

27-August-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	25790	7:15am 25/08/2018	133	0.52
▲ S&P 500	2875	7:15am 25/08/2018	18	0.62
▲ NASDAQ	7946	7:31am 25/08/2018	68	0.86
▲ FTSE 100 Index	7577	1:50am 25/08/2018	14	0.19
▲ DAX 30	12395	2:00am 25/08/2018	29	0.23
▲ CAC 40	5433	2:15am 25/08/2018	13	0.24
▲ Nikkei 225 (Japan)	22602	4:20pm 24/08/2018	191	0.85
▼ HKSE	27672	6:23pm 24/08/2018	-119	-0.43
▲ SSE Composite Index	2729	5:16pm 24/08/2018	5	0.18
▲ NZ 50	9160	3:20pm 24/08/2018	20	0.22

International Markets Roundup

NEW YORK [Morningstar with AAP]: The benchmark S&P 500 stock index has clinched its longest bull-market run, closing above its previous January high, as Federal Reserve Chairman Jerome Powell affirmed the US central bank's current pace of rate hikes.

The S&P had last reached a new closing high on January 26, then retreated more than 10 per cent, a correction that lasted until February 8.

Friday's new closing high confirmed that the index's bull run remained intact.

Speaking at a research symposium in Wyoming, Powell said the Fed's gradual interest rate hikes were the best way to protect the economic recovery, maintain strong job growth and keep inflation under control.

His comments did little to change market expectations of a rate hike in September and perhaps again in December.

Investors said they were reassured that Powell's comments stayed in line with previous commentary from the Fed regarding policy. Economic data also boosted sentiment.

New orders for key US-made capital goods increased more than expected in July and shipments growth held firm, the Commerce Department said.

Chief market strategist at Bruderman Asset Management in New York Oliver Pursche said that was what the markets wanted to hear.

"The economic data and strong environment as a whole is the basis, and (Powell) didn't get in the way," he said.

The Dow Jones Industrial Average rose 133.37 points, or 0.52 per cent, to 25,790.35, the S&P 500 gained 17.71 points, or 0.62 per cent, to 2,874.69 and the Nasdaq Composite added 67.52 points, or 0.86 per cent, to 7,945.98.

Macmahon Holdings Limited (MAH)

-Macmahon Holdings Provides Full Year Results

Medibank Private Limited (MPL)

-Medibank Private Provides FY 2018 Results

Steadfast Group Limited (SDF) -Steadfast

Group Provides FY 2018 Analyst Pack

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Provides FY 2018 Results

Brambles Limited (BXB) -Brambles

Provides Full-Year 2018 Results

For the week, the Dow added 0.47 per cent, the S&P gained 0.87 per cent, and the Nasdaq increased 1.66 per cent.

The small-cap Russell 2000 index also advanced 0.5 per cent to reach a new closing high.

A dip in the dollar after Powell's comments helped lift materials and energy stocks as the prices of oil and metals rose.

The S&P 500 materials sector jumped 1.2 per cent, the biggest percentage gain among the 11 major S&P sectors. Netflix shares rose 5.8 per cent to add the most gains to the S&P 500 after SunTrust Robinson Humphrey upgraded its rating on the stock to "buy" and projected that third-quarter subscriber growth would match or beat Wall Street estimates.

Autodesk shares leaped 15.3 per cent, the greatest percentage gain among S&P 500 stocks, after the software maker's quarterly results beat estimates.

Shares of Gap and Foot Locker sank 8.6 per cent and 9.2 per cent, respectively, after the two retailers posted disappointing same-store sales.

Advancing issues outnumbered declining ones on the NYSE by a 2.50-to-1 ratio; on Nasdaq, a 1.76-to-1 ratio favoured advancers.

The S&P 500 posted 36 new 52-week highs and four new lows; the Nasdaq Composite recorded 150 new highs and 31 new lows.

Volume on US exchanges was 5.43 billion shares, compared to the 6.28 billion average over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2073	8:30am 25/08/2018	20	0.97
▲ Copper	6092	8:31am 25/08/2018	125	2.09
▲ Nickel	13338	8:31am 25/08/2018	141	1.06
▲ Gold	1206	5:00am 27/08/2018	9	0.79
▲ Silver	14.8	5:01am 27/08/2018	0.1	0.33
▲ Oil - West Texas crude	68.7	7:10am 25/08/2018	0.9	1.31
▲ Lead	2069	8:32am 25/08/2018	28	1.35
▲ Zinc	2541	8:32am 25/08/2018	66	2.67
▼ Ore	67	7:10am 25/08/2018	-1	-1.23

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7329	7:54am 27/08/2018	0.0006	0.08
▲ \$A vs GBP	0.5704	7:54am 27/08/2018	0.0002	0.04
▲ \$A vs YEN	81.58	7:54am 27/08/2018	0.10	0.12
▲ \$A vs EUR	0.6305	7:54am 27/08/2018	0.0009	0.15
▲ \$A vs \$NZ	1.0957	7:54am 27/08/2018	0.0003	0.03
▲ \$US vs Euro	0.8604	7:54am 27/08/2018	0.0009	0.10
▲ \$US vs UK	0.7784	7:54am 27/08/2018	0.0001	0.01
▲ \$US vs CHF	0.9831	7:54am 27/08/2018	0.0004	0.04
▼ \$A vs \$CA	0.9540	7:54am 27/08/2018	-0.0007	-0.08

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	6358	4:30pm 24/08/2018	-2	-0.04
▲ S&P/ASX 200	6247	4:30pm 24/08/2018	3	0.05
▲ 10-year Bond Rate	2.55	7:09am 25/08/2018	0.01	0.59
▲ 90 Day Bank Accepted Bills SFE-Day	2.00	6:40am 25/08/2018	0.01	0.50
▲ 3-yr Bond Rate	2.05	7:09am 25/08/2018	0.02	0.99

Local Markets Are Expected to Open Flat

Ahead of the local open SPI futures were 1 point lower at 6,220.

Friday 24 August - close [Morningstar with AAP]: The Australian share market has closed barely higher, falling back from a surge on Friday in the wake of Scott Morrison's selection as the nation's next prime minister.

After a rollercoaster day the benchmark S&P/ASX200 closed a slim 2.9 points, or 0.05 per cent, higher at 6,247.3 points, while the broader All Ordinaries was down 2.4 points, or 0.04 per cent, lower at 6,357.9 points.

The Australian dollar has been buoyed by the resolution of political uncertainty and was at 72.84 US cents at 1700 AEST, down from 72.96 on Thursday but recovered from an intra-day low around 72.39 US cents.

A week of turmoil in Canberra, as now-former Prime Minister Malcolm Turnbull overcame an early challenge from Peter Dutton only to fall in a party room vote on Friday, overshadowed the busiest week of reporting season and weighed on investor sentiment.

The S&P/ASX200 ended the week down 1.5 per cent.

Commsec market analyst James Tao said the eventual change of prime minister ended a week of uncertainty and allowed the share market and the Aussie dollar to recover.

"(The dollar) hit its lows right as the Liberal party was meeting and once it was announced that Scott Morrison was ahead and the new leader, the Aussie dollar jumped," he said.

AMP Capital chief economist Shane Oliver said Mr Morrison - a centrist - was more market-friendly than his conservative contender Mr Dutton.

"This is a reasonably good outcome from an economic and investment perspective," Mr Oliver said.

JP Morgan chief economist Sally Auld said markets responded positively to Mr Morrison because he is a known quantity "and is generally viewed as having performed well in the portfolio (of treasurer)".

"Policy changes under a Morrison government are likely to be minimal (and) it is likely Morrison will preserve the ambition to return the budget to surplus," Ms Auld said.

On the ASX the market was supported by health stocks with CSL rising 2.9 per cent to a new record of \$224.43, while Mayne Pharma Group hit a near-18-month peak of \$1.11, up 5.7 per cent after showing improved second-half trading in its full-year results.

Westpac weighed on the market after it announced in a third-quarter update that its net interest margin is down about 11 basis points due mostly to higher funding costs.

Westpac lost 69 cents, or 2.4 per cent, to close at \$27.66 and CBA was the only big four bank to cling to positive territory, up 0.2 per cent at \$70.89.

In company results Medibank Private dropped 2.2 per cent to \$3.10 after posting a one per cent fall in annual net profit and flagging a flat outlook for insurance market growth.

Brambles hit a 20-month high, up 6.4 per cent to \$10.60, after showing a lift in underlying full-year profit and announcing the demerger and possible sale of its IFCO reusable plastic containers business.

Star Entertainment Group added 30 cents, or six per cent, to \$5.30 after its full-year normalized results were swelled by returning Chinese high rollers.

ON THE ASX:

The S&P/ASX200 closed up 2.9 points, or 0.05 per cent, at 6,247.3 points

The All Ordinaries was down 2.4 points, or 0.04 per cent, at 6,357.9 points

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

- ▶ Aurizon Holdings Limited
- ▶ Coca-Cola Amatil Limited
- ▶ Greencross Limited
- ▶ GWA Group Limited
- ▶ Primary Health Care Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
ASB*	Austal Limited	Annual
AYS*	Amaysim Australia Limited	Annual
CNU*	Chorus Limited	Annual
GSC*	Global Geoscience Limited	Annual
HUB*	HUB24 Limited	Annual
IFM*	Infomedia Limited	Annual
JHC*	Japara Healthcare Limited	Annual
LLC*	LendLease Group	Annual
SPL*	Starpharma Holdings Limited	Annual
APX*	Appen Limited	Interim
BDR*	Beadell Resources Limited	Interim
SKI*	Spark Infrastructure Group	Interim
ASB*	Austal Limited	Prelim
AYS*	Amaysim Australia Limited	Prelim
CNU*	Chorus Limited	Prelim
JHC*	Japara Healthcare Limited	Prelim
MLD*	Maca Limited	Prelim
MYO*	MYOB Group Limited	Prelim
RWC*	Reliance Worldwide Corporation Limited	Prelim
GEM	G8 Education Limited	Interim
NWL	Netwealth Group Limited	Interim
SKI	Spark Infrastructure Group	Interim
CNU	Chorus Limited	Prelim
MVF	Monash IVF Group Limited	Prelim
RWC	Reliance Worldwide Corporation Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

07:34 AM

Sky Network Television Limited (SKT) -Sky Network Television Provides 2018 Annual Results

Sky Network Television provided 2018 annual results. It has continued to deliver a solid underlying profit while implementing the strategy. In the financial year to 30 June 2018, its underlying NPAT is \$119.3m, an increase of 2.6% on the previous year 2017. The Company Board has agreed to reduce the carrying value of its Goodwill asset from \$1.43bn to \$1.07bn. When the impairment charge is included in the 2018 results, there is a net loss of \$240.7m for the year. This is a non-cash charge that has no impact on its 2018 cash flows or bank covenants.

08:10 AM

National Veterinary Care Ltd (NVL) -National Veterinary Care Provides FY 2018 Full Year Results

National Veterinary Care provided FY 2018 full year results. In the year ended 30 June 2018, the Company produced a \$6.23m statutory NPAT and a \$6.29m underlying NPAT. The Board is to announce a fully franked final dividend of 3.0 cps in respect of the year ended 30 June 2018, to be paid on 27 September 2018.

08:12 AM

National Veterinary Care Ltd (NVL) -National Veterinary Care Provides FY 2018 Full Year Results

National Veterinary Care provided FY 2018 full year results. The operating cash flows during the period were driven by large initial income tax payments, changes to employee PAYGW payment timing and acquisition/integration costs. EBITDA cash conversion remains at 111%. Financing cash flows reflect net debt drawn to fund business acquisitions less dividends paid. Net proceeds of borrowings are lower than the prior period due to share placement funds raised in June 2017.

08:14 AM

Brambles Limited (BXB) -Brambles Announces Regarding Intention to Separate IFCO RPC Business

Brambles announced that following a strategic review of its portfolio, it intends to pursue a separation of its IFCO RPC business through a demerger. To ensure optimal shareholder value is achieved, a sale of IFCO will also be evaluated. The separation of IFCO from the Company will optimise shareholder outcomes and better position both businesses to realise a range of growth and value creating opportunities.

08:19 AM

OM Holdings Limited (OMH) -OM Holdings Provides Financial Results

OM Holdings announced its consolidated financial results for the six months ended 30 June 2018 (1H 2018). The Group's revenue from operational activities for 1H 2018 was A\$828.3m, representing a 215% increase over the A\$263.1m of 1H2017. NPAT was A\$106.4m, as compared to a net loss of A\$21.4m in 1H 2017. Gross profit margin rose from 18.8% in 1H 2017 to 22.3% in 1H 2018.

08:23 AM

Costa Group Holdings Limited (CGC) -Costa Group Holdings Provides Full Year Results

Costa Group Holdings provided full year results. The produce segment delivered revenue growth of 7.3% on FY 2017 for a total of \$843.3m. Total transacted sales were \$1,180.3m compared to \$1,028.5m in FY2017, a 14.8% increase. Full year FY 2018 dividend is 13.5 cps, representing 22.7% growth on FY 2017.

08:25 AM

Steadfast Group Limited (SDF) -Steadfast Group Provides FY 2018 Market Release

Steadfast Group provided FY 2018 market release. It has a balance sheet positioned to fund future growth with \$109m of unutilised corporate debt facilities available at 30 June 2018. The total Group gearing ratio was 17.5%, well within the Board-mandated maximum of 30%. Net assets were \$1.06 billion at 30 June 2018.

08:31 AM

Macmahon Holdings Limited (MAH) -Macmahon Holdings Provides Investor Presentation

Macmahon Holdings provided investor presentation. The Operating cash flow is \$101.9m, up 236% on pcp. The cash conversion is 85.7%. The FY 2018 capex is \$129.8m, driven by new contracts. The FY 2019 capex expected to be \$180m.

08:34 AM

Steadfast Group Limited (SDF) -Steadfast Group Provides FY 2018 Investor Presentation

Steadfast Group provided FY 2018 investor presentation. The Underlying EBITA is \$185m- \$195m. The Underlying NPAT is \$82.5m- \$87.5m The Final FY 2018 dividend is 4.7 cps (fully franked). Total Group gearing ratio is 17.5%, well within board approved maximum of 30%, made up of 25% for the Company and 5% for subsidiaries.

08:36 AM

Macmahon Holdings Limited (MAH) -Macmahon Holdings Provides Full Year Results

Macmahon Holdings provided full year results. Revenue for the group increased by 98% to \$710.3m, driven by the award and commencement of three new surface projects and two underground projects in 2018. EBITDA increased by 274% to \$118.9m, representing an EBITDA margin of 16.7%. EBIT increased to \$41.2m, which was in-line with guidance and an improvement on the EBIT loss in the previous year 2017.

08:38 AM

Medibank Private Limited (MPL) -Medibank Private Provides FY 2018 Results

Medibank Private provided FY 2018 results. Net investment income fell by 31.4% to \$95.6m, reflecting lower returns across both growth and defensive portfolios and a more conservative asset allocation. Health Insurance related capital as at 30 June 2018 was \$895.3m, representing 14.0% of premium revenue, which is at the top end of the Board's stated target range of 12.0% to 14.0%.

08:44 AM

Steadfast Group Limited (SDF) -Steadfast Group Provides FY 2018 Analyst Pack

Steadfast Group provided FY 2018 analyst pack. The final FY 2018 dividend is 4.7 cps (fully franked). The Unutilised debt facility is \$109m available at 30 June 2018 for future growth.

08:47 AM

Brambles Limited (BXB) -Brambles Provides FY 2018 Results

Brambles provided FY 2018 results. FY 2018 Statutory profit after tax includes US\$127.9m non-cash tax benefit resulting from the USA tax reform. FY 2017 statutory profit included the US\$120.0m non-cash impairment of the HFG joint venture (JV). Sales revenue was US\$5,596.6m for the twelve months ended 30 June 2018 (FY 2018), up 10% at actual FX rates.

08:50 AM

Brambles Limited (BXB) -Brambles Provides Full-Year 2018 Results

Brambles provided full-year 2018 results. It Continued volume momentum and ongoing inflationary pressures. Corporate segment costs broadly in line with FY 2017. FY 2018 cost of US\$53.9m at constant currency was 1% below prior year 2017 and \$56.9m at actual FX rates.

Research Report Summaries

Morningstar Rating

★★★★

Share Price

2.370

Automotive Holdings Group Limited (AHG) - Regulatory Reform Hits Automotive Earnings During Fiscal 2018, Although Outlook Remains Healthy

Analyst Note-Narrow-moat-rated Automotive Holdings reported a soft fiscal 2018 result with underlying net profit after tax of AUD 75 million, down 14% on the prior year but in line with our expectations. The weakness reflected the ongoing margin pressure from regulatory changes to finance and insurance commissions and relatively soft consumer demand. The board declared a final dividend of AUD 6.8 cents per share, which took the full-year total to AUD 16.3 per share, down almost 20% on the prior year, although within the company's target payout ratio of between 65% and 75% of underlying net profit. We maintain our AUD 3.30 per share fair value estimate and still see upside at the current share price.

The near-term outlook for automotive dealerships is likely to remain challenging, given the tight consumer lending environment, the flow-on effect of a softening housing market, and ongoing pressure on margins from insurance and finance commission reform. These pressures drove EBITDA margin down 30 basis points to 3%. We expect the company to mitigate some of this margin pressure through cost-cutting initiatives, and eventually through pricing increases, while the timing of the margin recovery will largely depend on how quickly the competition adjusts its pricing. Our earnings forecasts are unchanged, and we remain confident the firm can recoup around 50 basis points over the next five years and sustain a group EBITDA margin of around 3.5%, broadly in line with the average during the past five years.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	87.29	74.81	79.93	88.47
EPS c	26.70	22.50	24.10	26.68
P/E x	14.84	15.24	9.83	8.88
EPS Growth %	-15.80	-15.73	7.12	10.69
DPS c	19.00	16.30	17.00	19.00
Yield %	4.80	4.75	7.17	8.02
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

10.600

Brambles Limited (BXB) - Brambles Beginning to Look Fairly Valued Following Fiscal 2018 Results

Analyst Note-Wide-moat Brambles' full-year results reflect continued inflationary pressures that kept a lid on substantial profit growth. Underlying net profit after tax of USD 656 million tracked our forecast for USD 636 million, up 7% from the prior fiscal year, trailing revenue growth. But we remain positive on the firm's long-term opportunity. We're encouraged that the company saw continued volume gains, improved new-business wins, and pricing actions that helped to partially offset transport and lumber cost inflation, and expect further profitability improvement long term as contract renewals and pricing mechanisms flow through on a lag. Management also flagged plans to divest or sell the IFCO reusable plastic crate, or RPC, business, although this has no impact on our valuation, given the independence of the segment, the uncertainty around the potential form of the transaction, and the lengthy associated timing in fiscal 2020. We retain our AUD 11.20 fair value estimate, and after increasing more than 6%, shares in Brambles screen as roughly fairly valued.

CHEP Americas increased revenue by 6%, outpacing our 4% forecast. Offsetting this, rising costs and a time lag between price increases led to expenses growing more quickly than anticipated, with underlying operating margins of 16% slightly lower than the 16.5% we projected. Underlying profit of USD 351 million slightly trailed our USD 356 million forecast. Management expects cost pressures to continue, offset by operational efficiencies and lagged pricing surcharges.

Plant automation remains a focus for the CHEP Americas business. Brambles plans to spend USD 150 million-USD 160 million in the three years starting fiscal 2019 to lift levels of automation in the U.S. business to 85% from around 20% currently, which we expect to spur 300 basis points of EBIT margin improvement by fiscal 2022. The European business is already 80% automated.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	811.31	846.10	959.23	1,079.35
EPS c	50.86	53.01	60.10	67.62
P/E x	22.20	18.06	17.64	15.68
EPS Growth %	-5.37	4.21	13.38	12.52
DPS c	28.99	29.00	31.00	41.00
Yield %	2.57	3.03	2.92	3.87
Franking %	27.5	30.0	30.0	30.0

Morningstar Rating

★★

Share Price

14.850

Event Hospitality and Entertainment Ltd (EVT) - Operating Prowess Evident in Event's Fiscal 2018 Result Despite Poor Cinema Showing

Analyst Note-We lift our fair value estimate on Event Hospitality and Entertainment by 3% to AUD 13.00 per share, driven by higher-than-expected benefits of operating efficiency drive from the current transformation program.

While the 9% rise in fiscal 2018 normalised net profit after tax to AUD 124 million was 5% below our estimate, the miss was mostly due to lower-than-expected cinema earnings with combined EBIT from Australia, New Zealand, Germany theatres down 10% to AUD 98 million in fiscal 2018, below our AUD 105 million forecast. We view this as mostly cyclical and product-driven (that is, not enough popular movies), and remain confident of a high-single-digit earnings rebound in fiscal 2019. Furthermore, the decision to explore the sale of the German cinema unit (EBIT fell 8%) further underscores the importance of not extrapolating the poor cinema performance in fiscal 2018. Management flagged further details are expected by the fiscal 2019 first-half result on that front.

Management is increasingly turning to the hotels division for growth. Hotel revenue increased 10% year on year and EBIT increased 31%, driven by improvement in average room rate, revenue per available room, and occupancy rates across all brands. The group also unveiled grand plans for long-term development of various QT and Rydges sites, highlighting management's strategic priority.

Critically, benefits of operating efficiency are coming through, as reflected in the 170 basis point improvement in group EBIT margin to 15.4% in fiscal 2018, despite mere 1% top line growth. Progress on this front was the key driver of the slight increase in our fair value estimate.

Shares in no-moat-rated Event are trading at a 14% premium to our revised intrinsic assessment. The board declared a final fully franked DPS of AUD 0.31, unchanged from a year ago, bringing the full-year DPS to AUD 0.52.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	113.68	124.28	130.12	138.22
EPS c	70.51	76.92	80.95	85.90
P/E x	19.68	17.27	18.34	17.29
EPS Growth %	-10.05	9.10	5.24	6.11
DPS c	51.00	52.00	58.00	60.00
Yield %	3.67	3.91	3.91	4.04
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

3.050

MYOB Group Limited (MYO) - MYOB Remains Undervalued as First-Half Result Meets Expectations

Analyst Note-Narrow-moat-rated MYOB's first-half result was in line with our expectations, and we have maintained our earnings forecasts and AUD 3.82 fair value estimate. At the current market price of AUD 3.05, we still believe the shares are undervalued. The market price implies a fiscal 2018 price/earnings ratio of 18, versus 23 at our fair value estimate, and an unfranked dividend yield of 3.0%. We still forecast an EPS CAGR of 8% over the next decade, underpinned by steady subscriber and average revenue per user, or ARPU, growth.

We were astonished that the MYOB share price initially dropped 8% following the result, considering it was in line with our forecasts and management guidance, and we weren't surprised by the subsequent rally. However, the market seems preoccupied with technology stocks, which demonstrate particularly strong revenue growth, and profits are almost considered a negative attribute these days. MYOB's first-half revenue growth rate of 7% looks weak relative to hot stocks like Wistech Global and Xero, which are growing at around 40% per year, as well as compared with its own historical average growth rate of 12% over the past three years. However, MYOB's growth was broadly in line with our full-year forecast of 9% and management's guidance of between 8% and 10%.

Perhaps in an attempt to satisfy the market's appetite for revenue growth and disdain for profits, MYOB is increasing its reinvestment over the next two years. Following the failure of the Reckon acquisition earlier this year, management outlined a plan to increase sales and marketing costs by AUD 30 million per year, or around 37%, and make a one-off AUD 50 million incremental investment into software development, versus research and development spending of AUD 68 million in fiscal 2017. We are perfectly comfortable with this strategy and forecast a drop in EBITDA margin to 41% in 2018 before it rebounds gradually to 45% in fiscal 2021.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	96.76	107.77	101.13	101.66
EPS c	16.45	17.98	16.87	16.96
P/E x	20.82	19.66	18.08	17.98
EPS Growth %	-4.42	9.28	-6.16	0.52
DPS c	5.00	11.50	11.81	11.87
Yield %	1.46	3.25	3.87	3.89
Franking %	0.0	0.0	0.0	50.0

Morningstar Rating

★★★

Share Price

1.110

Mayne Pharma Group Limited (MYX) - Momentum Continues in the Second Half; Shares in Mayne Pharma Undervalued

Analyst Note—We are not making any changes to our AUD 1.30 fair value estimate or no-moat rating for Mayne Pharma after the company reported full-year results slightly ahead our expectations, with adjusted EBITDA of AUD 165.3 million versus our forecast USD 158 million. Despite the ongoing momentum in the second half, and management's positive comments regarding a more stabilised generic pricing environment, there was little in the briefing that would alter our medium-term view of the company. At current levels, and allowing for our very high uncertainty rating, we consider shares in Mayne Pharma as undervalued.

We think the launch of six new products in the second half should maintain momentum in the U.S. generics division and offset anticipated competition arising from the entry of two new generic entrants to lead product generic Dofetilide in fourth-quarter 2018. We also think prospects for the specialty brands division remain attractive. We expect the expanded sales team to maintain strong growth of the foam products, Fabior and Sorliux, and promote the recently acquired generic Efudix to U.S. dermatologists. Additionally, the growth of late-stage formulation development work, including clinical trial manufacturing, in the contracting services division should expand the addressable market for that business.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	90.20	60.47	67.22	72.23
EPS c	6.18	4.12	4.29	4.60
P/E x	24.91	17.93	25.87	24.13
EPS Growth %	10.60	-33.31	4.14	7.31
DPS c	0.00	0.00	0.00	0.00
Yield %	0.00	0.00	0.00	0.00
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

5.380

Platinum Asset Management Limited (PTM) - Disappointing Performance for Platinum Asset Management; FVE Maintained at AUD 6.40

Analyst Note-Narrow-moat Platinum Asset Management, or Platinum, has reported in-line fiscal 2018 results, albeit characterised by a weaker second half across flows and profitability after a strong first half. Up 2% to AUD 189 million for the full year, net profit after tax came in slightly above our expectation of AUD 184 million, although second-half NPAT was down 15% on the prior corresponding period. The strong outperformance in the first half attracted staff performance bonuses, which were a key driver behind the weaker second-half NPAT. A fully franked dividend of AUD 0.16 per share was declared, which brings the full-year fully franked dividend to AUD 0.32, up 7% on the year. Our fair value estimate is unchanged at AUD 6.40, which at current prices suggests Platinum remains undervalued.

Fiscal 2018 was a mixed bag for profitability, as investment outperformance attracted high performance fees as well as high performance bonuses, while management fees adjusted downwards for the first full fiscal year since they were introduced. Nevertheless, revenue was up 5.9% during the year to AUD 353.3 million, comprising AUD 328.7 million in management fees, up 5.2%, and AUD 21.9 million in performance fees, up from AUD 1.6 million year on year. Meanwhile, fees for the retail-focused Platinum Trust Funds and Platinum Global Fund, which represent 66% of total funds under management, or FUM, fell 15 basis points to 1.35% effective July 3, 2017. While the year-on-year revenue increase was positive, particularly amid the lower fees, it was heavily skewed towards the first half, as the second half delivered a 2% reduction in fee revenue.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	186.03	189.22	184.84	200.68
EPS c	31.74	32.36	31.69	34.41
P/E x	16.22	20.10	16.98	15.64
EPS Growth %	-7.30	1.95	-2.06	8.57
DPS c	30.00	32.00	32.00	34.00
Yield %	5.83	4.92	5.95	6.32
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

2.760

Qube Holdings Limited (QUB) - Solid FY18 for Qube; FVE up 6% on Improving Outlook

Analyst Note-Narrow-moat Qube Holdings reported a solid fiscal 2018 result, with underlying NPAT increasing 4% to AUD 107 million, in line with our expectations. More importantly, management pointed to solid growth in 2019. The outlook is improving in a couple of areas, mainly at the Patrick stevedoring business and the ports and bulk business.

We make minor upgrades to our medium-term earnings forecasts and increase our fair value estimate 6% to AUD 2.55. At the current price, Qube is roughly fairly valued. We continue to like the long-term growth strategy of building a vertically integrated logistics company, which should afford Qube cost advantages over competitors. But much of this positive outlook is already factored in given it trades on an expensive P/E of more than 30 times and offers a dividend yield of just 2%. Additionally, we see risks around high exposure to the volatile resources sector, the potential for a slow ramp up at Moorebank, and the expiry of Patrick's Fremantle lease in 2019.

With a capital return from Patrick and a stronger outlook for most underlying assets, management opted to pay a small special dividend of AUD 2 cents per share, bringing total dividends to AUD 7.5 cps, fully franked. A nice display of financial strength but with so much investment going on, it might have been prudent to keep the cash. Capital expenditure totalled AUD 410 million in fiscal 2018, 81% relating to growth projects, as opposed to maintenance. This drove an increase in gearing to 24% from 19% last year, still well below management's 30%-40% target range. Net debt/EBITDA was 2.9 times, and will rise in coming years on the Moorebank development and other growth projects.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	102.10	106.80	122.59	133.77
EPS c	7.04	6.66	7.61	8.31
P/E x	34.46	37.35	37.25	34.12
EPS Growth %	-7.53	-5.40	14.37	9.12
DPS c	5.50	7.50	5.50	5.67
Yield %	2.27	3.02	1.94	2.00
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

13.760

Sims Metal Management Limited (SGM) - Scrap Metal Pricing & Volumes Drive Strong but Unsustainable 2018 Result for No-Moat Sims Metal

Analyst Note-Robust metals prices and volumes drove a strong fiscal 2018 result for no-moat Sims Metal Management. Sales grew 27%, with revenue of AUD 6.45 billion in fiscal 2018, in line with our expectations. Underlying EBIT was also strong at AUD 279.2 million, 5% ahead of our expectations, with operating margins improving again in fiscal 2018 to 4.3%. While Sims sold off approximately 7% following the result, we still view the stock as expensive, trading at approximately 1.3 times our AUD 10.10 per share fair value estimate, which is unchanged following the result. We still believe the market is extrapolating currently elevated scrap metal prices into perpetuity. We expect EBIT to decline from a fiscal 2018 high at an average of 7% per year over the forecast period as metals prices fall.

In Sims' North America metals segment, representing roughly 50% of group revenue, volumes eclipsed our expectations, growing 19% versus our 11% forecast. In tandem with stronger pricing, segment sales rose 40% to AUD 3.38 billion. Underlying segment EBIT disappointed, however, with EBIT of AUD 80.3 million well below our forecast of AUD 137 million. China's recently announced waste policies precluded the importation of mixed scrap paper and resulted in an AUD 0.2 million EBIT loss in the segment's municipal recycling unit. In spite of this, segment EBIT margins firmed to 4.1%, up from 3.0% a year prior. We anticipate moderating margins, reverting to an average of 2.6% as metals prices decline.

European segment sales also grew considerably, up 30% year on year due mainly to higher volumes, which increased 6.3% and were largely in line with our expectations. Underlying EBIT fell 43% to AUD 20.1 million, however, resulting in EBIT margins sliding to 1.7% as strong competition for input volumes more than offset the effect of higher sales volumes and selling prices. We expect this competition in Europe to continue and forecast average EBIT margins of 1.6% over the coming five years.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	120.10	203.50	172.46	133.08
EPS c	59.94	98.73	84.37	65.11
P/E x	18.88	15.59	16.31	21.13
EPS Growth %	219.78	64.72	-14.54	-22.84
DPS c	40.00	40.00	43.87	33.85
Yield %	3.53	2.60	3.19	2.46
Franking %	80.0	80.0	100.0	100.0

Morningstar Rating

★★★

Share Price

5.300

The Star Entertainment Group Limited (SGR) - Record High VIP Turnover Drives Star's Stellar Fiscal 2018; FVE Lifted to AUD 4.80 per Share

Analyst Note-Record high VIP turnover drove an impressive fiscal 2018 result for no-moat-rated Star Entertainment. The company reported normalised net profit after tax of AUD 258 million, up 20%, although this was consistent with our forecasts. The board declared a final dividend of AUD 13.0 cents per share, taking the full year total to AUD 20.5 cents per share (fully franked), a 28% increase on the prior year. This translates to 67% of underlying EPS, slightly ahead of our expectations.

We've lifted our fair value estimate by 9% to AUD 4.80 per share to reflect: (1) a stronger VIP outlook; (2) improving main-floor gaming in Sydney; and (3) revenue uplift at the Gold Coast as it reaps the benefits of recent expansion and refurbishment projects, each of which contribute to an average 5% increase in our earnings projections over the next five years. Management also indicated that capital expenditure peaked during fiscal 2018 and will decline from fiscal 2019 onwards. At current levels, the stock is slightly overvalued relative to our fair value estimate, with the downside driven by likely medium-term earnings pressure upon Crown Sydney's opening in 2021. However, over the long term we expect this earnings hole to be partially plugged upon completion of the Queens Wharf and Gold Coast developments a couple of years later.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	215.90	258.20	282.33	303.90
EPS c	26.08	30.57	30.78	33.13
P/E x	20.55	17.72	17.22	16.00
EPS Growth %	-10.67	17.18	0.70	7.64
DPS c	16.00	20.50	21.55	23.19
Yield %	2.98	3.78	4.07	4.38
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

2.290

Sky Network Television Limited (SKT) - Sky Taking Care of Costs Ahead of Stormy Weather

Analyst Note-The 3% fall in Sky Network's fiscal 2018 underlying EBITDA to NZD 286 million was commendable, exceeding our forecast of a greater decline by 11%. The beat was mainly driven by lower-than-expected costs, with expense down 7%. Absence of key content costs (summer Olympics, America's Cup) from a year ago helped, as did reduced cost of servicing less subscribers. However, management's operating prowess in managing costs in the face of competitive challenges is evident.

While this cost result has led to an average 3% lift to our medium-term EBITDA forecasts, there is no hiding the continuing pressure on subscribers which fell another 7% in fiscal 2018 to 768,000. This is the reason management halved the price and scope of Sky's basic pay TV entry tier in March 2018, in a bid to moderate the pace of pay TV customer declines. It is doing so while investing to ensure the most comprehensive product suite, whether it be via satellite or broadband means.

Early progress on this journey is encouraging, with just 10% of subscribers spinning down to the cheaper tiers so far and reinvesting the savings in new products (SoHo, Sky Movie). This limited the fall in fiscal 2018 blended average revenue per user to 3%, to NZD 76.34 per month. However, this was in line with our expectations and it is still early days in Sky's journey from a linear, set-top-box-based pay TV company to a digital, multi-platform one. As such, our longer-term forecasts are intact, as is our NZD 2.50 (AUD 2.30) fair value estimate per share for no moat-rated Sky.

Shares in the group are trading in line with our intrinsic assessment, having rallied more than 20% since their March 2018-low when Sky announced the pay TV price-cut. The challenge ahead is material, but Sky is financially well-positioned to tackle it, with net debt/EBITDA at 0.8 times and free cash flow still at NZD 150 million-plus levels. A final DPS of NZD 0.075 was declared, fully imputed, bringing the full-year total to NZD 0.15.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	111.05	109.68	82.09	68.90
EPS c	28.53	28.18	21.10	17.70
P/E x	14.34	8.77	11.57	13.78
EPS Growth %	-22.84	-1.23	-25.14	-16.10
DPS c	25.98	13.82	11.80	9.98
Yield %	6.35	5.59	4.83	4.09
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

3.100

Medibank Private Limited (MPL) - Medibank Private Remains in Good Shape Despite a Softer-than-Expected FY18. FVE AUD 3.10 Unchanged

Analyst Note-Despite a softer-than-expected fiscal 2018 result, our positive view on narrow-moat-rated Medibank Private is intact. Good progress in improving the underlying business impressed with the health insurance operating profit up 8% to AUD 536 million and the health services business, known as Medibank Health, operating profit up 33% to AUD 47 million. The group NPAT margin of 6.4% was modestly below our 6.8% forecast.

Lower-than-expected investment income, a higher tax rate, and higher other expenses contributed to the 1% decline in fiscal 2018 group NPAT to AUD 445 million, about 5% below our forecast and 3% below consensus. The final dividend was a modest disappointment at AUD 7.2 cents per share, or cps, taking total dividends to AUD 12.7 cps, below our forecast of AUD 13 cps, but still 6% higher than fiscal 2017. We maintain our AUD 3.10 fair value estimate and at current prices, the stock is fairly valued.

Our fiscal 2019 net profit forecast of AUD 461 million is lower than our previous forecast of AUD 476 million with modest declines in outer years contributing to our unchanged valuation. Despite the challenges, the health insurance margin of 8.5% impressed and is broadly in line with our five-year average. The health insurance performance was in line with expectations with gross margin of 17.3% compared with our forecast of 17.1%. The underwriting expense ratio of 8.8% was broadly in line with our 8.7% expected and the insurance operating margin of 8.5% was marginally higher than our 8.4%. The outlook statement for fiscal 2019 was typically vague with Medibank targeting modest market share gains, despite the insurer expecting flat overall private health insurance volumes to persist. Hospital utilisation growth is set to remain subdued, but ancillary utilisation growth is expected to slow. Management expenses are targeted to increase modestly above the AUD 557 million incurred in fiscal 2018. Our fiscal 2019 management expense forecast is AUD 560 million.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	449.50	445.10	460.78	477.37
EPS c	16.32	16.16	16.73	17.33
P/E x	16.94	18.68	18.95	18.29
EPS Growth %	5.15	-0.98	3.53	3.59
DPS c	12.00	12.70	13.20	13.50
Yield %	4.34	4.21	4.16	4.26
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

3.010

Steadfast Group Limited (SDF) - Steadfast's Solid FY18 Profit Supports Attractive Growth Profile. FVE Maintained at AUD 3.00

Analyst Note-No-moat Steadfast Group's fiscal 2018 cash earnings of AUD 97.3 million was 3.5% below our forecast, but still up a healthy 11.6% on fiscal 2017. The final fully franked dividend of AUD 4.7 cents per share, or cps, took total dividends for the year to AUD 7.5 cps, up 6.8% based on a 79% payout. Despite a modest fully franked dividend yield around 3%, the firm offers attractive earnings growth upside due to a strong underlying growth profile. The stock is fairly valued, trading broadly in line with our unchanged AUD 3.00 valuation.

Following the modestly softer-than-expected fiscal 2018 performance, we've trimmed forecasts to reflect the higher amortisation and tax rate assumptions. Our fiscal 2019 underlying EBITA forecasts of AUD 190 million and underlying NPAT of AUD 86 million sit in the middle of the guidance range. Our positive long-term view is unchanged, based on resilient revenue and earnings due to the firm's high proportion of longstanding small- to midsize enterprise customers, high renewal rates, and high customer switching costs.

We expect EPS growth to average an impressive 9.4% per year over the next five years based on solid revenue growth from the existing businesses, the recent acquisitions, the unisonSteadfast business, and other equity broker investments. Additionally, significant investment in technology drives rapid improvement in productivity. The combination of good top line revenue growth and a more efficient cost base will deliver forecast net margin improvement and consequently EPS growth.

Solid performance of the firm's equity investments in brokers and underwriting agencies, and improved insurance pricing continues to support earnings growth with gross written premium, or GWP, reaching a record AUD 5.3 billion in fiscal 2018. The approximate AUD 300 million or 6% increase in network broker GWP compared with a year ago was sourced 3% from organic growth, 1% from new equity brokers, and 2% from additional authorised representatives.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	87.20	96.50	111.03	121.98
EPS c	11.69	12.55	14.00	15.38
P/E x	20.09	21.81	21.93	19.96
EPS Growth %	6.25	7.35	11.56	9.86
DPS c	7.00	7.50	8.26	9.07
Yield %	2.98	2.74	2.69	2.95
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

2.900

Alumina Limited (AWC) - Alumina Supply Disruptions Buoys Alumina Limited's Profits; Raising FVE to AUD 1.70

Analyst Note-Alumina Limited reported solid results for the first half of 2018, as alumina prices remained elevated. The company's average realized price for the first half of the year was \$424 per metric ton, considerably higher than \$315 in the prior-year period. This sharp increase was largely due to the continued effect of supply disruptions and healthy alumina demand growth. Higher production costs served as a slight headwind, driven mainly by increased energy costs and elevated caustic soda prices. Alumina Limited's cash cost of production increased to \$224 from \$202 a year earlier.

We expect supply disruptions will continue to boost prices through the end of the year. Accordingly, we've increased our 2018 alumina price forecast and are raising our fair value estimate for no-moat Alumina Limited to AUD 1.70 from AUD 1.60. Numerous factors have supported high alumina prices. In early 2018, Chinese winter supply cuts limited supply initially, before a partial outage in Norsk Hydro's Alunorte facility further reduced supply. Additionally, U.S.-imposed sanctions on Russian aluminum giant UC Rusal contributed to even tighter market conditions. Although we previously assumed that Alunorte would resume full production within a matter of months, we now expect the situation won't be resolved until year-end 2018.

Despite current price levels, our long-term outlook for declining alumina prices remains intact. We believe demand growth for aluminum and, in turn, alumina will decelerate significantly as China transitions from an investment-led to a consumption-led economic growth model. The combination of this dynamic and waning stimulus effects will weigh on fixed asset investment growth, leading to lower alumina prices in the long term.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	-42.30	443.02	1,107.30	553.29
EPS c	-1.47	15.38	38.46	19.21
P/E x	-94.91	13.12	7.49	14.99
EPS Growth %	-134.91	0.00	149.99	-50.05
DPS c	6.58	9.52	13.16	15.79
Yield %	4.72	4.71	4.57	5.48
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

19.230

Newcrest Mining Limited (NCM) - Newcrest's Guidance Disappoints, but Long-Term Positives See Our AUD 23 FVE Maintained

Analyst Note-Newcrest's fiscal 2018 result was in line with our expectations. Adjusted net profit after tax of USD 369 million (AUD 476 million) was in line with our USD 369 million (AUD 483 million) forecast and 6% below fiscal 2017. The unadjusted net profit of USD 202 million reflected net aftertax abnormal expenses of USD 167 million. This included USD 280 million of asset impairments and write-downs, primarily from Telfer and Namosi. We also exclude the insurance payout of USD 121 million from the adjusted result. The insurance claim was from the April 2017 seismic event, which shut down underground mining at Cadia East. The interruption primarily affected earnings in fiscal 2017. The lower adjusted net profit versus fiscal 2017 was due to a 1.5% decline in gold output and a 6% increase in all-in sustaining costs to USD 836 per ounce, with more gold coming from Newcrest's relatively higher-cost mines.

With the result meeting our expectations, we maintain our AUD 23 per share fair value estimate. We view shares as slightly undervalued. In our view, this reflects a modest degree of market scepticism around the potential for further incremental expansions at Lihir and Cadia and the expectation of lower gold prices following recent price declines.

Guidance for fiscal 2019 is to produce 2.35 million-2.6 million ounces of gold and 100,000-110,000 tonnes of copper. Unit cost guidance was also higher than we expected. As a result, we've slightly lowered our production forecasts and reduced our near-term earnings forecasts. However, over the long term, we think the potential to extract further cost efficiencies and incremental volume growth through expansions at Lihir and Cadia will increase future earnings. We've also updated our forecast to assume a 100% chance of the Wafi-Golpu project proceeding. We value Newcrest's interest at AUD 0.85 per share, assuming the Papua New Guinean government exercises its right to 30% and dilutes the firm's ownership from 50% to 35%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	522.48	475.77	919.66	996.61
EPS c	67.81	61.76	119.33	129.32
P/E x	32.51	35.05	16.72	15.43
EPS Growth %	15.79	-8.91	93.21	8.37
DPS c	19.51	24.75	36.00	39.00
Yield %	0.88	1.14	1.80	1.95
Franking %	34.06	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

3.390

South32 Limited (S32) - Higher Thermal Coal Forecasts Offset Rising Costs for South32; AUD 2.70 FVE Maintained

Analyst Note—South32 delivered a solid fiscal 2018 result. Adjusted net profit after tax increased 13% to USD 1.3 billion compared with fiscal 2017. Adjusted earnings rose by over 18% to USD 0.26, partially due to South32 buying back 98 million shares. Higher commodity prices were the key growth driver and boosted EBIT by USD 1.5 billion. However, inflation, higher royalties and operating costs, and adverse foreign exchange movements lowered EBIT by USD 0.7 billion. Further, weaker volumes from Illawarra coking coal operations and Cannington also detracted from EBIT to the tune of USD 0.6 billion.

Fiscal 2018 earnings were somewhat below our forecast, due to higher costs in aluminium and lower realised prices in South Africa coal. However, fiscal 2019 guidance is in line with our expectations. Cost inflation is detracting from future margins, but our higher near- and midcycle thermal coal forecasts mean our profit forecasts for the five years ending fiscal 2023 are little changed overall. The lower Australian dollar is also a modest benefit to our fair value estimate, which we maintain at AUD 2.70 per share. South32 shares remain overvalued due to our expectation for weaker demand and lower prices for steel making materials.

South32 expects to increase volumes overall by about 5% in fiscal 2019, with a partial recovery in volumes at Illawarra coal and incremental expansions in aluminium and alumina the main drivers. The key medium-term growth projects--the Eagle Downs coking coal project and the Hermosa zinc deposit--stem from recent acquisition activity. Both are in evaluation. At Hermosa, South32 is exploring a potential processing throughput expansion from Arizona Mining's 3.3 million tonnes of ore a year to as much as 6.0 million tonnes. Arizona Mining's aggressive ramp-up schedule is likely to lengthen under South32 ownership, but management sees the potential to extend the resource and for shallow ore to facilitate a faster capital payback.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	1,534.03	1,719.38	2,371.29	1,515.11
EPS c	28.52	33.33	46.89	30.35
P/E x	8.80	10.13	7.23	11.17
EPS Growth %	563.30	16.85	40.69	-35.28
DPS c	13.06	17.43	32.56	21.42
Yield %	5.20	5.16	9.61	6.32
Franking %	0.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

1.100

Cromwell Property Group (CMW) - Cut to Cromwell's Dividend Overdue But Positive. FVE Increases to AUD 0.98

Analyst Note-Cromwell Property Group's fiscal 2018 operating earnings of AUD 156.8 million, or AUD 8.33 cents per security, and distributions of AUD 8.34 cps were in line with guidance. Our fair value estimate for no-moat-rated Cromwell increased to AUD 0.98 from AUD 0.95 on an improved outlook for rents across Cromwell's Australian office portfolio. Cromwell continues to screen as overvalued, currently trading at a 10% premium to our valuation.

Key share price catalysts are delivery on redevelopment opportunities such as the conversion of the legacy Tuggeranong office to aged care and the launch of new property funds. We have not factored in any upside with regard to the launch of new funds in our forecasts.

While conditions in office markets vary hugely across Australia, leasing conditions have materially improved in Sydney and Melbourne, and Brisbane is now on a positive trajectory. Cromwell has classified its office assets according to risk and quality, the highest quality being the core assets at 58% of the portfolio, followed by coreplus at 36%, and Active at 6%. A positive is rents and prices have been strongest for core office assets, the driver of revaluations and rents. Net operating income was up 4.6% for the 99.9% occupied core assets, well ahead of the 1.6% growth for the 96% occupied core-plus assets. We forecast this divergence to persist for the next two to three years.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	168.50	148.50	177.16	176.26
EPS c	9.59	7.89	8.88	8.81
P/E x	10.22	12.81	12.39	12.49
EPS Growth %	-5.32	-17.70	12.57	-0.85
DPS c	8.34	8.34	7.45	7.39
Yield %	8.51	8.25	6.77	6.72
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

27.660

Westpac Banking Corporation (WBC) - Lower Net Interest Margins Surprise in Westpac's 3Q18 Update. AUD 35 FVE Unchanged.

Analyst Note-Lower net interest margins, or NIMs, surprised in wide-moat Westpac Banking Corporation's third-quarter fiscal 2018 update covering capital, funding, and asset quality. Despite weaker margins, the update was in line with our expectations, underpinning our unchanged AUD 35 fair value estimate. Westpac Bank is our preferred major Australian bank, trading 20% below valuation and in a good position to deliver solid profit and dividend growth on the back of strong market positions and a resilient economy.

We make no changes to our fiscal 2018 forecast cash profit of AUD 8.4 billion and fully franked dividend of AUD 1.88 cents per share, or cps. Prior to the update, consensus estimates were for a cash profit of AUD 8.5 billion and AUD 1.89 cps dividend. The bank continues to leverage strong east coast economic conditions, with 73% of new home loans in the June quarter settled in New South Wales and Victoria.

NIMs declined 11 basis points in the quarter to 2.06% from 2.17% for first-half fiscal 2018 due primarily to the sharp increase in short-term wholesale funding. Westpac estimates a five basis point movement in short-term wholesale funding costs, known as bank bill swap rates, or BBSW, impacts NIMs by approximately one basis point. During the third quarter, average BBSW rates were 2.02%, about 24 basis points higher than the first-half fiscal 2018 average of 1.78%. Higher average BBSW rates reduced the bank's margins by five basis points.

Despite the surprisingly soft NIM outcome, our full-year fiscal 2018 margin forecast of 2.13% is unchanged as short-term wholesale funding costs have eased a little since end of June, with 90-day BBSW rates falling from a peak of 2.12% at end June 2018 to about 1.96% currently. We are not sure if short-term funding costs will continue to fall, but if they remain elevated for long, we expect the bank and major bank peers, to increase variable home loan rates to offset the higher funding costs.

FYE Sep	2016A	2017A	2018E	2019E
Reported Npat \$m	7,822.00	8,062.00	8,424.76	8,738.98
EPS c	235.46	239.66	247.50	253.75
P/E x	12.95	13.40	11.45	11.17
EPS Growth %	-5.63	1.78	3.27	2.53
DPS c	188.00	188.00	188.00	190.00
Yield %	6.17	5.85	6.63	6.70
Franking %	100.0	100.0	100.0	100.0

Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▲ AHY	Asaleo Care	★★	24/08/2018	Upgrade due to price change
▲ ARB	ARB Corporation	★★	24/08/2018	Upgrade due to price change
▲ AWC	Alumina	★★	24/08/2018	Alumina Supply Disruptions Buoy Alumina Limited's Profits; Raising FVE to AUD 1.70
▲ NSR	National Storage REIT	★★★★	24/08/2018	Upgrade due to price change
▲ SGR	The Star Entertainment Group	★★★★	24/08/2018	Record High VIP Turnover Drives Star's Stellar Fiscal 2018; FVE Lifted to AUD 4.80 per Share
▲ SWM	Seven West Media	★★	24/08/2018	Upgrade due to price change
▼ 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

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