iInvest Securities
Stockbroking & Wealth Management

24-August-2018

Morningnote

Contents

Flashnotes

Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	25657	7:14am 24/08/2018	-77	-0.30
▼ S&P 500	2857	7:14am 24/08/2018	-5	-0.17
▼ NASDAQ	7878	7:31am 24/08/2018	-11	-0.13
▼ FTSE 100 Index	7563	1:50am 24/08/2018	-11	-0.15
▼ DAX 30	12366	2:00am 24/08/2018	-20	-0.16
▼ CAC 40	5419	2:15am 24/08/2018	-1	-0.02
▲ Nikkei 225 (Japan)	22411	4:20pm 23/08/2018	48	0.22
▼ HKSE	27790	6:23pm 23/08/2018	-137	-0.49
▲ SSE Composite Index	2725	5:16pm 23/08/2018	10	0.37
▼ NZ 50	9140	3:21pm 23/08/2018	-23	-0.25

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street's major indexes fell as trade-sensitive stocks were hit by a fresh round of tariffs in the trade dispute between the United States and China.

Despite ongoing talks, the two countries imposed tariffs on $US16 billion ($A22 billion) worth of each other's goods.

Shares of industrial giants Caterpillar and Boeing, which have been bellwethers of trade sentiment, were among the biggest drags on the Dow. Caterpillar shares fell 2.0 per cent, and Boeing shares fell 0.7 per cent.

In the S&P 500, the technology sector was the sole gainer, rising 0.2 per cent. But it pared gains late in the session, sending the tech-heavy Nasdaq into negative territory along with the S&P and the Dow.

"It's tough to say how far this will go," Brendan Erne, director of portfolio implementation at Personal Capital in San Francisco, said of the US-China trade dispute.

"It could be a fairly long and winding road, but at least it's encouraging that both sides are talking now."

The Dow Jones Industrial Average fell 76.62 points, or 0.3 per cent, to 25,656.98, the S&P 500 lost 4.84 points, or 0.17 per cent, to 2,856.98 and the Nasdaq Composite dropped 10.64 points, or 0.13 per cent, to 7,878.46.

The energy index fell 0.5 per cent and the materials index fell 0.7 per cent, the biggest percentage drops among the S&P's major sectors, as prices of crude oil and metals fell due to trade war worries.

The potential political fallout from the legal woes of two former advisers to US President Donald Trump also weighed on investor sentiment.

Data from the US Labor Department indicated the labour market was holding firm despite trade tensions as jobless claims fell for the third straight week.

IDP Education Limited (IEL) -IDP Education Provides FY 2018 Results

IDP Education Limited (IEL) -IDP Education Provides FY 2018 Investor Presentation

iSentia Group Limited (ISD) -iSentia Group Provides FY 2018 Results

iSentia Group Limited (ISD) -iSentia Group Provides FY 2018 Results Presentation

South32 Limited (S32) -South32 Provides Financial Results

Investors said they were keeping a close eye on the meeting of US central bankers in Jackson Hole, Wyoming, where Federal Reserve Chair Jerome Powell will speak on Friday.

His speech will be watched for clues on monetary policy after minutes from the most recent meeting indicated that the Fed would raise interest rates soon.

Shares of Hormel Foods Corp fell after the meat producer attributed its underwhelming quarterly results to Chinese tariffs, which Hormel said have led to domestic oversupply and lower prices. Hormel shares ended the session down 3.1 per cent.

Shares of Victoria's Secret owner L Brands Inc plunged 11.4 per cent to reach their lowest level since March 2011 after the retailer cut its full-year profit forecast.

Declining issues outnumbered advancing ones on the NYSE by a 1.93-to-1 ratio; on Nasdaq, a 1.42-to-1 ratio favoured decliners.

The S&P 500 posted 25 new 52-week highs and one new low; the Nasdaq Composite recorded 137 new highs and 32 new lows.

Volume on US exchanges was 5.57 billion shares, compared with the 6.35 billion average over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2053	3:22am 24/08/2018	12	0.60
▼ Copper	5967	3:22am 24/08/2018	-13	-0.22
▼ Nickel	13198	3:22am 24/08/2018	-245	-1.82
▼ Gold	1185	7:00am 24/08/2018	-6	-0.50
▼ Silver	14.4	7:01am 24/08/2018	-0.2	-1.45
▼ Oil - West Texas crude	67.8	7:10am 24/08/2018	-0.0	-0.04
▲ Lead	2042	3:22am 24/08/2018	50	2.48
▲ Zinc	2475	3:22am 24/08/2018	5	0.19
▼ Ore	68	7:10am 24/08/2018	0	-0.22

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ $A vs $US	0.7248	8:00am 24/08/2018	-0.0082	-1.12
▼ $A vs GBP	0.5659	8:00am 24/08/2018	-0.0021	-0.37
▼ $A vs YEN	80.69	8:00am 24/08/2018	-0.37	-0.46
▼ $A vs EUR	0.6280	8:00am 24/08/2018	-0.0048	-0.76
▼ $A vs $NZ	1.0925	8:00am 24/08/2018	-0.0021	-0.19
▲ $US vs Euro	0.8662	8:00am 24/08/2018	0.0031	0.35
▲ $US vs UK	0.7806	8:00am 24/08/2018	0.0058	0.75
▲ $US vs CHF	0.9859	8:00am 24/08/2018	0.0031	0.31
▼ $A vs $CA	0.9482	8:00am 24/08/2018	-0.0051	-0.53

Australian Market Report

	Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼	All Ordinaries	6360	4:31pm 23/08/2018	-13	-0.21
▼	S&P/ASX 200	6244	4:31pm 23/08/2018	-22	-0.34
▲	10-year Bond Rate	2.55	7:09am 24/08/2018	0.01	0.59
	90 Day Bank Accepted Bills SFE-Day	1.99	12:17am 24/08/2018	--	--
▲	3-yr Bond Rate	2.04	7:09am 24/08/2018	0.02	0.99

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 19 points higher at 6,240.

Thursday 23 August - close [Morningstar with AAP]: Australian shares have fallen on Thursday with banking and utilities stocks down, while the turmoil around the future of Prime Minister Malcolm Turnbull has taken its toll on the Aussie dollar.

The benchmark S&P/ASX200 index ended Thursday down 21.6 points, or 0.34 per cent, to 6,244.4 points, while the All Ordinaries was down 13.5 points, or 0.21 per cent, to 6,360.3 points.

Mr Turnbull's tenure looked doomed on Thursday as some senior ministers resigned and withdrew their support and the sitting of the House of Representatives was adjourned early.

Mr Turnbull said he would hold a leadership vote on Friday - after winning a ballot on Tuesday - only if he received a letter signed by a majority of Liberal party legislators.

The Aussie dollar was trading more than 0.8 per cent lower against the US dollar during the day and at 1700 AEST was down 0.7 per cent at 72.96 US cents.

"We are seeing elevated sovereign risk in our country, I think it looks like the Prime Minister is going to get knocked off any minute now, so there is definitely sovereign risk here compared with emerging markets," said Mathan Somasundaram, market portfolio strategist at Blue Ocean Equities.

Financials were a major factor in ASX losses but the materials and energy sectors were bulwarks against a steeper fall.

Commonwealth Bank fell 1.6 per cent to $70.75, and ANZ Bank fell 1.7 per cent to $28.72.

Mr Somasundaram said money parked in Australian financials was being redeployed as trade war fears eased somewhat, sending funds to growth-oriented investments.

In companies news, Qantas finished down 2.8 per cent at $6.53, despite reporting a record annual profit, as it flagged a rise of about $690 million in its 2018/19 fuel bill.

Mr Somasundaram said Qantas had benefited from hedging its fuel costs in the oil market, "but now that is all unwinding".

Online travel group Webjet soared $2.64, or 18.2 per cent, to $17.12 after posting a 63 per cent jump in underlying full-year profit.

South32 lifted 4.9 per cent to $3.42 after boosting full-year profit by eight per cent to $1.8 billion.

Australian energy stocks rose 0.8 per cent, after oil prices slipped but maintained much of the three per cent rise recorded on Wednesday after a larger-than-expected draw in crude inventories and as US sanctions on Iran signalled tightening supply.

The sector index's move was helped by gains in stocks such as Santos, up 11.3 per cent to $6.98 after it reported a near-doubling of underlying profit in the first half and revived its dividend.

Santos agreed on Wednesday to buy privately held Quadrant Energy for at least $2.15 billion, grabbing what may be the biggest oil find off Western Australia in more than 20 years.

ON THE ASX:

The benchmark S&P/ASX200 closed down 21.6 points, or 0.34 per cent, at 6,244.4 points

The All Ordinaries was down 13.5 points, or 0.21 per cent, at 6,360.3 points

Companies Commencing Ex-Dividend Trading Today (ASX 300):

- Ansell Limited
- Bingo Industries Limited
- Class Limited
- Ingenia Communities Group

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
BAL*	Bellamy's Australia Limited	Annual
BSL*	BlueScope Steel Limited	Annual
CLQ*	Clean TeQ Holdings Limited	Annual
SGP*	Stockland	Annual
SUL*	Super Retail Group Limited	Annual
ARQ*	ARQ Group Limited	Interim
WPP*	WPP AUNZ Ltd	Interim
AHG*	Automotive Holdings Group Limited	Prelim
BAL*	Bellamy's Australia Limited	Prelim
CLQ*	Clean TeQ Holdings Limited	Prelim
MPL*	Medibank Private Limited	Prelim
MYX*	Mayne Pharma Group Limited	Prelim
PTM*	Platinum Asset Management Limited	Prelim
REG*	Regis Healthcare Limited	Prelim
SGM*	Sims Metal Management Limited	Prelim
SHV*	Select Harvests Limited	Prelim
ARQ*	ARQ Group Limited	Interim
MYO	MYOB Group Limited	Interim
BXB	Brambles Limited	Prelim
CGC	Costa Group Holdings Limited	Prelim
MPL	Medibank Private Limited	Prelim
MYX	Mayne Pharma Group Limited	Prelim
SDF	Steadfast Group Limited	Prelim
SGM	Sims Metal Management Limited	Prelim
SGR	The Star Entertainment Group Limited	Prelim
SKT	Sky Network Television Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

07:38 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides FY 2018 Annual Results

Auckland International Airport provided FY 2018 annual results. It is Completing the $120m, 12,240 sqm extension of the international terminal Pier B adding critical new aircraft stand and pier capacity. The Total profit after tax rose 95.3% to $650.1m.

07:40 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides Monthly Traffic Update - July 2018

Auckland International Airport provided monthly traffic update. Auckland Airport experienced total passenger growth of 1.9% in July 2018. International passengers were up 2.5%, while domestic passengers grew by 1.8% compared to July 2017. International passenger growth was predominantly driven by additional capacity on the Asia and Pacific Island routes. Domestic growth was also driven by capacity additions, mainly on the Auckland to Dunedin and Queenstown routes.

07:44 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides FY 2018 Annual Report

Auckland International Airport provided FY 2018 annual report. The Company continued strengthening its airport planning, development and delivery capability during this period of highly complex brownfield interconnected infrastructure construction to ensure that it deliver on building its airport of the future. It has invested over $1m every day to build infrastructure and facilities that will meet the long-term needs of its airline partners, the travelling public and its commercial property clients.

07:48 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides FY 2018 Annual Results Presentation

Auckland International Airport provided FY 2018 annual results presentation. The Aeronautical revenue slightly up on prior year reflecting growth in passengers and runway movements, largely offset by a reduction in international and regional aeronautical prices. Retail income rose following Duty Free moving into the new space at the start of the financial year and the expanded space from early December 2017. The Parking revenue increased with 1,000 new spaces. Domestic passenger volumes increased by 7.7% driven by additional capacity on both trunk and regional routes, combined with strengthening load factors.

07:51 AM

NZME Limited (NZM) -NZME Provides Financial Results for the First Half of 2018

NZME reported financial results for the first half of 2018 that reflected modest declines in revenue in a difficult market and an increased rate of investment in new revenue streams. The Statutory NPAT declined 53% on H1 2017 to $3.7m. Trading NPAT is $5.5m and Trading EPS is 2.8c, both declined 44% on H1 2017.

07:53 AM

NZME Limited (NZM) -NZME Provides Half Year Results for 2018

NZME provided half year results for 2018. Trading Revenue declined 3% compared to H1 2017 as ongoing pressure on print advertising revenues was not entirely offset by market share gains and strong digital revenue growth. Net debt was $106.1m at 30 June 2018, up from $90.2m at 31 December 2017 but little changed on 30 June 2017. Net cash flow was impacted by the timing of 2017 tax payments. Capital expenditure was $7.1m in H1 2018, compared to $6.8m in H1 2017. The Gearing and liquidity ratios are sound, and it retains undrawn bank facilities of $41.2m.

07:58 AM

NZME Limited (NZM) -NZME Provides Appendix 1

NZME reported profit from ordinary activities after tax was NZ$3.7m compared to a profit of NZ$7.8m in the comparative period. The NPAT for the 6 months to 30 June 2018 is NZ$ 3.7m is down 52.9% from the NPAT for the 6 months to 30 June 2017 of $7.8m. The Net tangible assets per share as at 30 June 2018 was NZ$ (0.23) compared to NZ$ (0.26) as at 30 June 2017.

08:03 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides FY 2018 Annual Results

Auckland International Airport provided FY 2018 annual results. The amount per security is $0.110. The record date is 5 October 2018 and application date is 19 October 2018. The resident withholding tax is $0.007639.

08:07 AM

Auckland International Airport Limited (AIA) -Auckland International Airport Provides FY 2018 Results at a Glance

Auckland International Airport provided FY 2018 results. The total proposed dividend for the year is 21.75c. The Underlying profit per share is 22.0c. The EPS is 54.3c. The Total assets is $8,196.8m.

08:09 AM

IDP Education Limited (IEL) -IDP Education Provides FY 2018 Results

IDP Education provided FY 2018 results. For the twelve months to 30 June 2018, the Company reported total revenue of $487m, an increase of 24% compared to FY 2017. Earnings before interest, tax, depreciation and amortisation (EBITDA) was $89m which represents growth of 30% compared to FY 2017.

08:11 AM

IDP Education Limited (IEL) -IDP Education Provides FY 2018 Investor Presentation

IDP Education provided FY 2018 investor presentation. It Continued investment driving organic growth and digital transformation. 13 new offices established in key growth markets - India, Bangladesh, Indonesia, China, NZ and Egypt. It Continued product improvement with roadmap of ongoing innovation. The Final dividend is 6.5cps franked at 60%.

08:13 AM

iSentia Group Limited (ISD) -iSentia Group Provides FY 2018 Results

iSentia Group provided FY 2018 results. On a statutory basis, revenue was $137.1m ($155.1m pcp) and media intelligence revenue was $132.6m ($140.8m pcp). Revenue growth was impacted by the operating environment in ANZ which was partially offset by growth in Asia's value-added services (VAS). EBITDA was $28.6m ($41.5m pcp) and media intelligence EBITDA was $33.1m ($45.9m pcp). The exit from the content marketing business was completed to schedule during FY 2018 with an EBITDA loss of $4.5m.

08:16 AM

iSentia Group Limited (ISD) -iSentia Group Provides FY 2018 Results Presentation

iSentia Group provided FY 2018 results presentation. The Net debt reduced to $43.1m from $51.7m at 30 June 2017. The operating cash flow of $28.4m reflects high level of recurring revenue. The EBITDA is $33.1m in line with FY 2018 guidance of $32-36m.The Revenue is $132.6m slightly below guidance of $133-136m.

08:19 AM

South32 Limited (S32) -South32 Provides Financial Results

South32 provided financial results. The Group's statutory profit after tax increased by US$101m (or 8%) to US$1.3bn in FY 2018. The Consistent with its accounting policies, various items are excluded from the Group's statutory profit to derive Underlying earnings including: redundancy and restructuring charges associated with the simplification of the Group's functional structures and the voluntary redundancy program undertaken at Illawarra Metallurgical Coal (US$58m pre-tax). On this basis, the Group generated Underlying EBITDA of US$2.5bn for an operating margin of 37% as higher realised prices for the majority of its commodities gave rise to a US$599m increase in sales revenue.

Research Report Summaries

Morningstar Rating

★★★

Share Price

6.370

Auckland International Airport Limited (AIA) - Auckland Airport's Retail Investments Paying Off, and Margin Uplift Around the Corner; Raising FVE

Analyst Note-Wide-moat Auckland Airport's fiscal 2018 results highlighted the positive impact of the group's ongoing investments. While total passenger growth slowed versus the prior year, as discussed in our note dated July 23, 2018, and lower passenger fees crimped aeronautical revenue growth--both in line with our expectations--retail revenue shot up an impressive 17%, as the airport began to open new commercial space in the international terminal. This timing was slightly earlier than we had expected, and underlying NPAT of NZD 263 million outperformed management guidance for NZD 250 million to NZD 257 million, and our NZD 256 million forecast. Nonetheless, the company's outlook for fiscal 2019 NPAT in a range of NZD 265 million to NZD 275 million matches our forecast for NZD 275 million (which we've increased from NZD 269 million due to slightly lower interest expense), keeping the firm on track to meet our expectations. We increase our fair value estimate to NZD 7.40 from NZD 7.20 due to the time value of money, although our Australian valuation falls to AUD 6.70 from AUD 6.80 on the back of a weaker New Zealand dollar. Shares currently screen as slightly undervalued.

We expect Auckland Airport to enjoy continued high-single-digit revenue growth over the medium term, stemming from low-single-digit passenger traffic gains, positive mix shift toward international traffic, which carry higher landing fees, and continued strong gains in nonaeronautical revenue such as retail and property income. Auckland met these expectations in fiscal 2018, growing consolidated revenue nearly 9% on the back of roughly 6% passenger growth. Beyond the solid retail revenue gains, the firm enjoyed 8% growth in car park revenue and 15% gains in property rental income. We expect further new parking capacity additions and property development in fiscal 2019, leading to 6% and 19% respective top line gains for these segments.

FYE Jun	**2017A**	**2018A**	**2019E**	**2020E**
Reported Npat $m	229.44	239.18	249.95	247.09
EPS c	19.27	19.98	20.95	20.72
P/E x	33.63	30.15	29.97	30.31
EPS Growth %	15.37	3.70	4.87	-1.13
DPS c	18.98	19.55	20.95	20.72
Yield %	2.93	3.24	3.34	3.30
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

2.990

Air New Zealand Limited (AIZ) - Air New Zealand Delivers Modest Earnings Growth in Fiscal 2018 Despite Spike in Fuel Cost

Analyst Note-Air New Zealand reported fiscal 2018 net profit after tax of NZD 390 million, up 2% on the prior year and in line with our estimates. This is a solid result, given the 20% jump in fuel costs, and the intense competition on the international routes. We maintain our NZD 2.60 per share fair value estimate, along with our no-moat rating. We still believe the stock is overvalued at the current price, and we expect higher fuel prices to weigh on near-term earnings. The board declared a final dividend of NZD 0.11 per share, taking the full year dividends to NZD 0.22 per share (fully imputed for New Zealand tax residents), a 5% increase on the prior year and equivalent to around 64% of EPS.

Management guided to fiscal 2019 EBIT of between NZD 425 million and NZD 525 million, which implies a decline of between 3% and 21%. We believe this wide range reflects the volatility of the airline industry, and the jet fuel price is likely to be the main driver. Domestically the company has some pricing power, and for the most part should be able to pass through the higher fuel bill. However, the international segment is likely to be the hardest hit by the higher fuel price, and given the competitive intensity, passing through the prices will be more challenging, as evidenced by the fiscal 3% decline in yield during fiscal 2018. We expect the company’s operating margin to get hit during fiscal 2019, declining by over 200 basis points to 8%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	358.27	358.75	281.08	331.69
EPS c	31.43	31.63	25.03	29.54
P/E x	6.88	9.54	11.94	10.12
EPS Growth %	-30.83	0.65	-20.87	18.01
DPS c	19.81	20.24	14.52	17.24
Yield %	9.16	6.71	4.86	5.77
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

19.100

EBOS Group Limited (EBO) - Ebos Group Meets Expectations but Chemist Warehouse Potentially Negative for Margins Ahead

Analyst Note-We reaffirm our NZD 20 per share (AUD 18.00 per share using an Australian dollar/New Zealand dollar exchange rate of 1.09) fair value estimate for narrow-moat Ebos Group after the company met expectations with net profit after tax for fiscal 2018 of NZD 152 million up 10% in constant currency terms. This compares with our forecasts of NZD 154 million.

The highlight of the result was the incremental EBITDA margin expansion in both the Australian healthcare and smaller animal care divisions, leading to group margin uplift of 43 basis points to 3.75%. At current levels, we consider shares in Ebos as slightly overvalued and think the market is underestimating the potential risk to margins the Chemist Warehouse, or CW, contract commencing in July 2019 represents.

As the major driver of earnings representing 70% of group EBITDA in fiscal 2018, we support efforts by Ebos to build scale and diversify distribution channels in the Australian healthcare division. We expect positive contribution of HPS, acquired in June 2017, in the hospital channel to continue, driven by growing volume of higher-priced PBS-approved medicines targeting complex indications such as cancer in these settings such as Keytruda and Opdivo.

On the franchise front, we think the additional 80 stores managed by the Venture management company acquired in April 2018 will complement the Terry White franchise operations totaling 400 stores and increase efficiencies along with growing the opportunity to market proprietary lines such as the Red Seal products to a larger client base.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	132.00	137.21	148.09	174.58
EPS c	86.97	90.32	97.09	114.45
P/E x	19.00	18.28	19.67	16.69
EPS Growth %	8.50	3.85	7.49	17.89
DPS c	60.00	62.84	68.30	79.74
Yield %	3.63	3.81	3.58	4.17
Franking %	0.0	0.0	25.0	25.0

Morningstar Rating

★★★

Share Price

5.860

Fletcher Building Limited (FBU) - Improved Earnings in Challenging Fiscal 2018 For No-Moat Fletcher; Construction Outlook Lower

Analyst Note-No-moat Fletcher Building delivered a satisfactory fiscal 2018 result in a challenging year, with underlying EBIT of NZD 710 million, up 35% on the prior year. Operating income was within the prior guided range of NZD 680 million–720 million and in line with our forecast of about NZD 710 million. While we've revised our near-term margin expectations lower, we still expect to see gradual margin improvement over the coming decade, to 9.5% in fiscal 2027 up from our forecast of 7.5% EBIT margins in fiscal 2019. We expect margins to widen slower than our prior expectations and we reduce our fair value estimate by 7% to NZD 6.50 per share (AUD 5.90), accordingly.

Following a strong New Zealand residential market in fiscal 2018, where consents climbed 8%, and a toppish but nonetheless persistent Australian market, the outlook for both markets is softer in fiscal 2019. The revenue headwind from lower residential construction will be compounded by Fletcher's wind down of their loss-making B+I business within the construction segment. We expect the B+I backlog of NZD 1,784 million in projects to gradually complete over the next several years. Providing some offset, however, is infrastructure and nonresidential spending, which are expected to strengthen. We now expect group sales growth to ease slightly from our prior forecasts, growing at a 10-year CAGR of 1.8% with the front end of the decade challenged by the aforementioned headwinds. We expect more normalised sales growth to eventuate in the latter five years of our forecast period, however, averaging 4.1% a year.

Fletcher expect fiscal 2019 earnings to be largely in line with fiscal 2018, excluding land development which is expected to deliver lower earnings. Thus, around NZD 700 million in EBIT is expected by management. We concur and expect operating income of NZD 708 million in fiscal 2019, reflecting softer EBIT margins of 7.5% and revenue easing by 0.9% to NZD 9.38 billion.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	297.22	-74.67	410.21	390.18
EPS c	42.82	-10.03	48.07	45.73
P/E x	21.09	-66.73	12.09	12.71
EPS Growth %	-19.31	-123.42	0.00	-4.88
DPS c	36.11	0.00	27.27	36.36
Yield %	4.00	0.00	4.69	6.26
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★

Share Price

61.680

Flight Centre Travel Group Limited (FLT) - Flight Centre Flying High on Overseas Growth

Analyst Note-We raise our fair value estimate for no-moat-rated Flight Centre Travel Group by 3% to AUD 38 following better-than-expected fiscal 2018 results. Underlying profit before tax, or PBT, of AUD 385 million represents a 17% growth year on year and 2% higher than our forecast, landing at the top end of the guidance range of AUD 360 million-385 million. The final fully franked DPS of AUD 1.07 took total dividends for the year to AUD 1.67, an increase of 20% and based on a 60% payout.

The strong profit growth was underpinned by a 9% increase of total transaction value to a record AUD 21.8 billion, particularly boosted by the Americas and EMEA segments. Furthermore, underlying PBT margin lifted to 1.76% from 1.64% as impressive top-line performance more than offset a 12% rise in costs, especially related to expansion into the tour space. Following the higher-than-expected PBT growth in fiscal 2018, we see the current cost-efficiency program continuing to deliver benefits for the group and thus upgraded our PBT forecasts by 4% across the next few years, reflecting the recovery of net margin in the near term.

Although we increased our near-term earnings assumption, we believe the positive sentiments are more than reflected in the current stock price. The current consensus-based forward price/earnings multiple of 21.9 times sits materially above the five-year average of 15.7 times, as does the current enterprise value/EBITDA of 12.5 times versus the five-year average of 7.4 times. We expect structural pressures on Flight Centre's physical store-based model are only likely to intensify as consumers become more comfortable with dealing directly with suppliers and online agencies and technology continues to erode the information imbalance between Flight Centre and the leisure traveller. Shares in Flight Centre are trading at a 60% premium to our intrinsic assessment.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	234.84	287.00	284.53	280.32
EPS c	231.72	282.99	281.51	277.34
P/E x	14.18	17.85	21.91	22.24
EPS Growth %	-5.16	22.12	-0.52	-1.48
DPS c	139.00	167.00	167.00	175.00
Yield %	4.23	3.31	2.71	2.84
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

13.460

IRESS Limited (IRE) - Iress Demonstrates Good First-Half Cost Control; FVE Increased to AUD 11.00

Analyst Note-Narrow-moat-rated Iress' first-half financial result was stronger than we were expecting. However, the 15% subsequent share price jump looked disproportionate to the result, and we expect the general bullish sentiment towards technology stocks was the main reason for the share price rise. First-half group revenue growth of 8.4% versus the prior comparable period was stronger than our full-year growth forecast of 7.1%, but constant-currency growth was only 6.3%. Similarly, the contribution margin grew by 8.3%, ahead of our 7.0% forecast, but was just 6.5% on a constant-currency basis.

We have increased our fiscal 2019 EBITDA forecast by 5% to AUD 129 million to reflect the stronger-than-expected first-half revenue growth and lower-than-expected cost growth. This implies EBITDA growth of 11% versus the prior year, which exceeds management guidance. We've also adjusted longer-term forecasts, with EBITDA increasing by a similar amount in future years. Combined with a 2% boost from the time value of money, our fair value estimate has increased by 8% to AUD 11.00. However, at the current market price of AUD 13.46, we still believe the shares are overvalued. The market price and our forecasts imply a fiscal 2019 price/earnings ratio of 30, versus 24 at our fair value, and a dividend yield of 3.4%, or 4.3% including franking credits. We forecast an EPS CAGR of 8% over the next decade.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	72.80	74.15	79.06	84.81
EPS c	44.58	43.28	45.67	48.74
P/E x	25.09	27.38	29.47	27.62
EPS Growth %	2.24	-2.92	5.54	6.71
DPS c	42.70	42.70	46.00	46.00
Yield %	3.82	3.60	3.42	3.42
Franking %	60.0	60.0	60.0	60.0

Morningstar Rating

★★

Share Price

2.390

Nine Entertainment Co. Holdings Limited (NEC) - Investors on Love Island with Nine

Analyst Note-We lift our fair value estimate on Nine Entertainment by 13% to AUD 1.70 per share. While the stellar 25% jump in fiscal 2018 underlying EBITDA to AUD 257 million was in line with our expectations, we were impressed with the quality of the result. The 2% beat relative to our forecast on TV EBITDA (up 27% to AUD 238 million, over 90% of group total) was particularly notable, leading to TV EBITDA margin of 20.7%, from 17.4% a year ago. The performance highlights the sheer operating leverage in Nine--one that can magnify when revenue tailwinds from a recovering TV advertising market (up 2.5% in fiscal 2018) combines with Nine's strong ratings growth (commercial share up 1.9 points) on a largely fixed-cost base.

Strength of the operating momentum is such management has guided to fiscal 2019 EBITDA of AUD 280 to 300 million, necessitating a circa 20% upgrade to our near-term earnings estimates. In fact, our AUD 309 million EBITDA projection for fiscal 2019 is higher than guidance, as we believe Nine's forecast 1% growth for the TV advertising market in fiscal 2019 is conservative (we forecast 2%), especially with likely flow of political advertising amid current turmoil in Canberra.

The increase to our fair value estimate is a more modest 13%, as our view remains anchored on a long-term, midcycle TV revenue market share and EBITDA margin of 37.5% and 16.5%, respectively. This compares with Nine's eight-year historical average of 37.0% for revenue share and 19.3% for EBITDA margin, with our conservatism predicated on continuing structural threats from digital media giants on TV consumption.

Shares in no-moat Nine remain at a substantial premium to our intrinsic assessment, due to investors' willingness to extrapolate the current earnings momentum. And we commend Nine for taking advantage of this buoyant stock price to acquire Fairfax--a combination that will ensure audience and advertiser relevance, at least longer than if these two entities stayed independent.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	123.62	156.73	185.11	168.63
EPS c	14.21	17.86	21.24	19.35
P/E x	7.59	10.02	11.25	12.35
EPS Growth %	4.42	25.70	18.94	-8.90
DPS c	9.50	10.00	12.00	11.00
Yield %	8.81	5.59	5.02	4.60
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

6.530

Qantas Airways Limited (QAN) - Qantas FVE Lifted to AUD 5.00 per Share on Stronger Margins and Lower Long-Term Fuel Price

Analyst Note-Fiscal 2018 was another stellar result for no-moat-rated Qantas, with underlying profit before tax up 15% to AUD 1.6 billion, despite a 25% jump in the jet fuel price. The key earnings drivers were strong ticket revenue across Qantas Domestic, Qantas International, and Jetstar, which each increased revenue by 5%-8%. EBIT margins were also solid, expanding by 60 basis points at the group level to 10.5%, reflecting ongoing transformation benefits. While this performance was consistent with our expectations, we are becoming increasingly confident in the company's ability to extract cost efficiencies and increase prices, offsetting operating cost inflation and the growing fuel bill, ultimately helping to sustain margins. The balance sheet is also strengthening, which has allowed the company to return around AUD 3 billion of surplus capital to shareholders since October 2015, through a combination of dividends, share buybacks, and capital returns. The board declared a final dividend of AUD 0.10 per share (fully franked), up from AUD 0.07 in the prior corresponding period. As the company has exhausted its accumulated tax losses, we expect future dividends to be fully franked.

We increase our fair value for Qantas by 20% to AUD 5.00 per share. This follows a revision of our cost base assumptions, including oil, which we expect to peak during fiscal 2019 and commence falling thereafter, along with transformation benefits, which we expect will meet the company's AUD 400 million fiscal 2019 target. We also anticipate stronger yields, particularly in the domestic market (which increased by approximately 8% in fiscal 2018), where the company should be able to pass most of the cost pressure onto consumers.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	1,011.74	1,123.84	1,114.05	1,215.84
EPS c	54.60	64.00	66.19	72.24
P/E x	6.69	9.05	9.87	9.04
EPS Growth %	2.82	17.22	3.43	9.14
DPS c	14.00	17.00	19.86	23.48
Yield %	3.83	2.94	3.04	3.60
Franking %	0.0	58.82	100.0	100.0

Morningstar Rating

★★

Share Price

21.620

Seven Group Holdings Limited (SVW) - Seven Group Profit Excites the Market for No Apparent Reason. No Change to AUD 12.50 FVE

Analyst Note-Seven Group shares initially jumped 16% upon release of fiscal 2018 results, and at the time of writing, are up nearly 9% at AUD 22.06. The market clearly loves it, but we're not sure why. Underlying fiscal 2018 NPAT, including expensing of TELYS dividends, increased 62% to AUD 308 million, 8% below our AUD 335 million forecast. The full-year ordinary dividend of AUD 42 cents was also below our expectations, barely changed on a lower-than-anticipated 43% payout. Net operating cash flow fell 15% to a lower-than-expected AUD 230 million. Yet the shares defy gravity.

Our fair value estimate remains AUD 12.50 per share. That equates to a fiscal 2023 EV/EBITDA of 7.8 after stripping out AUD 383 million lump sum for the S&P/ASX 200 share portfolio and property assets. It also equates to an adjusted fiscal 2023 price/earnings of 13 and dividend yield of 4.9%. We assume five-year group revenue CAGR of 2.5% to AUD 3.9 billion at a midcycle EBITDA margin of 21.2%. That compares with fiscal 2018 revenue of AUD 3.5 billion at 18.4% EBITDA margin. We think a plus AUD 22 share price implies considerably more aggressive five-year revenue CAGR of 3.1% and EBITDA margin of 28.6%. We struggle to entertain such a high margin or revenue combination given our outlook for mining and infrastructure spending.

Seven Group says Westrac continues to benefit from growth in mining production and an ageing Cat heavy equipment fleet is driving product support business. We credit moderate 1.4% five-year revenue CAGR for Westrac, with an eye to Morningstar's forecasts for deteriorating commodity prices, including anticipated pull-back in iron ore prices to USD 38 per tonne by fiscal 2020 versus recent USD 68 per tonne pricing. This is probably a key differentiator between our view and the market's view, with Westrac comprising just over 30% of our fair value estimate. We do however assume a 10% Westrac midcycle EBITDA margin, bettering fiscal 2018's 9.4% print.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	190.10	307.50	349.73	349.74
EPS c	67.59	97.22	110.51	110.51
P/E x	13.35	15.67	19.96	19.96
EPS Growth %	21.38	43.83	13.67	0.00
DPS c	41.00	42.00	66.30	66.31
Yield %	4.54	2.76	3.01	3.01
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

1.330

Southern Cross Media Group Limited (SXL) - Southern Cross Media Enjoying Today's Recovery

Analyst Note-Southern Cross Media reported a 13% decline in EBITDA for fiscal 2018, in line with our expectation, to AUD 155 million. Despite lower revenue from the sale of the northern New South Wales television business, fundamentals are encouraging with like-for-like sales up 0.6%. Critically, revenue growth has stepped up to 5% so far in fiscal 2019, while the continuing ratings recovery for the metropolitan radio unit is highly encouraging. A such, we have upgraded our fair value estimate for no moat-rated Southern Cross by 8% to AUD 1.40 per share.

Regional revenue increased 3% like for like in fiscal 2018, leading to EBITDA of AUD 115 million. Radio was the strongest driver, where national advertising revenue increased 15% on the prior year. This is encouraging, considering that national advertisers spend only 9% of their budget in regional areas which account for 30% of the population. In TV, Southern Cross continues to piggy-back on Nine’s ratings success and lifted revenue 4%.

Metropolitan radio revenue fell 2%, leading to a 4% decline in EBITDA to AUD 58 million. This was mainly due to the remnant impact of the poor first half. Improvement was stark in the second half, with June-half EBITDA up 5% to AUD 31 million, driven by improved 2DayFM ratings share. The wider network added 0.1 million listeners in fiscal 2018 to 5.2 million. Investment in PodcastOne continues and has achieved a promising 45 million downloads in the one year since launch, but monetisation remains at an early stage.

The debt-reduction program continues, as net debt fell a further AUD 17 million during fiscal 2018 to AUD 304 million. Financial covenants improved and remain comfortable, with leverage ratio of 1.8 well below the 3.5 covenant limit. At these levels, Southern Cross is in a good position to sustain its dividends while investing in projects such as digital radio PodcastOne. The board declared a final DPS of AUD 0.04, bringing DPS to AUD 0.0775 for the full year.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	93.76	76.28	80.82	87.75
EPS c	12.15	9.87	10.51	11.41
P/E x	11.23	12.05	12.65	11.66
EPS Growth %	20.34	-18.76	6.47	8.56
DPS c	7.75	7.75	7.75	8.20
Yield %	5.68	6.52	5.83	6.17
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

2.260

Village Roadshow Limited (VRL) - Set for a Village Rebuild

Analyst Note-Village Roadshow's fiscal 2018 result contained no surprises. The 33% slump in EBITDA to AUD 91 million and the AUD 7 million normalised net loss were both in line with our expectations. This is just as well, given that it was only six weeks ago management provided earnings guidance as part of disclosure to raise AUD 50 million from shareholders.

This is an exercise that has provided much-needed relief to the balance sheet, which ended fiscal 2018 with an alarming net debt/EBITDA of 3.7 times. We project this leverage metric to fall to 2.5 times by the end of fiscal 2019, driven not only by the equity raising in July but also a material reduction in forecast capital expenditure (to AUD 51 million, from AUD 85 million in fiscal 2018). Furthermore, there is no change to our substantial 26% forecast lift in fiscal 2019 EBITDA to AUD 114 million--a level that is still substantially below the historical five-year average of AUD 147 million.

We see operating performances in fiscal 2019 to date as supportive of our recovery assumptions. First, yield on theme park ticket sales is up 35% in July from a year ago, accelerating from the 16% growth in the June-half. This is an encouraging sign of a more rational pricing environment on the Gold Coast, with aggressive discounting finally dissipating. Second, the new TopGolf venue is on track to contribute AUD 5 million in EBITDA in fiscal 2019. Third, three recently-opened cinemas will boost earnings, further aided by a better film slate. Finally, we see collateral damage from the Dreamworld tragedy receding, albeit gradually, with our fiscal 2019 theme parks EBIT forecast of AUD 15 million still materially below the normalised five-year average of AUD 50 million.

Shares in no-moat-rated Village are trading at a 10% discount to our unchanged AUD 2.50 fair value estimate. While balance sheet fears are largely gone, scepticism over management's ability to steer a meaningful earnings recovery appears to be lingering.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	23.61	-7.29	13.01	28.59
EPS c	14.56	-4.51	7.33	14.80
P/E x	30.46	-75.98	30.83	15.27
EPS Growth %	-53.58	-130.95	-262.55	102.02
DPS c	0.00	0.00	0.00	6.00
Yield %	0.00	0.00	0.00	2.65
Franking %	0.0	0.0	100.0	100.0

Morningstar Rating

★

Share Price

23.730

Wisetech Global Limited (WTC) - WiseTech Global's FVE Increased to AUD 6.20, but Shares Still Look Expensive

Analyst Note-We were extremely surprised by the market's reaction to narrow-moat-rated WiseTech Global's fiscal 2018 financial results, with the 28% increase in its share price implying that the company had significantly exceeded consensus estimates or made a particularly material announcement. Although management provided new earnings guidance for fiscal 2019, the EBITDA guidance of AUD 100 million to AUD 125 million was similar to consensus and our estimates. The market may have been impressed by the increase in growth between the first and second halves, with annual organic revenue growth appearing to accelerate to 32% from 26%. However, we suspect there's a degree of volatility in the semiannual growth rates, and the full-year organic growth rate of 29% fell from 52% in the prior year and 80% in fiscal 2016.

We have increased our earnings forecasts to reflect the implied organic growth rate and likely future contributions from recent acquisitions. Over the next five years, our revenue forecasts have increased by an average of 16%, and our fiscal 2019 revenue forecast of AUD 341 million now exceeds management's guidance of AUD 315 million to AUD 325 million, which we're comfortable with considering that guidance has either been increased or exceeded multiple times since the IPO in 2016. However, higher expense assumptions mean our EBITDA forecasts have increased by an average of 9% over the next five years and our fiscal 2019 EBITDA forecast of AUD 120 million is toward the top of the guidance range.

The increase in our earnings forecasts have driven an 8% increase in our fair value estimate to AUD 6.20, but this remains significantly below the current market price of AUD 19.90. Based on this price and our forecasts, the fiscal 2019 P/E ratio is 88 versus 27 at our fair value. However, if all research and development costs were expensed, the market-implied P/E increases to 154 versus 48 at our fair value. Our forecasts assume an EPS CAGR of 17% over the next decade.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	32.36	40.92	66.74	80.30
EPS c	11.03	13.94	22.74	27.36
P/E x	51.98	80.52	87.51	72.73
EPS Growth %	102.80	26.34	63.10	20.32
DPS c	1.00	2.70	4.00	5.00
Yield %	0.17	0.24	0.20	0.25
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

6.980

Santos Limited (STO) - Santos Quickly Justifies Harbour's Rejection With Acquisition of Its Own; FVE Increased to AUD 7.00

Analyst Note-We increase our fair value estimate for no-moat Santos by 7.5% to AUD 7.00 per share following the announced purchase of Quadrant Energy for USD 2.15 billion, using cash balances and debt. Santos' first-half 2018 underlying NPAT of USD 217 million was in line with our USD 215 million expectations, with no implication for fair value or earnings forecasts. But the overshadowing Quadrant acquisition looks a beauty, and our initial assessment of 7.5% fair value accretion has every chance of proving conservative. In 2019, the first full year of earnings contribution, we estimate Quadrant to drive 26% EBITDAX per share growth (the X stands for exploration), close to Santos' assessment of around 30%.

Under CEO Kevin Gallagher's direction, Santos is again showing itself making all the right moves. Not too long ago, an acquisition of this scale would have resulted in a sharp rebuke from a market still smarting from Santos' debt crisis. Now, the shares rise and at AUD 6.95 trade close to our increased fair value estimate. Risk around Santos' midyear rejection of Harbour's AUD 7.00 takeover bid is rapidly evaporating.

Quadrant increases Santos' pro forma 2017 proven and probable, or 2P, reserves by 26%, or 220 mmboe, to 1,068 mmboe, and production by 32%, or 19 mmboe, to 79 mmboe. That places Santos in the realms of Woodside's 84 mmboe 2017 production. Santos isn't buying anything it doesn't already know well, isn't overstretching its balance sheet, and isn't running off on a tangent. It already owns material stakes in Quadrant assets and anticipates combination synergies of USD 30 million-USD 50 million annually. We assume the low end, which would mean no increase in administrative costs despite the increase in scale. Santos expects Quadrant to result in net debt/net debt plus equity of just 34% at end 2018 versus the current 25%, and for this to fall below 30% by end 2019. We estimate 26% by end 2019, and the dividend policy (only recently announced) will stand.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	83.23	437.85	895.42	1,325.53
EPS c	4.53	21.02	42.99	63.64
P/E x	88.53	18.48	14.58	9.85
EPS Growth %	15.13	363.89	104.54	48.03
DPS c	0.00	0.00	7.03	15.34
Yield %	0.00	0.00	1.12	2.45
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★

Share Price

20.090

WorleyParsons Limited (WOR) - WorleyParsons' Fiscal 2018 Profit Largely in Line. No Change to AUD 6.30 FVE

Analyst Note-Despite a number of minor assumption changes for no-moat oil industry engineering specialist WorleyParsons, our AUD 6.30 fair value estimate stands. Underlying fiscal 2018 NPAT increased by 39% to AUD 171 million, marginally below our AUD 177 million expectations. Revenue increased 9% to AUD 4.7 billion, a touch below our AUD 4.9 billion forecast, while EBITDA margin held at 7.4%--weaker than our 7.6% forecast. Revenue growth was driven by the UK IS acquisition rather than underlying improvement. Cash conversion was strong with net operating cash flow jumping threefold to AUD 261 million, ahead of our AUD 210 million target. However, the final dividend of AUD 15 cents was below expectations, bringing the full-year distribution to AUD 25 cents on a lower-than-anticipated 40% payout of underlying NPAT. As with all things mining services, the market appreciated the news and pushed the stock 4.4% higher to close on AUD 19. At that price, we view Worley as materially overvalued.

Worley's contract backlog continues to recover, up 25% to AUD 6.4 billion from AUD 5.1 billion, though the U.K. acquisition again featured. In revenue terms, the year-end 36-month backlog remains comparatively low, however, there have apparently been significant new awards of AUD 400 million since the fiscal year-end, above typical levels. Worley will need the positive trend to continue to build up revenue life in addition to driving growth. Our fair value estimate assumes 1.3% five-year revenue CAGR to AUD 5.1 billion by fiscal 2023 and a midcycle EBITDA margin of 8.6% versus fiscal 2018's 7.4%.

Our moderate revenue growth assumption factors the tail-end of the LNG construction boom, and data showing total Australian energy capital expenditure is likely to now fall precipitously. While Australia Pacific represents just a quarter of Worley's contract backlog, the far larger Americas and Europe, Middle East, Africa segments will regardless have to work hard to offset its decline.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	123.20	171.40	198.52	200.36
EPS c	48.59	63.12	71.53	72.20
P/E x	19.55	22.84	26.53	26.29
EPS Growth %	-19.75	29.89	13.33	0.93
DPS c	0.00	25.00	42.92	43.32
Yield %	0.00	1.73	2.26	2.28
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

6.780

Charter Hall Group (CHC) - Charter Hall's Planned Purchase of Folkestone Overshadows FY18 Result. FVE Increased to AUD 5.80

Analyst Note-Growth in narrow-moat-rated Charter Hall Group's fiscal 2018 operating earnings of 5% to AUD 37.7 cents per security, or cps, was in line with guidance and expectations. Charter Hall used the result to announce its proposed AUD 205 million acquisition of listed competitor Folkestone. The acquisition will be funded from existing cash and unused debt facilities. On the assumption the proposal will receive the necessary shareholder support, Charter Hall has guided for fiscal 2019 post-tax earnings to grow by 8% to 10% (equivalent to AUD 40.7 cps to 41.5 cps), but slightly lower growth of 5% to 7% should the Folkestone transaction gain necessary shareholder approvals.

Given the Folkestone board has endorsed the transaction and will vote their shares in favour--barring a superior offer--we've assumed the transaction will gain the necessary support to proceed. Our fiscal 2019 forecasts incorporate a likely performance fee from the Charter Hall Office Trust, or CHOT, of AUD 90 million less tax, adding a further AUD 13.5 cps. All up, we forecast fiscal 2019 earnings of AUD 54.4 cps implying growth towards the bottom of the 8%-10% guidance range. Folkestone's earnings are volatile, with their fiscal 2018 earnings buoyed by AUD 6 million in performance fees and a further AUD 3 million in acquisition fees. We've assumed this fee income falls going forward, but Charter Hall is able to strip out AUD 4 million of ongoing costs post the acquisition, which provides much of the guided accretion. Our fair value estimate increases 3% to AUD 5.80 from AUD 5.60. At current levels, Charter Hall continues to screen as overvalued, currently trading around AUD 6.80.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	158.89	183.05	253.27	203.78
EPS c	37.45	39.06	54.05	43.49
P/E x	13.94	14.97	12.54	15.59
EPS Growth %	24.31	4.31	38.36	-19.54
DPS c	30.00	31.80	34.80	36.80
Yield %	5.75	5.44	5.13	5.43
Franking %	0.0	40.0	40.0	40.0

Morningstar Rating

★★★

Share Price

3.250

Hotel Property Investments (HPI) - Hotel Property Investments Takes Advantage of Strong Pub Market With Sale of Wickham Hotel

Analyst Note-Narrow-moat-rated Hotel Property Investments reported distributable income of AUD 28.6 million, 10% higher than our AUD 26.0 million forecast, despite slightly lower than expected average rental growth across the group's pub portfolio. We had forecast higher maintenance costs and greater interest expenses in fiscal 2018. We expect maintenance expenditures to tick up again, and the hike in Queensland property tax is a AUD 0.5 million headwind from fiscal 2019 onwards.

We maintain our fair value estimate of AUD 3.40, with the increase in land tax largely offset by the time value of money, with securities screening as undervalued. Hotel Property Investment agreed to sell its Wickham Hotel, with the deal expected to close in September 2019, shaving AUD 0.5 million off rental income in the year. The price tag of AUD 14 million is AUD 2 million, or 16%, above book value and equates to a capitalisation rate of 5.6%. The transaction highlights the unabated demand for pubs and similar relatively small commercial properties. Net tangible assets were AUD 2.79 per security as of June 30, 2018, with our fair value estimate representing a premium of 22%.

The group's key tenant, Coles, is rumoured to be considering a restructure of its pub operations, which could potentially see it continue operating the liquor stores linked to the pubs' licences required by Queensland law, but handing over the operatorship of the pubs themselves to a third party. We expect Coles would remain the tenant of the pubs owned by Hotel Property Investment, if a restructure were to be implemented. We estimate Coles' liquor business accounts for a high-single-digit percentage of its sales and EBIT, and we expect the grocer will remain committed to its liquor business after its demerger from Wesfarmers. Therefore, we expect Coles to exercise its options when leases expire, and we forecast occupancy to remain at 100% in the long term.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	28.58	28.58	28.78	30.52
EPS c	19.56	19.56	19.70	20.89
P/E x	14.98	16.04	16.50	15.56
EPS Growth %	4.96	0.00	0.73	6.03
DPS c	19.60	19.60	19.70	20.89
Yield %	6.69	6.25	6.06	6.43
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

1.775

National Storage REIT (NSR) - Corporate Action: Acquisitions and New Initiatives Prompt an Increase in National Storage's FVE

Analyst Note-New strategic initiatives and a major capital raising dominated no-moat National Storage's fiscal 2018 results. Our fair value estimate increases to AUD 1.63 per share from AUD 1.50, with the increase driven by expected acquisitions and development opportunities in fiscal 2019 and the AUD 155.3 million of acquisitions made in 2018. The company's underlying net profit after tax, or NPAT, in fiscal 2018 of AUD 51.4 million was 12.5% higher than fiscal 2017, but slightly missed its own guidance and came in lower than our forecast of AUD 51.9 million. The final distribution of AUD 4.9 cents per share leads to a full-year distribution of AUD 9.6 cents, in line with our forecast. We expect underlying NPAT in fiscal 2019 of AUD 62.8 million, at the lower end of the company's guidance, and a distribution of AUD 9.6 cents.

On balance, we do not recommend that securityholders participate in its equity raising, as it is priced moderately above our fair value estimate and about 10% above its net tangible asset value of AUD 1.51 as at June 30, 2018. The AUD 175 million equity raising comprises a AUD 50 million institutional placement and a 5-for-37 accelerated nonrenounceable entitlement offer to raise a further AUD 125 million, priced at AUD 1.66 per security. While a strong pipeline of acquisitions and initiatives underpins solid underlying NPAT growth in fiscal 2019, this only translates to flat EPS growth, owing to the additional 105.7 million new securities on issue following the equity raising.

We expect National Storage will not need to access equity markets over the near term following the capital raising. The raising is primarily designed to strengthen the firm's balance sheet, with 65% of the money raised (AUD 114.8 million) earmarked to repay debt. After capital raising costs, the remainder of the raising (AUD 56.7 million) will be used to fund acquisitions that have been contracted or settled since July 1.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	45.72	51.40	62.76	63.50
EPS c	9.17	9.57	9.44	9.55
P/E x	16.47	16.12	18.80	18.59
EPS Growth %	5.43	4.38	-1.38	1.17
DPS c	9.20	9.60	9.60	9.80
Yield %	6.09	6.22	5.41	5.52
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

4.160

Stockland (SGP) - Stockland's Stockpile of Cheap Land Continues to Deliver. FVE Unchanged at AUD 4.45

Analyst Note-We've left our fair value estimate for narrow-moat-rated Stockland at AUD 4.45, with the stock screening slightly undervalued currently trading 6% below our valuation. Fiscal 2018 earnings on a funds from operations, or FFO, basis, were slightly ahead of forecast mainly due to a higher-than-expected number of residential settlements of 6,438 lots. Even though the housing market has demonstrably cooled, Stockland is guiding for fiscal 2019 settlements to remain above 6,000 lots. Residential margins look set to remain near peak 2018 levels of 18% for the next year and gradually tapering off thereafter. Margins are likely to hold up even through house prices have softened as many large projects have built up large contingencies over the past few years and these will be gradually released as the projects wind down.

We forecast fiscal 2019 earnings of AUD 37.5 cents per security, or cps, implying growth of 5.4% which is consistent with guidance for growth of 5% to 7%. Distribution guidance of AUD 27.6 cps puts the distribution payout ratio just below the bottom of the target range of 75%-85%. This seems prudent as we are forecasting a further cooling in the residential market, resulting in a fall in volumes in fiscal 2020 to under 6,000 lot settlements. Our assumption for a cooling in the Australian housing market--after all, who wants to catch a falling knife?--is the primary reason for our forecast FFO declines of circa 2% in each of fiscal 2020 and fiscal 2021. The other factors weighing on medium-term FFO are earnings dilution from planned asset sales and a gradual lift in borrowing costs.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	802.00	863.00	913.76	897.16
EPS c	33.29	35.52	37.45	36.77
P/E x	13.92	12.05	11.11	11.31
EPS Growth %	6.98	6.70	5.44	-1.82
DPS c	25.50	26.50	27.60	28.20
Yield %	5.50	6.19	6.63	6.78
Franking %	0.0	0.0	0.0	0.0

Recommendation Updates Over the Last Week

	ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▼	AHY	Asaleo Care	★	23/08/2018	Downgrade due to price change
▼	AWC	Alumina	★	23/08/2018	Downgrade due to price change
▲	CAR	Carsales.com	★★★	23/08/2018	Upgrade due to price change
▲	NEC	Nine Entertainment Co. Holdings	★★	23/08/2018	Investors on Love Island with Nine
▲	QAN	Qantas Airways	★★	23/08/2018	Qantas FVE Lifted to AUD 5.00 per Share on Stronger Margins and Lower Long-Term Fuel Price
▼	QUB	Qube Holdings	★★	23/08/2018	Downgrade due to price change
▲	SCG	Scentre	★★★	23/08/2018	Upgrade due to price change
▼	CAR	Carsales.com	★★	22/08/2018	Downgrade due to price change
▲	FXL	FlexiGroup	★★★★	22/08/2018	Upgrade due to price change
▲	REA	REA Group	★★	22/08/2018	Upgrade due to price change
▼	TLS	Telstra	★★★★	22/08/2018	Downgrade due to price change
▼	TNE	Technology One	★★★	22/08/2018	Downgrade due to price change
▼	TPM	TPG Telecom	★★	22/08/2018	Downgrade due to price change
▲	FXL	FlexiGroup	★★★	21/08/2018	Flexigroup's FVE Increases on Its Turnaround Starting to Gain Traction
▲	GXL	Greencross	★★★★★	21/08/2018	Upgrade due to price change
▼	NWL	Netwealth Group	★	21/08/2018	Downgrade due to price change
▼	VOC	Vocus Group	★★★	21/08/2018	Downgrade due to price change
▲	WES	Wesfarmers	★★	21/08/2018	Upgrade due to price change
▲	BPT	Beach Energy	★★★	20/08/2018	Fiscal 2018 Costs Impress for No-Moat Beach and We Increase our FVE to AUD 1.60.
▲	GMG	Goodman Gp	★★★	20/08/2018	Putting Customer First Provides Goodman With Long Growth Runway. FVE Increases 14% to AUD 10.20
▼	REA	REA Group	★	20/08/2018	Downgrade due to price change
▲	AWC	Alumina	★★	17/08/2018	Upgrade due to price change
▼	MTS	Metcash	★★	17/08/2018	Downgrade due to price change
▲	ORG	Origin Energy	★★★	17/08/2018	Upgrade due to price change
▼	QBE	QBE	★★★	17/08/2018	Downgrade due to price change
▼	SWM	Seven West Media	★	17/08/2018	Downgrade due to price change
▲	RIO	Rio Tinto	★★	16/08/2018	Upgrade due to price change
▼	VRL	Village Roadshow	★★★	16/08/2018	Downgrade due to price change

or statement of opinion (any of which may change without notice) set out in this Research report.

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