iInvest Securities
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Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	26050	7:07am 28/08/2018	259	1.01
▲ S&P 500	2897	7:07am 28/08/2018	22	0.77
▲ NASDAQ	8018	7:31am 28/08/2018	72	0.91
▲ FTSE 100 Index	7577	1:50am 25/08/2018	14	0.19
▲ DAX 30	12538	2:00am 28/08/2018	144	1.16
▲ CAC 40	5479	2:15am 28/08/2018	47	0.86
▲ Nikkei 225 (Japan)	22800	4:20pm 27/08/2018	198	0.88
▲ HKSE	28271	6:24pm 27/08/2018	599	2.17
▲ SSE Composite Index	2781	5:16pm 27/08/2018	51	1.89
▲ NZ 50	9206	3:21pm 27/08/2018	47	0.51

International Markets Roundup

NEW YORK [Morningstar with AAP]: A broad-based rally has pushed the S&P 500 and the Nasdaq to record high closes for the second straight session as a trade agreement reached between the US and Mexico buoyed investor sentiment.

Technology stocks led the Nasdaq above the 8,000 mark for the first time, and the sector provided the biggest boost to the S&P 500.

A senior US trade official on Monday announced a deal with Mexico to replace the North American Trade Agreement and said talks with Canada were expected to begin immediately.

The upbeat trade outlook was further boosted by news that Washington was pressuring the EU to accelerate tariff talks.

Disputes between the US and its trading partners have been a drag on investor sentiment for much of the year despite solid economic fundamentals and two robust quarters of corporate earnings.

"It takes a long time for people to come out of the concerns related to those thousand-point down days and feel a little bit more comfortable," said Robert Pavlik, chief investment strategist at SlateStone Wealth in New York.

"And the trade concerns and the tariffs, that played a part in it, that's what held it back," he added.

"People are feeling a little bit more positive."

Matt Blunt, president of the American Automotive Policy Council, said he was optimistic about the trade deal. Shares of Ford Motors were up 3.2 per cent while General Motors rose 4.8 per cent.

Tariff-sensitive companies Boeing and Caterpillar were up 1.2 per cent and 2.8 per cent, respectively, leading the industrial sector's advance and pulling the Dow higher.

Adairs Limited (ADH) -Adairs Provides FY2018 Results Presentation

Netwealth Group Limited (NWL) -Netwealth Group Provides FY 2018 Results Presentation

Adairs Limited (ADH) -Adairs Provides FY2018 Results

Spark Infrastructure Group (SKI) -Spark Infrastructure Group Provides Results for The Six Months Ended 30 June 2018

Spark Infrastructure Group (SKI) -Spark Infrastructure Group Provides Investor Presentation

The Mexico-focused iShares MSCI Mexico ETF was up 2.1 per cent.

The Dow Jones Industrial Average rose 259.29 points, or 1.01 per cent, to 26,049.64, the S&P 500 gained 22.05 points, or 0.77 per cent, to 2,896.74 and the Nasdaq Composite added 71.92 points, or 0.91 per cent, to 8,017.90.

Of the 11 major sectors of the S&P 500, nine ended the session in positive territory, with the biggest percentage gains in materials, financials and industrials.

Defensive utilities and real estate sectors were the only percentage losers.

Tesla stock dipped 1.1 per cent, paring earlier losses following news that chief executive Elon Musk was scrapping his scheme to take the electric car maker private.

Chipotle Mexican Grill was the biggest percentage loser in the S&P 500, down 4.8 per cent after Wedbush downgraded the burrito chain's shares.

Luxury retailer Tiffany & Co ended the session down 1.3 per cent ahead of its second-quarter earnings report expected early on Tuesday.

Advancing issues outnumbered declining ones on the NYSE by a 1.80-to-1 ratio; on Nasdaq, a 1.29-to-1 ratio favoured advancers.

The S&P 500 posted 54 new 52-week highs and no new lows; the Nasdaq Composite recorded 159 new highs and 31 new lows.

Volume on US exchanges was 6.19 billion shares, compared with the 6.27 billion average over the last 20 trading days.

Commodities		Latest Price	Time/Date (AEST)	Change	% Change
	Aluminium	2073	8:30am 25/08/2018	0	--
	Copper	6092	8:31am 25/08/2018	0	--
	Nickel	13338	8:31am 25/08/2018	0	--
▲	Gold	1214	7:48am 28/08/2018	7	0.60
▲	Silver	14.8	7:01am 28/08/2018	0.1	0.34
▲	Oil - West Texas crude	68.9	7:10am 28/08/2018	0.2	0.22
	Lead	2069	8:32am 25/08/2018	0	--
	Zinc	2541	8:32am 25/08/2018	0	--
▼	Ore	66	7:10am 28/08/2018	-1	-0.82

Currency		Latest Price	Time/Date (AEST)	Change	% Change
▲	$A vs $US	0.7347	7:49am 28/08/2018	0.0006	0.07
▼	$A vs GBP	0.5695	7:49am 28/08/2018	-0.0012	-0.21
▼	$A vs YEN	81.57	7:49am 28/08/2018	-0.14	-0.17
▼	$A vs EUR	0.6290	7:49am 28/08/2018	-0.0014	-0.22
▲	$A vs $NZ	1.0965	7:49am 28/08/2018	0.0010	0.09
▼	$US vs Euro	0.8562	7:49am 28/08/2018	-0.0022	-0.26
▼	$US vs UK	0.7754	7:49am 28/08/2018	-0.0020	-0.26
▼	$US vs CHF	0.9798	7:49am 28/08/2018	-0.0023	-0.23
▼	$A vs $CA	0.9524	7:49am 28/08/2018	-0.0023	-0.24

Australian Market Report

	Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲	All Ordinaries	6381	4:30pm 27/08/2018	23	0.36
▲	S&P/ASX 200	6269	4:30pm 27/08/2018	22	0.35
▲	10-year Bond Rate	2.58	7:09am 28/08/2018	0.04	1.38
	90 Day Bank Accepted Bills SFE-Day	2.00	6:27am 28/08/2018	--	--
▲	3-yr Bond Rate	2.06	7:09am 28/08/2018	0.01	0.49

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 28 point higher at 6,264.

Monday 27 August - close [Morningstar with AAP]: A turnaround in the banking sector plus gains for mining and telco stocks have boosted the ASX back into positive territory on Monday.

The benchmark S&P/ASX200 index ended the day up 21.6 points, or 0.35 per cent, to 6,268.9 points, while the All Ordinaries was up 23.2 points, or 0.36 per cent, to 6,381.1 points.

The steadier performance also reflected relief that some political uncertainty had been removed, for at least the near term, by the appointment of former federal treasurer Scott Morrison as Australia's new prime minister, after Malcolm Turnbull was forced to quit last Friday.

Gold stocks were among the top gainers in the resource space, as bullion prices drew support from the US dollar's weakness following comments from US Federal Reserve Chairman Jerome Powell signalling a gradual approach to interest rate hikes.

The gold index climbed 2.7 per cent, with Newcrest Mining and Evolution Mining rising 2.1 per cent to $19.64 and 3.4 per cent to $2.77, respectively.

Material stocks were driven higher by rising commodity prices with BHP and Rio Tinto each up over one per cent.

Shanghai base metal prices mostly rose, extending strong gains seen at the end of last week on the London Metal Exchange.

Financial stocks edged higher albeit in relatively light trade after they were lower earlier in the session.

The fall-and-lift followed closing submissions from the financial services royal commission, released late on Friday, that strongly criticised superannuation funds run by NAB and CBA.

CBA and NAB, two of the so-called 'Big Four" banks, were up 0.4 per cent and 0.3 per cent, respectively, after flirting in the red earlier.

Westpac, which fell more than two per cent on Friday after revealed its interest margins were under pressure from higher costs, closed 0.4 per cent higher.

In company's news, shares in Reliance Worldwide slid 8.4 per cent to $5.66 after the plumbing supplies giant reported a flat full-year profit of $66 million.

Energy and telco services group Amaysim lifted 5.2 per cent after it announced record revenue of $577.6 million, up 77 per cent thanks largely to strong subscriber growth across its energy business.

Telstra also lifted two cents to $3.23, helping the broader telco sector.

The Australian dollar was trading at 73.12 US cents at 1700 AEST, up from 72.84 US cents on Friday.

ON THE ASX:

The S&P/ASX200 was up 21.6 points, or 0.35 per cent, to 6,268.9 points

The All Ordinaries was up 23.2 points, or 0.36 per cent, to 6,381.1 points

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

- Alumina Limited
- Evolution Mining Limited
- LendLease Group
- Newcrest Mining Limited
- Santos Limited
- WorleyParsons Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
BKL*	Blackmores Limited	Annual
DOW*	Downer EDI Limited	Annual
CTX*	Caltex Australia Limited	Interim
SDA*	Speedcast International Limited	Interim
AGI*	Ainsworth Game Technology Limited	Prelim
BKL*	Blackmores Limited	Prelim
RFG*	Retail Food Group Limited	Prelim
RRL*	Regis Resources Limited	Prelim
SCO*	Scottish Pacific Group Limited	Prelim
CTX	Caltex Australia Limited	Interim
BKL	Blackmores Limited	Prelim
RRL	Regis Resources Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

07:36 AM

Michael Hill International Limited (MHJ) -Michael Hill International Provides FY 2018 Financial Results

Michael Hill International provided FY 2018 financial results. The Company is committed to opening a minimum of 10 new stores in FY 2019 for the Company brand in Australia, NZ and Canada, subject to site availability. Underpinned by the five strategic shifts, it is planned that the differentiated offer will deliver growth in all markets and take market share. The business will be focussed on quality of earnings and continued gross margin performance.

07:41 AM

Michael Hill International Limited (MHJ) -Michael Hill International Provides Investor Presentation

Michael Hill International provided investor presentation. The EBIT from continuing operations is $50.1 m and normalised EBIT is $40.1 m. Canadian segment continues to gain market share with a record EBIT for the year is CA$14.6m. The Planned capex is $25m for FY 2019 is in line with prior years.

07:53 AM

Reliance Worldwide Corporation Limited (RWC) -Reliance Worldwide Provides 30 June 2018 Results

Reliance Worldwide provided 30 June 2018 results. The final dividend is $23.7m, being 3.0 cps on expanded capital of 790.1m issued shares. The Acquisition of John Guest group for $1.2bn completed in June 2018 creating a single global leader in the manufacture and distribution of both brass and plastic PTC technology and related products. The Balance sheet strength continues to support business growth with sizeable headroom available under the syndicated debt facility with extended maturity periods of 3 to 5 years.

07:57 AM

G8 Education Limited (GEM) -G8 Education Provides Half Year Media Release

G8 Education provided half year media release. The Underlying EBIT is $48.1m, in line with market consensus but 21% lower than the prior period largely due to higher Q1 wage costs from regulatory changes to required staff ratios. Wage ratios were back within prior year levels by May 2018, setting up for an improved wage outcome in the second half. The Delivery of the Group's strategic agenda remains on track despite considerable regulatory change and challenging industry conditions.

07:59 AM

G8 Education Limited (GEM) -G8 Education Provides Half Year Investor Presentation

G8 Education provided half year investor presentation. The Underlying EBIT is $48m, in line with half year consensus, down 21% on prior period. The Wage costs increase of $7.2m due to regulatory changes to staff ratios - in line with expectations. Wage ratios back to prior period levels in Q2 due to operational efficiencies, setting up for improved H2 performance. The Incremental investment in network growth and quality improvements were $4.6m in the half.

08:02 AM

Amaysim Australia Limited (AYS) -Amaysim Australia Announces Financial Results for FY 2018

Amaysim Australia announced financial results for FY 2018. The Company announced its results for the full year ending 30 June 2018. New product launches, the refresh of the mobile product suite and successful marketing campaigns all contributed to the strong growth in subscribers across the Group and resulted in record full year 2018 statutory net revenue of $577.6m, statutory EBITDA of $37.6m and underlying EBITDA of $47.8m.

08:05 AM

Amaysim Australia Limited (AYS) -Amaysim Australia Provides Investor Presentation

Amaysim Australia provided investor presentation. Statutory net revenue up 76.8% driven by the 12 month contribution of energy, solid growth in subscribers across the Group and the launch of devices and amaysim energy. Marketing costs up 166.7% driven by increased marketing efforts to increase brand awareness, additional acquisition costs to launch amaysim energy and from traditional energy channels (i.e. marketing, commissions) and promotional activity in broadband.

08:26 AM

Netwealth Group Limited (NWL) -Netwealth Group Provides Full Year Results

Netwealth Group provided full year results. It continues to focus on efficient cost management. In FY2018 total operating expenses increased by $4.6m (12.8%) to $41.0m. EBITDA margin improved to 50.8% for FY2018 compared to 40.7% in FY2017. The board declared a fully franked final dividend for FY2018 of 5.38 cps, which represents 70% of NPAT since the IPO. In addition, a special dividend of 5.18 cps was also declared. The final and special dividends are payable on 27 September 2018.

08:36 AM

Paragon Care Limited (PGC) -Paragon Care Announces Regarding Issue of Performance Rights

Paragon Care advised that the Board has resolved to grant 228,119 performance rights (Rights) to Mr. Andrew Just in connection with his long-term incentive remuneration arrangements as MD and CEO of the Company. The Rights will vest subject to satisfactory completion of performance (EPS) CAGR, calculated using the FY 2018 EPS as the Base Year and service conditions over the vesting period, being 1 July 2018 to 30 June 2021.

08:42 AM

Adairs Limited (ADH) -Adairs Provides FY2018 Results Presentation

Adairs provided FY2018 results presentation. The EPS up 45% to 18.4c. The Full year fully franked dividends up 68.8% to 13.5c. The Sales driven by well executed product range across core categories complemented by growth in its expansion categories in particular home decor, furniture and soft furnishings.

08:45 AM

Netwealth Group Limited (NWL) -Netwealth Group Provides FY 2018 Results Presentation

Netwealth Group provided FY 2018 results presentation. EBITDA increased by $17.4m (69.7%) to $42.3m for FY2018 and EBITDA margin for FY 2018 increased by 10.1% to 50.8%. NPAT increased by $12.2m (72.7%) to $29.0m in FY 2018 and NPAT margin increased by 7.4% to 34.9% in FY 2018. The Operating cashflow pretax of $39.4m for FY2018 was 93.1% of EBITDA.

08:47 AM

Adairs Limited (ADH) -Adairs Provides FY2018 Results

Adairs provided FY2018 results. The Gross margin increased 110bps to 60.3% driven by reduced frequency and depth of discounting throughout the year, its improved product offering requiring less markdowns to clear inventory, expansion categories contributing generally higher margin and a favourable Australian dollar position relative to FY 2017. Its omni channel retail capability continues to be a key growth driver. Online sales grew 75% to $41.5m and account for 13% of its total sales. Its growing Linen Lovers loyalty program, with membership growing at 15%, represents over 70% of its total sales.

08:49 AM

Spark Infrastructure Group (SKI) -Spark Infrastructure Group Provides Results for The Six Months Ended 30 June 2018

Spark Infrastructure released its financial results for the 6 months ended 30 June 2018 delivering an increase in distributions to investors, supported by continued efficiency and productivity gains from its high-performing investment portfolio businesses. Capital expenditure grew by 21.0% to $211.1m largely due to the installation of bushfire mitigation technology as mandated by the Vic State Government. As a result, Regulated Asset Base (RAB) grew 1.8% to $6,001m from 31 December 2017.

08:52 AM

Spark Infrastructure Group (SKI) -Spark Infrastructure Group Provides Investor Presentation

Spark Infrastructure Group provided investor presentation. The Distribution prices reduced by 9% in real terms between 2000 and 2018 and represent 26% of a typical household bill. It anticipates that growth in distributions per security, through to the end of the regulatory determinations in 2020, will be at least CPI, subject to business conditions.

Research Report Summaries

Morningstar Rating

★★★

Share Price

6.690

APN Outdoor Group Limited (APO) - APN Outdoor Brings Home a Good Report Card for Soon-to-Be French Parent

Analyst Note-APN Outdoor's fiscal 2018 first-half result was overshadowed by the Australian Competition and Consumer Commission's, or ACCC's, clearance for JCDecaux to acquire the group. It is a decision that we expected and is why we raised our fair value estimate for APN in June 2018, to JCDecaux's AUD 6.70 per share offer. With this all-cash consideration coming their way, shareholders in the no-moat-rated group could be forgiven for treating the June-half result with indifference.

However, the soon-to-be 100% shareholder, JCDecaux, would have been pleased with APN's 7% rise in first-half underlying EBITDA to AUD 40 million. The growth would have been 15% to 16% had APN not lost the Yarra Trams concession in December 2017 to, of all people, JCDecaux. The French suitor may have been a little disappointed by the mere 10% lift in APN's first-half billboard sales to AUD 93 million (55% of group revenue), compared with market growth of 16%. But such near-term revenue volatility is no cause for concern, and compensated by the more-than-doubling in first-half free cash flow to AUD 22 million.

JCDecaux would also have been encouraged by APN's recent string of concession wins, including the retention and expansion of the Sydney and Queenstown Airport contracts. This means only 3% and 6% of APN's revenue are subject to renewal risks in fiscal 2018 and 2019, respectively. While we may never find out how much margin APN sacrificed to win these contracts, that is no longer something APN shareholders need to fret about, given the AUD 6.70 per share cash coming their way.

As for the ACCC clearance, the regulator sensibly recognised that APN has little presence in the street furniture segment of the outdoor market that JCDecaux operates in Australia. It may have also saw little justification in getting in the way of old media consolidation, even within a subsegment such as outdoor, in the face of indiscriminate competition for eyeballs and advertising dollars from digital behemoths.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	51.83	53.01	53.54	55.67
EPS c	31.01	31.69	32.13	33.41
P/E x	19.77	15.88	20.85	20.05
EPS Growth %	19.45	2.21	1.40	3.98
DPS c	19.00	19.20	19.50	20.00
Yield %	3.10	3.81	2.91	2.99
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

4.000

Chorus Limited (CNU) - Chorus Emits Positive Signals

Analyst Note-We lift our fair value estimate on Chorus by 3% to NZD 4.00 (AUD 3.65) per share. The upgrade reflects our more positive assumptions on Chorus' fixed-line connections, rather than the reported fiscal 2018 EBITDA of NZD 653 million which was down 8% on a like-for-like basis, but 2% higher than our forecast. It was a beat was mostly cost-driven, especially on corporate overheads which fell 15% to NZD 23 million.

While the 76,000 line losses in fiscal 2018 was in line with our expectations, consumer migration to fixed-wireless broadband is showing signs of slowing, as evidenced by Spark New Zealand's 116,000 such subscribers at the end of fiscal 2018 versus its target of 125,000. We also expect the recent completion of competitor Enable's rollout in Christchurch to moderate connection losses in local fibre company, or LFC, areas where 15,000 of Chorus' connections disappeared during the year.

All this is at a time when the no-moat-rated group's focus on costs is elevating to another level, with labour cost (excluding one-off restructuring) down 8% in fiscal 2018 and staff numbers now 12% lower than peak August 2017 levels. Further, there are opportunities for savings on network operating expenses, as migration continues from temperamental, expensive-to-maintain copper network to the spanking new fibre network.

This is the basis for the average 2% lift to our forward EBITDA forecasts, with our fiscal 2019 EBITDA projection of NZD 638 million within management's NZD 625 to 645 million guidance. While our fiscal 2020 EBITDA forecast of NZD 636 million does not quite match Chorus' objective to return to growth, management's signal is clearly positive for investor sentiment, helping to hold the stock price above our fair value estimate. EBITDA growth in fiscal 2020 could well depend on how low the fiscal 2019 base turns out to be, given management's intention to spend an incremental NZD 10 to 15 million on regulatory, branding and other transformation-related areas.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	106.73	78.31	53.21	52.24
EPS c	21.96	14.86	10.10	9.91
P/E x	17.95	25.48	39.65	40.41
EPS Growth %	24.51	-32.33	-32.04	-1.86
DPS c	19.84	20.27	20.87	20.86
Yield %	5.03	5.35	5.21	5.21
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★★

Share Price

2.020

G8 Education Limited (GEM) - Childcare Oversupply Affecting G8 Education More Than Expected; FVE Cut to AUD 3.50

Analyst Note-We have cut our fair value estimate for no-moat-rated G8 Education by 12% to AUD 3.50 per share following the company's weaker-than-expected first-half result. The key challenge facing G8 continues to be the oversupply of childcare centres and resulting impact on centre occupancy rates, revenue, and profits. In the first half, the combination of occupancy weakness and negative operating leverage caused G8's EBIT to fall 21% and EBIT margin to fall 4 percentage points to 12%. Although the business has a seasonal second-half earnings skew, which reduces the significance of the first half, we now expect full-year EBIT to fall 7% versus the prior year, down from our prior assumption of 1% growth. Our revised 2018 forecasts assume a 2.5-percentage-point fall in EBIT margin. Over the long term, we now assume a less pronounced recovery with an average EBIT margin of 18.3% over the next decade rather than our previous assumption of 20.7%.

Despite the fair value estimate cut, at the current market price of AUD 2.02, we continue to believe the shares are significantly undervalued, with the market price and our forecasts implying a fiscal 2019 price/earnings ratio of 10 versus 18 at our fair value estimate. Due to the tough operating environment, management brought forward the planned cut in the dividend payout ratio and we cut our fiscal 2018 dividend forecast by 30% accordingly. The payout ratio cut will be an unwelcome move for income investors but is prudent, considering the current competitive climate, and is in the long-term interests of the company. The current price implies a dividend yield of 8% or 11% including franking credits.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	94.06	84.21	79.91	92.10
EPS c	24.87	19.76	18.37	20.84
P/E x	14.18	19.41	11.00	9.69
EPS Growth %	6.24	-20.53	-7.06	13.43
DPS c	24.00	18.00	14.00	16.00
Yield %	6.81	4.69	6.93	7.92
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★

Share Price

8.780

Netwealth Group Limited (NWL) - Fee Pressures Beginning to Show Despite Netwealth's Strong Flows

Analyst Note-The most notable aspect of Netwealth's fiscal 2018 financial result was that management expects the EBITDA margin of 51% achieved in fiscal 2018 to remain stable in fiscal 2019, which reflects increased reinvestment in the business. Although we previously expected margin expansion in fiscal 2019 and beyond, via fixed cost leverage, we're not altogether surprised competitive pressures are weighing on margins. This aligns with our view the company lacks an economic moat. We've largely maintained our investment thesis, namely that we expect strong revenue growth as the company grows quickly from a relatively low base. However, we also expect competition to restrict margin expansion and this is the key difference between our fair value estimate and the market price.

The fiscal 2018 financial result, including the underlying NPAT of AUD 29 million, was released in July along with final quarter flows in funds under management and administration, or FUMA, meaning the result contained little new information. Although we've slightly reduced our margin forecasts for Netwealth, we've also slightly increased our revenue growth assumptions with no net effect on our AUD 5.30 fair value estimate. At the current market price of AUD 8.78, the shares remain overvalued.

From a relatively low base, Netwealth continues to outearn its market share in net flows in funds under administration, or FUA, and we remain positive on the firm's ability to continue to attract flows. With almost AUD 1.8 billion in FUA by June 2018, Netwealth grew its platform business by more than 40% in fiscal 2018, although only 25% of this growth was fee-paying. We forecast the firm to grow FUA at 24% CAGR for the five years ended fiscal 2023.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	17.04	29.05	36.61	46.49
EPS c	7.75	12.50	15.40	19.56
P/E x	0.00	56.11	57.01	44.89
EPS Growth %	22.19	61.43	23.17	27.00
DPS c	2.17	9.15	11.00	14.00
Yield %	0.00	1.30	1.25	1.59
Franking %	0.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

17.190

Orica Limited (ORI) - We Temper our Fiscal 2019 Earnings Forecast for No-Moat Orica. No Change to AUD 16.50 FVE.

Analyst Note-We make no change to our AUD 16.50 fair value estimate for no-moat Orica. However, we have reined-in our fiscal 2019 EPS forecast to AUD 1.11 from AUD 1.37 previously. We now expect full recovery from fiscal 2018's maintenance and weather-impacted lows to take slightly longer than previously allowed for. Orica's difficulties have not just been maintenance and weather one-offs. The company has reported reduced underlying EPS in each of the last seven fiscal years to 2017, and the first half of fiscal 2018 didn't set a different tone with underlying EPS to March down 47% to AUD 0.33. Earnings sit at around one third levels enjoyed at fiscal 2010's AUD 2.35 per share peaks. But we hold to our view for partial recovery, our underlying EPS forecast for fiscal 2018 little changed at AUD 0.86, down 17% due to the weak first half, partially offset by the second half, expected to be up strongly to AUD 0.53. Orica anticipates a significantly stronger second half with ammonium nitrate, or AN, volumes forecast to increase by 10% from the first half, taking the full year to 3.65 million tonnes. Firmer AN pricing and improved manufacturing reliability are expected to assist.

Longer term, we think there will be operational improvement and still forecast high single-digit five-year cumulative annual EBITDA growth to near AUD 1.3 billion by fiscal 2022, 50% above AUD 855 million expectations for fiscal 2018's nadir. Orica has made changes to the manufacturing team and is anticipating better performance. But we now assume extra caution on the pace of the turnaround, hence our softer fiscal 2019 forecast.

Our fair value estimate equates to a fiscal 2022 EV/EBITDA of 6.8, a dividend yield of 4.2% and price/earnings of 11.8, all discounted at WACC. Our fiscal 2022 EPS forecast is AUD 1.83. At around AUD 17.20, shares still screen as marginally overvalued with the multiples elevated and the yield unenticing.

FYE Sep	2016A	2017A	2018E	2019E
Reported Npat $m	389.10	386.20	324.78	419.45
EPS c	104.20	102.61	85.88	110.92
P/E x	14.00	18.13	20.00	15.49
EPS Growth %	-8.73	-1.53	-16.30	29.15
DPS c	49.50	51.50	52.57	55.46
Yield %	3.39	2.77	3.06	3.23
Franking %	36.36	5.83	18.59	30.0

Morningstar Rating

★

Share Price

5.660

Reliance Worldwide Corporation Limited (RWC) - In Line 2018 Result for No-Moat Reliance Worldwide; Upgrade to Europe Margins Drive 6% FVE Increase

Analyst Note-We increase our fair value estimate 6% to AUD 3.60 per share reflecting incremental synergy benefits within John Guest, but still view shares as overvalued. No-moat Reliance Worldwide's fiscal 2018 results were in line with our bottom line expectations. Net sales of AUD 769.4 million were up 28%, including a bit less than a month of contribution from the John Guest acquisition, completed in June 2018. Excluding this purchase, revenue rose 24% to about AUD 745 million, slightly ahead of our forecast for 21% gains. Nonetheless, EBITDA tracked our projection at AUD 157 million, excluding John Guest, and a small one-time charge U.S. import-duty reclassification. This was ahead of guidance but in line with our forecast for AUD 156 million.

The Americas segment remains a solid growth opportunity. Sales growth of 29% ahead of our forecast for low-double-digit gains, largely due to a full year of Holdrite sales following the acquisition, and one-time improvement from a roll-out to Lowe's stores in the fiscal second half. We expect further rollover effects from the latter, and sales growth to slow to about 12% in fiscal 2019, but nonetheless expect high-single-digit revenue gains through fiscal 2023.

Outside the U.S., Asia Pacific revenue growth of 6% trailed our forecast for 9% gains, and we expect continued softening over the near term as the Australian residential construction picture weakens. Conversely, Europe was strong with sales growing 22%, excluding impact of John Guest, and only slightly behind our forecast for 27% gains. We expect continued double-digit top-line growth here over the next five years.

Reliance forecasts fiscal 2019 EBITDA of AUD 280 million to AUD 290 million, slightly below our prior forecast for AUD 304 million. We adjust our forecast--now AUD 294 million given our slightly lower margin outlook for the Americas and APAC. But we're still above management's guidance--given an opportunity to enjoy better than expected synergies in John Guest.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	65.61	65.99	160.85	196.58
EPS c	12.38	12.14	20.22	24.71
P/E x	24.21	33.01	30.56	25.01
EPS Growth %	-6.05	-1.89	66.51	22.22
DPS c	6.00	6.50	10.11	12.36
Yield %	2.00	1.62	1.64	2.00
Franking %	70.0	70.0	100.0	100.0

Morningstar Rating

★★★

Share Price

2.400

Spark Infrastructure Group (SKI) - Cost Reductions Support Good First Half for Spark; No Change to FVE

Analyst Note-Spark Infrastructure reported a good first-half result and is tracking a little better than we were expecting. Proportional EBITDA increased nearly 8% to AUD 420 million on stronger earnings at Victoria Power Networks and TransGrid, while earnings at SA Power Networks fell marginally. Proportional operating cash flow increased 7% to AUD 135 million, or AUD 8 cents per security, which was in line with distributions to security holders. We slightly increase our full-year earnings forecasts but remain comfortable with our AUD 2.40 fair value estimate. At current prices, Spark is fairly valued. It offers an attractive unfranked yield of 6.7%, likely growing above CPI for the next few years. Longer-term growth will be supported by ongoing investment in its networks, but regulatory attacks will cap profitability in an effort to improve utility bill affordability.

Victoria Power Networks, or VPN, was a surprise positive performer. Revenue rose 7% and operating costs fell 18%, driving EBITDA 15% higher to AUD 428 million. Some of the improvement appears to be one-off in nature, so we expect growth to moderate for the full year. First-half revenue benefited from regulated tariff increases of a little over CPI and large increases in semi- and unregulated revenue. Customer numbers rose 1.3%, though electricity demand was flat. The medium-term earnings outlook is relatively good, with regulated tariffs set to increase around 4% on Jan. 1, 2019 and closer to 5% on Jan. 1, 2020. The increase in VPN's semi and unregulated revenue relates to increased connection work and sales of properties among other things and can be lumpy and unpredictable. Likewise, the trend in operating costs shouldn't be extrapolated as something related to lower vegetation management costs and increased capitalisation of labour costs. These items can be volatile from half to half.

FYE Dec	**2016A**	**2017A**	**2018E**	**2019E**
Reported Npat $m	245.78	290.74	292.21	285.67
EPS c	14.61	17.29	17.37	16.98
P/E x	15.23	14.56	13.82	14.13
EPS Growth %	-22.38	18.29	0.51	-2.24
DPS c	14.50	15.25	16.00	16.48
Yield %	6.52	6.06	6.67	6.87
Franking %	0.0	0.0	0.0	5.0

Recommendation Updates Over the Last Week

	ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▲	AZJ	Aurizon Holdings	★★★	27/08/2018	Upgrade due to price change
▲	FLT	Flight Centre Travel Group	★★	27/08/2018	Upgrade due to price change
▲	GWA	GWA Group	★★★	27/08/2018	Upgrade due to price change
▲	QUB	Qube Holdings	★★★	27/08/2018	Upgrade due to price change
▼	SGR	The Star Entertainment Group	★★	27/08/2018	Downgrade due to price change
▲	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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