	0	--

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ \$A vs \$US	0.7397	9:00am 02/07/2018	-0.0002	-0.03
▼ \$A vs GBP	0.5603	9:00am 02/07/2018	-0.0001	-0.01
▼ \$A vs YEN	81.92	9:00am 02/07/2018	-0.07	-0.08
▲ \$A vs EUR	0.6337	9:00am 02/07/2018	0.0013	0.20
▲ \$A vs \$NZ	1.0915	9:00am 02/07/2018	0.0002	0.02
▲ \$US vs Euro	0.8565	9:00am 02/07/2018	0.0022	0.26
▲ \$US vs UK	0.7572	9:00am 02/07/2018	0.0003	0.04
▲ \$US vs CHF	0.9904	9:00am 02/07/2018	0.0007	0.07
▼ \$A vs \$CA	0.9722	9:00am 02/07/2018	-0.0007	-0.07

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	6290	4:31pm 29/06/2018	-16	-0.26
▼ S&P/ASX 200	6195	4:31pm 29/06/2018	-21	-0.33
▼ 10-year Bond Rate	2.63	9:00am 02/07/2018	--	-0.19
▲ 90 Day Bank Accepted Bills SFE-Day	2.01	8:50am 02/07/2018	0.01	0.50
▼ 3-yr Bond Rate	2.08	8:58am 02/07/2018	--	-0.24

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 23 points higher at 6,171.

Friday 29 June - close [Morningstar with AAP]: The Australian share market has ended the final trading day of the financial year on a sour note after a late afternoon sell-off, as energy stocks fell despite soaring oil prices and healthcare and financial stocks retreated.

After losing ground in morning trade, the benchmark S&P/ASX200 headed north in the early afternoon before plunging in the last half-hour of trade to close down 20.8 points, or 0.33 per cent, at 6,194.6 points on Friday, while the broader All Ordinaries index lost 16.1 points, or 0.26 per cent, at 6,289.7 points.

Healthcare stocks, with vaccines and blood products supplier CSL the biggest drag on the benchmark, slumping 1.1 per cent to \$192.62.

Energy stocks ended but ran out of steam despite the price of US crude hitting a three-and-a-half year high.

Woodside Petroleum fell 0.6 per cent to \$35.46, Origin Energy was down 0.8 per cent to \$10.03, Oil Search softened 0.5 per cent to \$8.90 and Santos dropped 0.2 per cent to \$6.27.

Patersons Securities economist Tony Farnham said investors may have pulled some cash out of energy stocks ahead of official manufacturing PMI data due out of China on Saturday.

"It's just a little bit of an opportunity for people to take a little bit of money off the table ... just in case those PMI figures have something a little bit untoward," he said.

The major miners were higher with BHP Billiton jumping 0.3 per cent to \$33.91 and Rio Tinto up 0.5 per cent to \$83.44.

BHP on Friday announced a payment of \$US158 million (\$214 million) in remediation and compensation to the Brazilian non-profit foundation it set up in response to the 2015 Samarco mine dam collapse.

Gold miners were mixed as the price of the precious metal fell to its lowest level in more than six months, amid mounting pressure from trade disputes and the expectation of higher US interest rates continuing to weigh on bullion, despite the greenback losing steam.

Newcrest retreated 0.4 per cent to \$21.80, Northern Star climbed one per cent to \$7.26 and Evolution Mining was steady at \$3.51.

The major four banks were mixed, with ANZ the biggest loser, down 1.5 per cent to \$28.24, while Westpac gained 0.2 per cent to \$29.30.

In companies news, Wattle Health shares soared 31.5 per cent to \$1.17 after the Australian company inked a deal with a Chinese distribution business to supply its infant formula range.

Atlas Iron was steady at 4.3 cents after the board unanimously backed Gina Rinehart's \$390 million takeover bid for the junior miner.

Meanwhile, the Australian dollar was trading at 73.88 US cents at 1630 AEST, up from 73.33 US cents on Thursday.

ON THE ASX:

The benchmark S&P/ASX200 closed down 20.8 points, or 0.33 per cent, at 6,194.6 points

The broader All Ordinaries index was down 16.1 points, or 0.26 per cent, at 6,289.7 points

National turnover was 2.48 billion securities traded worth \$8.01 billion

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
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* Estimated based on release date of previous report

Market Sensitive Announcements

07:52 AM

Sims Metal Management Limited (SGM) -Sims Metal Management Announces Regarding Acquisition

Sims Metal Management announced that it has agreed to acquire Fletcher Building's 50% share of the Company for NZ\$42m, excluding working capital adjustments. The transaction will take its Management's ownership of the Company to 100%. The acquisition is scheduled to complete on 29 June 2018. The transaction will be fully funded in cash and is expected to be immediately EPS accretive in FY 2019.

08:32 AM

Atlas Iron Limited (AGO) -Atlas Iron Recommends Hancock Offer

Atlas Iron announced that it notes the supplementary bidder's statement lodged on 26 June 2018 with ASIC and ASX by Redstone, a wholly-owned subsidiary of Hancock Prospecting, in relation to an off-market takeover bid for 100% of the shares in the Company for cash consideration of 4.2c per Company's share (Hancock Offer). The Company Board unanimously recommends that its shareholders accept the Hancock Offer, in the absence of a proposal and subject to an independent expert concluding (and continuing to conclude) that the Hancock Offer is fair and reasonable to its shareholders.

08:37 AM

Praemium Limited (PPS) -Praemium Signs 5-year Contract with CMC Markets

Praemium advised that it has signed a 5-year contract with CMC Markets Stockbroking (CMC) to provide Tax Tools, its advanced tax reporting solution. It has been providing Tax Tools since 2008 to a key institutional client at a previous minimum contract value of \$1m p.a. Under the new Agreement, it will continue to provide tax and CGT optimisation tools for existing Tax Tools users, who will transition to CMC. These transitioned portfolios will retain the minimum contract value of \$1m p.a. over the 5-year term. The Incremental revenue may also be derived from additional portfolios of the transitioned service or from the addition of new CMC white-label clients.

08:42 AM

Mineral Deposits Limited (MDL) -Mineral Deposits Provides Fifth Supplementary Bidder's Statement

Mineral Deposits provided fifth supplementary bidder's statement. A total of nine weeks has passed since ERAMET's Offer for the Company was announced on 27 April 2018. No other transaction proposal has emerged. ERAMET announced an increase in its Offer Price to \$1.75 cash per share. This increased Offer Price of \$1.75 represents a 59% premium to the one-month volume weighted average price of the Company shares and is higher than any Company's share price realised on the ASX since the announcement of the Offer increase. The increased Offer Price was also declared by ERAMET as final, in the absence of any alternative or competing proposal. As ERAMET's Offer is the only offer available.

09:07 AM

Flinders Mines Limited (FMS) -Flinders Mines Provides Market Update

Flinders Mines provided market update. The Company announced that a document containing a short presentation purportedly given by BBI Group (BBIG) has recently gone into limited circulation and been accessed by some of its shareholders. The Company has contacted its major shareholder, TIO (NZ) (TIO), the majority owner of BBIG, and sought information to facilitate an assessment of the materiality of the document and to properly inform Company's shareholders of its relevance. The document was not prepared by BBIG for external distribution. It was prepared for internal purposes only and some of the information in the document is preliminary, not verified, indicative only or out of date.

09:12 AM

Panoramic Resources Limited (PAN) -Panoramic Resources Announces Regarding New Concentrate Sales Agreement for Savannah

Panoramic Resources announced that Sino Nickel, Jinchuan Group and Savannah Nickel Mines (a wholly owned subsidiary of the Company) have executed a new four-year Concentrate Sales Agreement, which covers 100% of the concentrate that may be produced from the Savannah Nickel-Copper-Cobalt Project (the Project). Savannah Nickel Mines has executed a new Concentrate Sales Agreement (Agreement) with Sino Nickel. This new Agreement replaces the Extended Concentrate Sales Agreement (dated 26 March 2010), which was due to expire on 31 March 2020.

09:40 AM

AVZ Minerals Limited (AVZ) -AVZ Minerals Provides Clarification of Twitter Post by Michael Langford on 24 June 2018

AVZ Minerals announced that on 24 June 2018, Mr. Michael Langford posted on Twitter a table comparing the Company to a number of other lithium companies (Twitter Post). The Twitter Post presented information in relation to the Company which included, among other information, a mineral resource estimate and production cost estimates for the Company. Michael Langford is a principal of Airguide International which entity is engaged as the Company's strategic advisor to facilitate and advise on key relationships and a broader work program aimed at securing value-added commercial agreements with relevant counter-parties in China.

09:58 AM

Atlas Iron Limited (AGO) -Atlas Iron Provides Interim Activities Update

Atlas Iron provided an update on recent performance and ongoing initiatives. It announced a decision to increase production at its Mt Webber mine from 7 to 9 Mtpa, with the incremental production to be processed at the Company's recommissioned Mt Dove site. Subsequent to that it recorded an average realised sale price of A\$60/wmt and Full Cash Costs of A\$61/wmt on volume of 0.8m wmt for the month of May 2018. It advises that it transferred all funds held in reserve to cash at hand prior to the reserve account expiry date of 30 June 2018.

10:01 AM

Donaco International Limited (DNA) -Donaco International Provides Further Update on Legal Proceedings

Donaco International provided the following update on its legal dispute with the vendors of the Star Vegas casino business in Cambodia. It has recently been granted an injunction in its favour by the Banteay Meanchey Court of First Instance in Cambodia, to prevent the vendors of the Star Vegas business from threatening to terminate the lease of the land on which the Star Vegas sits. This injunction remains in force for an indefinite period of time, unless it can be overturned by another court or arbitration ruling.

10:01 AM

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10:15 AM

Industria REIT (IDR) -Industria REIT Announces Regarding Acquisition of Industrial Warehouse and Debt Facility Increase, Refinance and Restructure

Industria REIT noted that APN Funds Management as Responsible Entity and Manager of the Company provide an update to the market on the acquisition of 13 Ricky Way and 10 Jersey Drive, Epping, Vic and the restructure and extension of the existing Syndicated Finance Facility to a club financing structure. Its finance facilities total \$240.0m, with the nearest refinancing event being \$46.25m in September 2019. The Financial close of the debt facility amendments, which is subject to customary conditions precedent, is scheduled to occur on or before 30 June 2018. In conjunction with this restructure, an additional \$25.0m 5-year facility has been secured to support future growth initiatives. The debt facilities scheduled to expire in December 2018 have also been extended until June 2023.

10:17 AM

Pancontinental Oil & Gas NL (PCL) -Pancontinental Oil & Gas Trading Halted, Pending Company Announcement

The securities of Pancontinental Oil & Gas will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 3 July 2018 or when the announcement is released to the market.

10:55 AM

IMF Bentham Limited (IMF) -IMF Bentham Provides Australian Case Update

IMF Bentham announced that it refers to its previous announcement of 6 April 2018 regarding its conditional funding of a class action against Murray Goulburn Co-Operative and MG Responsible Entity. It announces that the funding of the Murray Goulburn unitholder class action, financed through its Rest of the World Funds (Fund 2 and Fund 3), is unconditional. Investors who purchased units in the MG Unit Trust issued by MG Responsible Entity between 29 May 2015 to 26 April 2016 (inclusive) are eligible to participate in the class action. It is continuing to take registrations from eligible persons.

11:58 AM

Retail Food Group Limited (RFG) -Retail Food Group Provides Update on Debt Facilities

Retail Food Group announced that its lenders have agreed to waive testing of the financial covenants under the Company's senior debt facilities with respect to the period ending 30 June 2018. As part of the agreement covering the waiver, the Company will be subject to additional reporting obligations. Notwithstanding the lenders' agreement to provide a waiver with respect to testing of the covenants at that date, the Board remains focussed on the Company's balance sheet position and is assessing a range of alternatives to reduce balance sheet leverage, inclusive of potential asset sales.

Research Report Summaries

Morningstar Rating

★★★

Share Price

13.500

Crown Resorts Limited (CWN) - Crown Resorts Is a Good Bet Given Strong Inbound Tourism from China

Analyst Note-Our AUD 14.00 per share fair value estimate for narrow-moat-rated Crown Resorts is unchanged, following a modest revision to our earnings assumptions. While the stock is only slightly undervalued at the current price, it offers investors an attractive dividend yield of almost 5%, partially franked. We believe the premium multiple of 24 times fiscal 2018 EPS is well justified given the quality of the business, and attractive earnings growth outlook.

We've trimmed our fiscal 2018, 2019, and 2020 earnings per share estimates by around 4% on average to AUD 0.57, 0.66, and 0.69, respectively, to incorporate the sell-down of CrownBet. This is partially offset by the AUD 150 million sale proceeds, and on balance the impact on valuation is negligible. Our three-year forecast EPS CAGR of 14% is predominantly driven by the continued recovery in VIP turnover in Melbourne, which according to our estimates should return to prearrest levels (approximately AUD 50 billion, and around one quarter of group revenue at theoretical win rate) within the next three years. Group EBITDA margins should expand by around 150 basis points to almost 28% by fiscal 2020, due to the exit from lower-margin CrownBet, operating leverage benefits with the recovery in VIP, and continued cost control.

Longer term, Australian casino operators should continue to benefit from growing inbound Chinese tourism. Crown is particularly well placed to capitalise on this trend, with its flagship property in Melbourne, and future Sydney property, targeting the premium gambler. Chinese visitors not only have a high propensity to gamble, but also a penchant for luxury hotels, high-end restaurants, and designer retail brands. These are already the key offerings at Crown Melbourne, and likely to be prominent features of the Sydney facility which will contribute between 20% and 25% of group earnings when fully ramped up by fiscal 2023.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	406.20	343.13	382.77	437.26
EPS c	55.77	47.26	56.76	66.25
P/E x	21.41	25.86	24.19	20.72
EPS Growth %	-22.70	-15.25	20.09	16.73
DPS c	72.50	60.00	60.57	60.94
Yield %	6.07	4.91	4.41	4.44
Franking %	60.9	60.0	60.0	60.0

Morningstar Rating

★★

Share Price

2.220

FlexiGroup Limited (FXL) - Second-Half 2018 Results to Reveal Effectiveness of FlexiGroup's Turnaround; AUD 1.90 FVE Unchanged

Analyst Note-We believe the extent of the success of management's investment in digitising and simplifying no-moat FlexiGroup and the acquisition of Fisher & Paykel Finance should become clearer from its second-half fiscal 2018 results. Our fair value estimate of AUD 1.90 is unchanged, and we still forecast underlying net profit after tax of AUD 85.3 million in fiscal 2018, growing to AUD 89.2 million in fiscal 2019. At our fair value estimate, we forecast FlexiGroup's fully franked fiscal 2018 dividend yield to be 4.1%, and the stock screens as fairly valued.

We believe earnings will be driven by its Australian card business, where we forecast NPAT growing by over 46% in fiscal 2018 from a low base in fiscal 2017. Australian cards have recorded impressive receivables growth, but this has not translated into higher NPAT. Most recently, closing receivables increased by 48% in first-half fiscal 2018 compared with the prior corresponding period, but NPAT grew by just 4%. However, in second-half 2018, we expect more receivables to be converted into interest-bearing from interest-free, driving stronger NPAT growth. This is consistent with management's guidance for a step-up in profitability in second-half 2018.

The other important turnaround is in the core Certegy payment plan product. We forecast NPAT in this business to fall by AUD 5 million in fiscal 2018 to AUD 29 million, before beginning to rise again in fiscal 2019 to AUD 32 million. At the first-half fiscal 2018 result, management indicated that Certegy is performing better than initially anticipated and indicated the business was tracking significantly better than the provided guidance of an AUD 7 million-AUD 9 million fall in fiscal 2018. Despite this expected improvement, the company is still facing headwinds from Australia's high household debt levels and subdued retail spending; along with increasing competition, we expect these will continue to curtail growth of point-of-sale financing products such as Certegy.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	50.20	87.40	85.62	89.74
EPS c	14.49	23.45	22.88	23.99
P/E x	17.62	9.29	9.70	9.25
EPS Growth %	-46.52	61.83	-2.43	4.81
DPS c	15.68	11.08	8.04	8.43
Yield %	6.14	5.08	3.62	3.80
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

41.600

Perpetual Limited (PPT) - Structural Issues Prompt Reduction in Perpetual's FVE to AUD 45.50 and Negative Moat Trend

Analyst Note-Structural issues facing narrow-moat Perpetual's core investment segment have prompted a reduction in its fair value estimate to AUD 45.50 per share from AUD 48.50 and a reduction in its moat trend to negative from stable. We forecast fiscal 2018 EPS of AUD 3.00 and a fully franked dividend of AUD 2.70, with near-term earnings growth reliant on rising equity markets and continued growth in its private and trust segments. The stock currently screens as moderately inexpensive.

A stronger Australian equity market should see a reduction in net outflows in fourth-quarter fiscal 2018, compared with the massive AUD 1.4 billion net outflows from its Australian equity funds from institutional clients in third-quarter fiscal 2018. Despite this, we still expect net outflows of about 12% of funds under management, or FUM, in fiscal 2018, the largest net outflows in percentage terms since fiscal 2012 (13.9%). However, 2012 was affected by poor investor sentiment due to the ASX All Ordinaries Index, or AORD, falling about 11%, whereas in fiscal 2018 the AORD is about 9% higher. This segment manages predominantly Australian equities, employing an active value style, and is facing the structural issues of industry superfunds managing more Australian equities in-house and investors increasing allocation to global assets and passive investment styles. Net outflows may also be partly due to the departure of some key portfolio managers and cyclical issues like the recent outperformance of growth over value strategies and poor short-term fund performance. However, we believe the issues to be mainly structural and forecast continued net outflows in the near term, following the acceleration in net outflows in fiscal 2017 and 2018.

While we believe that increases in Australia's supercontribution levy will foster continued growth in overall retirement FUM, global equities FUM is likely to grow faster than Australian equities, but Perpetual is not well-placed to benefit from this trend.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	132.00	137.30	140.21	137.50
EPS c	284.29	293.96	300.20	294.38
P/E x	15.09	16.56	13.86	14.13
EPS Growth %	7.14	3.40	2.12	-1.94
DPS c	255.78	264.25	270.18	264.94
Yield %	5.96	5.43	6.49	6.37
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

3.490

Primary Health Care Limited (PRY) - Medicare Indexation Freeze Ends as the New Fiscal Year Begins; Maintaining FVE for Primary

Analyst Note-We expect the much-anticipated reinstatement of Medicare rebate indexation for general practitioners effective July 1, 2018 to be positive for Primary Health Care's medical centre division, given that over 95% of services are bulk-billed and therefore highly sensitive to Medicare funding. This regulatory change underpins our assumed 2.5% uplift in growth for the division in fiscal 2019 and is incorporated into our five-year revenue CAGR of 2.9%. As such, our fair value estimate of AUD 4.00 per share is unchanged and implies the shares are currently undervalued.

Separately, we think pathology rent compliance initiatives instituted by the Australian government in 2017 are gaining traction. This bodes well for reeling rents back to an agreed definition of "market value" for pathology service providers in Australia. The Approved Collection Centre, or ACC, cost issue has dogged the industry for several years, and weighed on margins for all the listed service pathology providers. This followed deregulation in 2010 and the removal of restrictions on the number of ACCs a pathology provider could open, resulting in a dramatic rise in collection centres and escalation of rents.

In the case of Primary, estimated EBITDA margins for pathology since 2012 have declined from around 17% to 14%. Government measures, as outlined in the department's Red Book, include penalties for landlords deemed to be charging rents "substantially different" from market. As such, stabilization of rents will be positive for margins for Primary's pathology business. Our short-term EBITDA margin forecast for Primary's pathology division of around 14% remains unchanged. Our five-year revenue CAGR for the Australian pathology division also remains unchanged at 4%.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	104.00	92.10	99.33	117.11
EPS c	19.99	17.66	19.05	22.46
P/E x	18.08	21.34	18.48	15.67
EPS Growth %	-25.10	-11.65	7.86	17.90
DPS c	12.00	10.60	12.00	14.15
Yield %	3.32	2.81	3.41	4.02
Franking %	75.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

24.530

Sonic Healthcare Limited (SHL) - Medicare Indexation Freeze Ends as the New Fiscal Year Begins; Maintaining FVE for Sonic Healthcare

Analyst Note-Although overshadowed by its combined pathology divisions, both domestic and international, Sonic's medical centre business remains an important contributor to the group in terms of revenue, albeit at around 8% of the mix, and as a valuable source of pathology and imaging referrals. We expect the anticipated reinstatement of Medicare rebates indexation for general practitioners effective July 1, 2018 will be positive for Sonic's medical centre division, given that 70% of services are bulk-billed and therefore linked to Medicare funding. This regulatory change underpins our assumed 2.5% uplift in growth for the Australian division in fiscal 2019 and is incorporated into our five-year revenue CAGR of 8.5%. Nonetheless, given the relatively small revenue contribution of the medical centre division to Sonic's group revenue, our valuation remains unchanged.

Separately, we think pathology rent compliance initiatives instituted by the Australian government in 2017 are gaining traction, according to industry sources. This bodes well for reeling rents back to an agreed definition of "market value" for pathology service providers in Australia. The Approved Collection Centre, or ACC, cost issue has dogged the industry for several years, and weighed on margins for all the listed service pathology providers. This followed deregulation in 2010 and the removal of restrictions on the number of ACCs a pathology provider could open, resulting in a dramatic rise in collection centres and escalation of rents.

In the case of Sonic, estimated EBITDA margins for pathology since 2012 have declined to 18% from around 20%. Government measures, as outlined in the department's Red Book, include penalties for landlords deemed to be charging rents "substantially different" from market. As such, stabilization of rents will be positive for margins for Sonic's domestic pathology business.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	450.78	427.52	469.53	523.76
EPS c	109.17	102.04	111.93	124.77
P/E x	17.88	21.53	22.26	19.97
EPS Growth %	21.44	-6.53	9.69	11.47
DPS c	74.00	77.00	78.00	87.00
Yield %	3.79	3.51	3.13	3.49
Franking %	45.0	20.0	20.0	20.0

Morningstar Rating

★★★

Share Price

3.160

Hotel Property Investments (HPI) - Hotel Property Investments' Fortunes Unlikely to Change Following Coles Demerger and New Leadership

Analyst Note-Our fair value estimate of AUD 3.40 per narrow-moat-rated Hotel Property Investments security is unchanged, as we don't expect any disruption from the pending demerger of Coles from Wesfarmers or changes to our Standard stewardship rating following the exit of current CEO David Charles in September 2018. While bond yields are low, we expect demand to remain strong for properties with high-quality tenants such as Coles, which we expect to have an investment-grade credit rating following its demerger from Wesfarmers. At current prices, securities are trading at a slight discount to our intrinsic assessment.

Australia's second-largest supermarket chain is the key tenant of Hotel Property Investments, accounting for over 90% of the group's rental income in fiscal 2017. Coles is currently part of the Wesfarmers conglomerate, but in March 2018, the company announced it plans to demerge Coles, and we expect the transaction to proceed as proposed in fiscal 2019. We estimate the liquor business contributes 9% to Coles' sales and EBIT, and we expect the grocer to remain committed to expanding its liquor business after the demerger. On our estimates, Australian liquor retailing will grow at an average rate of 4% over the next decade. Therefore, we expect Coles to exercise its options when leases expire, and we forecast occupancy to remain at 100% in the long term. We estimate the weighted average lease expiry of Hotel Property Investment at 5.1 years as of June 2018.

Hotel Property Investments is dabbling in investments beyond its freehold pub stomping ground with the pending acquisition of an accommodation hotel predominantly catering to business guests, as opposed to the existing portfolio of hotels with revenue predominantly from food, beverage, and gaming patrons.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	27.23	28.58	25.97	30.12
EPS c	18.64	19.56	17.78	20.62
P/E x	14.27	14.98	17.77	15.32
EPS Growth %	11.16	4.96	-9.11	15.99
DPS c	18.30	19.60	19.60	20.62
Yield %	6.88	6.69	6.20	6.53
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

19.810

LendLease Group (LLC) - Lendlease's Development Pipeline Shows Greater Promise; FVE Increased to AUD 17.50

Analyst Note-Following a series of meetings with management, we have increased confidence in Lendlease Group's processes around capital allocation and risk management. We've made a series of revisions to our forecasts, which include higher return on equity for the development business, increased near-term earnings from asset sales, and a faster rate of growth in assets under management. Following these revisions, our fair value estimate increases to AUD 17.50 from AUD 16.00, with no-moat Lendlease continuing to screen as overvalued at current levels.

Our more upbeat assessment reflects a range of factors. First, we've raised the forecast return on equity for the development pipeline, as the financing structures (either fixed payments, discretionary drawdown, residual land value, or overage) result in a lower capital intensity than previously thought. Further, Lendlease is pre-selling 25%-75% of developments earlier in the development cycle, reducing the amount of capital it commits to each development and price risk.

We are more optimistic on the expected returns from the London apartment market, where Lendlease has around 6,000 apartments to deliver over the medium term. Limited land release and low levels of new high-rise apartments have created a supply shortage in London, which means high margins and fast sale-through rates for any newly completed apartment towers.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	698.20	758.70	750.49	782.55
EPS c	126.35	135.24	135.03	141.94
P/E x	10.65	10.73	14.67	13.96
EPS Growth %	12.38	7.04	-0.16	5.12
DPS c	60.00	66.00	71.00	72.50
Yield %	4.46	4.55	3.58	3.66
Franking %	0.0	4.0	4.0	4.0

Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▲ CSR	CSR	★★★	29/06/2018	Upgrade due to price change
▼ BPT	Beach Energy	★	28/06/2018	Downgrade due to price change
▲ EVT	Event Hospitality and Entertainment	★★★	28/06/2018	Upgrade due to price change
▲ FMG	Fortescue Metals	★★★	28/06/2018	Upgrade due to price change
▼ NHF	NIB Holdings	★★★	28/06/2018	Downgrade due to price change
▼ OSH	Oil Search	★	28/06/2018	Downgrade due to price change
▼ WPL	Woodside Petroleum	★★★	28/06/2018	Downgrade due to price change
▲ MTS	Metcash	★★★	27/06/2018	Upgrade due to price change
▲ MYR	Myer Holdings	★★★★★	27/06/2018	Upgrade due to price change
▲ BPT	Beach Energy	★★	26/06/2018	Upgrade due to price change
▼ ORA	Orora	★	26/06/2018	Downgrade due to price change
▲ RHC	Ramsay Health Care	★★★★★	25/06/2018	Upgrade due to price change
▲ VOC	Vocus Group	★★★★	25/06/2018	Upgrade due to price change

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