iInvest Securities
Stockbroking & Wealth Management

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Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	25822	7:04am 22/08/2018	64	0.25
▲ S&P 500	2863	7:04am 22/08/2018	6	0.21
▲ NASDAQ	7859	7:31am 22/08/2018	38	0.49
▼ FTSE 100 Index	7566	1:50am 22/08/2018	-26	-0.34
▲ DAX 30	12384	2:00am 22/08/2018	53	0.43
▲ CAC 40	5409	2:15am 22/08/2018	29	0.54
▲ Nikkei 225 (Japan)	22220	4:20pm 21/08/2018	21	0.09
▲ HKSE	27753	6:24pm 21/08/2018	155	0.56
▲ SSE Composite Index	2734	5:15pm 21/08/2018	35	1.31
▲ NZ 50	9116	3:20pm 21/08/2018	7	0.07

International Markets Roundup

NEW YORK [Morningstar with AAP]: The benchmark S&P 500 has touched a record high and equalled its longest ever bull-market run, as US stocks rose on earnings reports in the consumer sector and relative calm in the trade dispute between the United States and China.

The S&P rose as much as 0.6 per cent to a record intraday high of 2,873.23 points on Tuesday, topping its previous record high of 2,872.87 on January 26, though it closed below both those marks.

The index's bull-market run is now 3,452 days old and on Wednesday would become the longest such streak in history, at least for some market watchers.

Trade-sensitive industrial stocks rose for the fourth consecutive session as investors remained optimistic that the United States and China could move closer to settling their trade dispute. The S&P 500 industrial index rose 0.8 per cent.

The S&P consumer discretionary index climbed 0.9 per cent as shares of off-price retailer TJX Companies rose on strong results and Toll Brothers' encouraging quarterly report boosted shares of homebuilders.

"We've got good momentum, which is fundamentally justified by the strong economy and better earnings," said Kevin Caron, senior portfolio manager at Washington Crossing Advisors in Florham Park, New Jersey.

"Investors still seem relatively optimistic about growth, and you're seeing that expressed in the market today."

The Dow Jones Industrial Average rose 63.6 points, or 0.25 per cent, to 25,822.29, the S&P 500 gained 5.91 points, or 0.21 per cent, to 2,862.96 and the Nasdaq Composite added 38.17 points, or 0.49 per cent, to 7,859.17.

The small-cap Russell 2000 index, which is less affected by global tariff disputes than its large-cap peers, ended the session up 1.1 per cent at a record closing high.

Healthscope Limited (HSO) -Healthscope Announces Regarding Outcome of Strategic Review of Hospital Property Assets

Helloworld Travel Limited (HLO) -Helloworld Travel Provides Preliminary Final Report

Freedom Oil and Gas Ltd (FDM) -Freedom Oil & Gas Announces 30-Day Average Production from Four New Eagle Ford Shale Wells

Class Limited (CL1) -Class Provides FY 2018 Results Investor Presentation and CEO Commentary

The S&P 500 energy index rose 0.5 per cent and the S&P 500 materials index gained 0.4 per cent, in tandem with higher prices for oil and metals.

Helping commodity prices was a drop in the dollar after President Donald Trump said he was "not thrilled" with the Federal Reserve for raising rates and that the central bank should do more to help him boost the economy.

The criticism came ahead of the release of the Fed's minutes of its August policy meeting on Wednesday, which is expected to reaffirm its confidence in the US economy and its commitment to future rate hikes.

Toll Brothers shares jumped 13.8 per cent after the homebuilder reported better-than-expected quarterly results. Shares of its industry peers PulteGroup, Lennar and D.R. Horton also rose between 3.8 per cent and 5.5 per cent.

TJX shares climbed 4.7 per cent, ending the session at a record closing high, after the retailer topped quarterly comparable-store sales estimates and raised its full-year earnings forecast.

But shares of Coty tumbled 7.1 per cent after the beauty products maker missed sales estimates for the first time in six quarters.

Advancing issues outnumbered declining ones on the NYSE by a 1.88-to-1 ratio; on Nasdaq, a 2.32-to-1 ratio favoured advancers.

The S&P 500 posted 43 new 52-week highs and no new lows; the Nasdaq Composite recorded 164 new highs and 32 new lows.

Volume on US exchanges was 5.86 billion shares, compared with the 6.49 billion average over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	2030	3:24am 22/08/2018	-1	-0.07
▲ Copper	6018	3:24am 22/08/2018	57	0.95
▼ Nickel	13475	3:24am 22/08/2018	-1	-0.01
▲ Gold	1196	8:09am 22/08/2018	5	0.38
▲ Silver	14.7	8:09am 22/08/2018	0.0	0.22
▲ Oil - West Texas crude	65.8	8:10am 22/08/2018	0.4	0.64
▲ Lead	1985	3:24am 22/08/2018	37	1.90
▲ Zinc	2426	3:24am 22/08/2018	45	1.87
▼ Ore	68	7:10am 22/08/2018	0	-0.44

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ $A vs $US	0.7364	8:09am 22/08/2018	0.0029	0.39
▼ $A vs GBP	0.5707	8:09am 22/08/2018	-0.0021	-0.37
▲ $A vs YEN	81.14	8:09am 22/08/2018	0.50	0.62
▼ $A vs EUR	0.6362	8:09am 22/08/2018	-0.0021	-0.32
▼ $A vs $NZ	1.0997	8:09am 22/08/2018	-0.0048	-0.44
▼ $US vs Euro	0.8639	8:09am 22/08/2018	-0.0062	-0.71
▼ $US vs UK	0.7750	8:09am 22/08/2018	-0.0059	-0.76
▼ $US vs CHF	0.9847	8:09am 22/08/2018	-0.0056	-0.56
▲ $A vs $CA	0.9600	8:09am 22/08/2018	0.0034	0.35

Australian Market Report

	Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼	All Ordinaries	6383	4:31pm 21/08/2018	-52	-0.81
▼	S&P/ASX 200	6284	4:31pm 21/08/2018	-61	-0.96
▲	10-year Bond Rate	2.57	7:09am 22/08/2018	0.03	1.18
▲	90 Day Bank Accepted Bills SFE-Day	2.01	5:50am 22/08/2018	0.01	0.50
▲	3-yr Bond Rate	2.05	7:09am 22/08/2018	0.01	0.49

Local Markets Are Expected to Open Lower

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

Tuesday 21 August - close [Morningstar with AAP]: Australian shares fell back on Tuesday, with falls for BHP and the broader mining sector and a retreat in banks and consumer stocks weighing on the market.

The benchmark S&P/ASX200 index was down 60.6 points, or 0.96 per cent, at 6,284.4 points AEST, while the All Ordinaries was down 52.1 points, or 0.81 per cent, at 6,383.0 points.

The benchmark index slipped back below 6,300 points after two days above that mark as global miner BHP posted a writedown-driven 37 per cent drop in full-year profit to $US3.7 billion ($5.1 billion).

BHP's underlying profit for the company rose 33 per cent to $US8.93 billion, missing analyst expectations for profit of around $9.1 billion and a record final dividend of 63 US cents wasn't enough to please investors.

Shares in the group dropped 62 cents, or 1.9 per cent, to $32.55, while the broader mining sector was also lower.

Also reporting on Tuesday, Super Retail Group surged 75 cents, or 8.2 per cent, to $9.86 after it reported a 26 per cent jump in annual profit to $128.3 million.

Packaging giant Amcor fell 52 cents, or 3.6 per cent, to $13.76 despite a 21 per cent jump in full-year profit to $US724 million and an optimistic outlook saying tough trading conditions were starting to ease.

Banks lost ground, with Westpac leading the retreat, slipping 2.1 per cent to $29.50 while its other big four compatriots posted losses between 0.9 per cent at 1.2 per cent, dragging the broader market down.

Energy stocks also traded lower a day after the Australian government stepped back from legislating a commitment to Paris treaty emissions reductions in its signature energy policy.

Australian politics was in uproar as Prime Minister Malcolm on Tuesday faced down a party room challenge from immigration minister Peter Dutton, who subsequently resigned his post and moved to the parliamentary backbenches.

The failed challenge sets the scene for a repeat effort, casting further uncertainty over federal politics.

The Australian dollar rose against the US greenback in line with other global currencies after US president Donald Trump signalled his displeasure with the US Federal Reserve's rate-hiking tendencies, sending the US dollar lower.

The Aussie was trading at 73.51 US cents at 1700 AEST, up from 73.03 US cents on Monday.

ON THE ASX:

The benchmark S&P/ASX200 closed down 60.6 points, or 0.96 per cent, at 6,284.4 points

The All Ordinaries was down 52.1 points, or 0.81 per cent, at 6,383.0 points.

The NZX 50 added 6.62 points (0.07%) to 9,115.78 while the Nikkei gained 20.73 points (0.09%) at the time of writing, to be closed at 22219.73.

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

- Computershare Limited
- Fairfax Media Limited
- Infomedia Limited
- Insurance Australia Group Limited
- IPH Limited
- REA Group Ltd
- Companies commencing Ex-Dividend Trading Today (ASX 300):
- AGL Energy Limited
- AMP Limited
- Link Administration Holdings Limited
- Mount Gibson Iron Limited
- Pact Group Holdings Ltd

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
A2M*	The a2 Milk Company Limited	Annual
AIA*	Auckland International Airport Limited	Annual
APA*	APA Group	Annual
ASL*	Ausdrill Limited	Annual
BGA*	Bega Cheese Limited	Annual
BVS*	Bravura Solutions Limited	Annual
EML*	EML Payments Limited	Annual
GDI*	GDI Property Group	Annual
HSO*	Healthscope Limited	Annual
IAG*	Insurance Australia Group Limited	Annual
IPD*	ImpediMed Limited	Annual
ISD*	iSentia Group Limited	Annual
NSR*	National Storage REIT	Annual
SDF*	Steadfast Group Limited	Annual
SRX*	Sirtex Medical Limited	Annual
TGR*	Tassal Group Limited	Annual
WOR*	WorleyParsons Limited	Annual
WOW*	Woolworths Group Limited	Annual
CCL*	Coca-Cola Amatil Limited	Interim
A2M*	The a2 Milk Company Limited	Prelim
AIA*	Auckland International Airport Limited	Prelim
APA*	APA Group	Prelim
BAP*	Bapcor Limited	Prelim
BGA*	Bega Cheese Limited	Prelim
CHC*	Charter Hall Group	Prelim
CWY*	Cleanaway Waste Management Limited	Prelim
EML*	EML Payments Limited	Prelim
GDI*	GDI Property Group	Prelim
IDR*	Industria REIT	Prelim
IPD*	ImpediMed Limited	Prelim
ISD*	iSentia Group Limited	Prelim
MMS*	McMillan Shakespeare Limited	Prelim
NSR*	National Storage REIT	Prelim
QUB*	Qube Holdings Limited	Prelim
RIC*	Ridley Corporation Limited	Prelim
SAR*	Saracen Mineral Holdings Limited	Prelim
SBM*	St Barbara Limited	Prelim
SDF*	Steadfast Group Limited	Prelim
SGR*	The Star Entertainment Group Limited	Prelim

SRV*	Servcorp Limited	Prelim
SRX*	Sirtex Medical Limited	Prelim
TGR*	Tassal Group Limited	Prelim
VOC*	Vocus Group Limited	Prelim
WBA*	Webster Limited	Prelim
WOR*	WorleyParsons Limited	Prelim
WTC*	Wisetech Global Limited	Prelim
ABC	Adelaide Brighton Limited	Interim
CCL	Coca-Cola Amatil Limited	Interim
SYD	Sydney Airport	Interim
AAD	Ardent Leisure Group	Prelim
APA	APA Group	Prelim
ARB	ARB Corporation Limited	Prelim
CAR	Carsales.com Limited	Prelim
CHC	Charter Hall Group	Prelim
FBU	Fletcher Building Limited	Prelim
LLC	LendLease Group	Prelim
MMS	McMillan Shakespeare Limited	Prelim
NCM	Newcrest Mining Limited	Prelim
SPK	Spark New Zealand Limited	Prelim
SVW	Seven Group Holdings Limited	Prelim
TME	Trade Me Group Limited	Prelim
VOC	Vocus Group Limited	Prelim
WOR	WorleyParsons Limited	Prelim
WTC	Wisetech Global Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:27 AM

Super Retail Group Limited (SUL) -Super Retail Group Provides 2018 Full Year Investor Presentation

Super Retail Group provided 2018 full year investor presentation. The operating cash flow was $73.9m higher than pcp, includes a timing benefit of $17m related to prepayments. The Net Debt increased due to full debt funding of Macpac acquisition of $133.8m, offset by operating cash flow performance. The Operating costs increased due to investment in customer solutions, in store service and digital to support omni-retailing capability.

08:30 AM

GR Engineering Services Limited (GNG) -GR Engineering Services Enters into a Contract with Saracen Gold Mines

GR Engineering Services announced that it has entered into a contract with Saracen Gold Mines for the engineering design, procurement and construction of a paste backfill plant at the Carosue Dam operations, situated 120 km North East of Kalgoorlie in WA (Contract). Its scope of work under the Contract extends to all process engineering design, supply, construction and commissioning for a paste backfill plant capable to fill stopes in the Karari underground mine. The Contract price is $17.9m. Work under the Contract will start immediately, with completion of the facility to occur in the second half of FY 2019.

08:35 AM

Asaleo Care Limited (AHY) -Asaleo Care Provides 1H 2018 Presentation Results

Asaleo Care provided 1H 2018 Presentation results. The Free cash flow is $1.8m. The Inventory increase due to higher input costs and increased holding of imported finished goods and raw materials. Additional accounts receivable securitisation facility was executed resulting in a reduction in receivables. The Net Finance Costs Increased on higher average gross debt (1H 2018: $351m vs 1H 2017: $335m) with effective interest rate in 1H 2018 of 3.6% compared with 1H 2017 of 3.5%.

08:39 AM

Asaleo Care Limited (AHY) -Asaleo Care Provides 1H 2018 Results

Asaleo Care provided 1H 2018 results. The Company announced its Half Year results for 2018 with an underlying EBITDA of $46.3m and underlying NPAT of $17.8m. The Company recorded a statutory Net Loss After Tax (NLAT) of $101.5m. The statutory result includes non-cash non-recurring charges of $148.5m relating to impairment and write-down of assets. The Board has declared no interim dividend.

08:42 AM

Virtus Health Limited (VRT) -Virtus Health Provides FY 2018 Financial Results

Virtus Health provided FY 2018 financial results. Total expenditure on tangible and intangible assets was $15.5m in FY 2018 (FY 2017 $9.8m). The annualised leverage ratio is 2.4 times adjusted Group EBITDA at 30 June 2018. Basic EPS increased 9.3% to 38.26 cps with diluted EPS also increasing 9.2% to 37.98 cps. It has declared a final dividend of 12 cps fully franked (FY 2017: 12.00cps), to be paid on 12 October 2018 to shareholders on the registry at 14 September 2018.

08:45 AM

Virtus Health Limited (VRT) -Virtus Health Provides Financial Presentation Results

Virtus Health provided financial Presentation results. The Segment EBITDA margin improvement of 0.7% despite a soft second half market through successful implementation of cost out and operational efficiency initiatives. The Diagnostic revenue increased by 3.6% and EBITDA increased by 9.1%.

08:49 AM

Amcor Limited (AMC) -Amcor Provides FY 2018 Full Year Results

Amcor provided FY 2018 full year results. The Net debt was US$3,872.2m at 30 June 2018, US$481.1m lower than 31 December 2017. Leverage, measured as net debt over LTM PBITDA, was 2.7 times at 30 June 2018. The Directors declared an unfranked final dividend for 2018 of 24.0 US cps. For the year ended 30 June 2018, the favourable impact on profit after tax of translating non-US dollar earnings into US dollars for reporting purposes was US$24m.

08:52 AM

Amcor Limited (AMC) -Amcor Provides FY 2018 Full Year Results Investor Presentation

Amcor provided FY 2018 full year investor presentation results. In constant currency terms, the Flexibles segment is expected to deliver solid PBIT growth in the FY 2018/2019, compared with PBIT of US$835.1m achieved in the 2017/2018 year. The Operating cash flow for 2018 is net of US$35m of integration and restructuring payments.

08:55 AM

WorleyParsons Limited (WOR) -WorleyParsons Notes Chevron (China) Chemicals Being Awarded EPC Contract

WorleyParsons noted that Chevron (China) Chemicals has awarded the Company the engineering, procurement and construction (EPC) contract for the China Manufacturing Plant Project in Ningbo, Zhejiang Province, China. Under the contract, it will provide services including engineering, procurement, construction and pre-commissioning.

08:58 AM

Scentre Group (SCG) -Scentre Group Provides Half Year Results Announcement and Slide Presentation

Scentre Group provided half year results announcement and slide presentation. The Company released its results for the half year to 30 June 2018, with Funds from Operations (FFO) of $657m representing 12.38c per security, up 3.1%, and a distribution of 11.08c per security, up 2%. The Profit for the half year was $1.46bn. The Group recognised a revaluation uplift of $966m across the portfolio at the half year, underpinned by the completion of developments, growth in NOI and improvement in capitalisation rates for high quality assets. It has total assets of $37.6bn and assets under management of $52.8bn.

09:01 AM

Healthscope Limited (HSO) -Healthscope Announces Regarding Outcome of Strategic Review of Hospital Property Assets

Healthscope announced that the strategic review of its freehold hospital property assets announced on 22 May 2018 has been completed. The review identified an opportunity to realise value from its hospital property assets for the benefit of its shareholders. Consequently, the Company proposes to establish a new unlisted property trust which will hold the majority of its freehold hospital property assets and lease them back to the Company. It will own a majority interest in the hospital property trust and a new co-investor will be introduced to hold an interest of up to 49% in the trust.

09:05 AM

Helloworld Travel Limited (HLO) -Helloworld Travel Provides Preliminary Final Report

Helloworld Travel provided preliminary final report. Net tangible assets per ordinary share as at 30 June 2018 was (20.1) cents compared with (2.8) cents as at 30 June 2017. Net tangible assets were calculated as net assets less total intangible assets. Net tangible assets per ordinary share is based on its issued capital as the legal parent entity and issuer of this financial information as at the balance sheet date. On 31 August 2017, the Group sold 75.0% of its ownership interest in HTG Australia. This entity owned and managed seven company owned retail stores.

09:10 AM

Freedom Oil and Gas Ltd (FDM) -Freedom Oil & Gas Announces 30-Day Average Production from Four New Eagle Ford Shale Wells

Freedom Oil & Gas announced the initial 30-day production average from four new horizontal wells drilled on the Hovencamp pad on its Eagle Ford acreage in Dimmit County, Texas. The wells averaged 1,128 barrels of oil equivalent per day for the 30-day period while being choked back to optimize reservoir pressure. Flowing pressures continue from 500 to 700 psi per well. The wells have each flowed an average of 600 barrels of water per day, but as the fluids used in the hydraulic fracturing continue to be removed, water production has slowed to a rate of over 300 barrels of water per day. The 30-day average production rate was temporarily impacted by the timing and normal start-up issues of the newly built production facilities.

09:16 AM

Class Limited (CL1) -Class Provides FY 2018 Results Investor Presentation and CEO Commentary

Class provided FY 2018 results investor presentation and CEO Commentary. It continue to see an increase in the cross-sell of its Portfolio into the existing Company's Super user base with 31% of those customers using its Portfolio for trusts and other personal investments outside super. Due to regulatory pressure, some smaller firms in particular, are outsourcing or exiting SMSF admin completely. The $1.6m balance transfer cap and contributions limits will limit the future dollar inflows into SMSFs and pensions, but for most people a $1.6m member balance is still aspirational and the cap alone will not limit the establishment of future SMSFs.

Research Report Summaries

Morningstar Rating

★★

Share Price

0.795

Asaleo Care Limited (AHY) - Cost Pressure Weighs on Asaleo's Earnings, While Balance Sheet Pressure See Dividends Suspended

Analyst Note-Fiscal 2018 is shaping up to be a challenging year for Asaleo Care, with interim net profit tumbling by almost 40% to AUD 18 million. While the result is soft, at the current pace, the firm is tracking broadly in line with guidance and our full-year expectations. The primary headwinds the company is facing are the higher pulp and energy costs (two of its major expense lines), along with market share losses in feminine care, baby care, and consumer tissue. While Asaleo achieved price increases, passing through the higher input costs, its competitors have not followed suit, and consequently the company has ceded substantial market share in the consumer tissue category.

We maintain our AUD 0.65 per share fair value estimate and our no-moat rating. Despite the recent share price drop, we see further downside risk at the current market quote. In our opinion, the cost pressures, intensive competitive pressure, and constant battles with key customers are likely to persist for the foreseeable future. Additionally, the board did not declare an interim dividend, which is consistent with our expectations, and we believe will be unlikely to pay a final dividend either, given the current state of the balance sheet.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	64.58	59.72	31.19	33.29
EPS c	11.54	10.98	5.74	6.13
P/E x	14.62	14.02	13.85	12.97
EPS Growth %	-8.92	-4.85	-47.68	6.73
DPS c	10.00	10.00	0.00	3.06
Yield %	5.93	6.50	0.00	3.85
Franking %	50.0	44.0	50.0	50.0

Morningstar Rating

★★★

Share Price

13.760

Amcor Limited (AMC) - Weak Volumes Affect Narrow-Moat Amcor in Fiscal 2018; FVE Reduced to AUD 14.60

Analyst Note-Weak volumes led to a softer-than-expected result for narrow-moat Amcor in fiscal 2018. Operating income of about USD 1 billion was 11% below our expectations, owing largely to the North American beverage business unit, which was hurt by soft demand due to a wet start to the North American summer. Beverage volumes were accordingly 5% lower than the prior year. While we expect volume growth to resume in fiscal 2019, we reduce our fair estimate by 6% to AUD 14.60, reflecting weaker North American beverage volumes and softer expectations for emerging-market volume growth following a transfer of analyst.

Rigid segment sales fell 3.1% to USD 2.8 billion, primarily due to lower North America beverage volumes. Volumes compared unfavourably with our expectations for modest volume growth of 1.6% in fiscal 2018. Unfavourable mix shift accompanied the falling volumes, with higher-margin Hot-Fill PET volumes falling 9% year-on-year and outpacing the total decline in segment volumes. We do not expect this to repeat in fiscal 2019, with the wet conditions prevailing in the 2018 North American summer unlikely to recur and drag on segment results. We expect segment volume growth to revert to 1.6%, with segment sales growing 5.7%, largely reflecting the passing on of raw material cost inflation.

Flexibles segment sales climbed 4.9% to USD 6.5 billion in fiscal 2018, in line with our expectations. Currency translation delivered all of the benefit, however, with sales falling 0.1% on a constant-currency basis. As such, our expectations for volume growth of 2.7% in fiscal 2018 did not come to fruition. Segment EBIT margins were 12.8%, down slightly on the prior year but still ahead of our expectations for 12.5%. For fiscal 2019, we expect a resumption of flexibles volume growth to 2.6% in fiscal 2019. Together with resin price inflation of 4.1%, which we expect to be fully passed on in fiscal 2019, we anticipate sales growth of 6.2%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	0.00	0.00	0.00	0.00
EPS c	0.00	0.00	0.00	0.00
P/E x	0.00	0.00	0.00	0.00
EPS Growth %	0.00	0.00	0.00	0.00
DPS c	0.00	0.00	0.00	0.00
Yield %	0.00	0.00	0.00	0.00
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

2.300

FlexiGroup Limited (FXL) - Flexigroup's FVE Increases on Its Turnaround Starting to Gain Traction

Analyst Note-We are more confident in no-moat Flexigroup's turnaround following better-than-expected fiscal 2018 earnings and an improved outlook. This prompts a material increase in its fair value estimate to AUD 2.65 per share, from AUD 1.90. The company's fiscal 2018 underlying net profit after tax, or NPAT, of AUD 88.2 million was at the top end of its guidance and better than our forecast of AUD 85.6 million. The firm's investments in the past few years in digitising, simplifying, and optimising its business are beginning to gain traction, supporting an upgrade in our underlying NPAT forecast in fiscal 2019 to AUD 96.4 million from AUD 89.6 million, within the company's new guidance of AUD 95 million-AUD 100 million. The company also declared a final dividend of AUD 3.85 cents per share, resulting in a full-year fully franked dividend of AUD 7.7 cents. At our fair value estimate, the company is trading on a fiscal 2019 P/E of 10.3 times and a dividend yield of 3.4%. It screens as undervalued but with a high uncertainty rating.

We were concerned about the progress of Flexigroup's turnaround following the recent surprise departure of Symon Brewis-Weston as its CEO, just at the point when the company's recent investments were expected to bear fruit. However, the company's strong earnings update, including its stronger balance sheet, has alleviated these concerns. We expect most of the company's segments to support stronger earnings growth in fiscal 2019, including its Australian and New Zealand card business, Australian commercial leasing, and the Certegy business. The reduction in corporate debt was another feature of the results, with its gearing; corporate debt as a percentage of equity excluding intangible assets, continuing to decrease to 36% at year-end fiscal 2018, from an uncomfortably high 67% at year-end fiscal 2016. We expect the company to continue focusing on progressively reducing its corporate debt, forecasting gearing of about 10% by the end of fiscal 2023.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	93.20	88.20	96.92	99.07
EPS c	25.01	23.58	25.90	26.48
P/E x	8.71	7.57	8.88	8.69
EPS Growth %	72.56	-5.73	9.86	2.22
DPS c	7.70	7.70	9.05	9.84
Yield %	3.53	4.31	3.93	4.28
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

2.230

Healthscope Limited (HSO) - Healthscope Takes Knife to Hospital Portfolio and Unveils Unlisted Property Trust Strategy

Analyst Note-Narrow moat Healthscope's full-year results contained myriad nonrecurring items, reflecting a year of restructuring and remedial action across the hospital portfolio. Despite a stronger second half, the company's net profit after tax of AUD 151.2 million on group revenue of roughly AUD 2.3 billion, down 10.3% and up 3.7% year on year, respectively, trailed our forecast for AUD 181 million and AUD 2.,4 billion after adjusting for the recent divestment of Asian pathology assets. The main factor was the weaker-than-expected margin performance in the hospital division, which posted a fiscal EBITDA margin of 16.4%, compared with our forecast of 17.8%, given the impact of case mix variability and wage indexation.

Healthscope also announced it will establish a new unlisted property trust to hold the majority of freehold hospital property assets on a sale and leaseback basis, and that it would seek to sell a 49% stake to a third-party investor for around AUD 1 billion. After incorporating fiscal 2019 guidance of at least 10% growth in hospital operating EBITDA and adjusting for the sale and leaseback of property assets, our fair value estimate of AUD 2.40 is unchanged. As such, we consider shares slightly undervalued at current levels.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	180.00	151.20	180.80	139.94
EPS c	10.34	8.67	10.39	8.04
P/E x	23.86	23.30	21.46	27.74
EPS Growth %	-1.71	-16.19	19.93	-22.60
DPS c	7.40	6.70	7.27	5.63
Yield %	3.00	3.32	3.26	2.52
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

3.060

Mercury NZ Limited (MCY) - Record Hydro Generation Leads to Record Earnings for Mercury in FY18

Analyst Note-Narrow-moat-rated Mercury NZ's underlying EBITDA increased 7% to NZD 561 million, 1% above our forecast, as heavy rainfall pushed hydroelectric generation 24% above an average year. But favourable weather won't last. Fiscal 2019 guidance is for EBITDA to fall 8% to NZD 515 million, broadly in line with expectations, as rainfall reverts to more normal levels. The firm opted not to pay a special dividend as it refocuses on investing in growth projects. Guidance is for dividends of NZD 15.5 cents per share in 2019, representing a reasonable yield of 4.5% fully imputed. We remain comfortable with our existing NZD 3.60 fair value estimate, while our Australian valuation falls 3% to AUD 3.25 on currency weakness. At current prices, the stock is mildly undervalued.

Fiscal 2018 underlying net profit after tax, or NPAT, increased 13% to NZD 198 million. We forecast NPAT falls 13% to NZD 173 million in 2019. The main headwinds being lower hydroelectric output and a higher debt balance, partly offset by expensive interest rate hedges rolling off and an earnings contribution from the recently acquired stake in Tilt Renewables. Fiscal 2019 EBITDA guidance assumes hydroelectric generation remains 5% above average, after a good start to the fiscal year. We estimate full reversion to mean rainfall would knock another NZD 10 million-plus off guidance.

Putting aside unpredictable weather, the outlook appears sanguine. We take comfort in nationwide electricity demand improving 1.3% after normalising for temperature, led by the residential and dairy sectors. The Tiwai Point aluminium smelter's decision to increase production should add another 1% to annual electricity demand. Wholesale electricity prices are elevated and volatile, which bodes well for gentailer earnings. The main negative remains intense retail competition, evidenced by Mercury's customer numbers falling 1% in fiscal 2018.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	166.19	183.42	161.49	165.23
EPS c	11.87	13.34	11.86	12.14
P/E x	24.57	23.21	26.22	25.63
EPS Growth %	18.13	12.43	-11.10	2.32
DPS c	18.49	13.98	14.35	15.62
Yield %	6.34	4.51	4.61	5.02
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

15.300

Monadelphous Group Limited (MND) - Monadelphous Meets Fiscal 2018 Earnings Expectations and Sees More Infrastructure in its Future.

Analyst Note-Our AUD 10.50 fair value for no-moat Monadelphous stands. The company reported fiscal 2018 NPAT of AUD 71.5 million, only marginally below our AUD 72.7 million expectations. Our long-term assumptions remain substantially unchanged. An element of the result that did surprise was its being achieved on higher than anticipated revenue, up 41% to AUD 1.78 billion. But this was negated by a commensurate increase in operating costs, EBITDA margin falling 120 basis points to 6.6%, and 60 basis points below our 7.2% forecast. We don't see long-term consequence and our midcycle EBITDA margin assumption remains 7.6%. The market appears little perturbed either, the shares up some 6% to around AUD 15.80 upon release of the result, and considerably overvalued in our opinion. We think too much is anticipated from resources and Australia's east coast construction boom. Disappointment could be met in share price retreat.

Our fair value estimate equates to a 2023 EV/EBITDA multiple of 7.5. But the market is valuing Monadelphous on a 2023 EV/EBITDA of 11.3, a P/E of 22, and a price/cashflow of 12.8, discounted at WACC. Our forecast for a near 5.0% fully franked yield from fiscal 2019 (based on current share price) has some appeal, though on a high plus 80% payout ratio. Yield notwithstanding, we think the price still too generous implying an unrealistic five-year revenue CAGR of 3.2% at a midcycle EBITDA margin of 11.4%, versus 7.6% actual for the three years to fiscal 2018, and our 7.6% forecast.

Monadelphous says there is strong demand for its services in resources and energy and there is a surge in oil and gas construction revenue. This is at odds with published data showing total Australian energy capital expenditure changed little in fiscal 2018 at approximately AUD 26 billion, before an expected precipitous fall in fiscal 2019. And after more than five years' construction, the Ichthys LNG project--a revenue insulating core for Monadelphous--began production in July.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	59.48	72.28	84.07	80.60
EPS c	63.24	76.84	89.34	85.65
P/E x	17.33	20.94	16.75	17.47
EPS Growth %	-11.53	21.51	16.26	-4.13
DPS c	54.00	62.00	74.00	71.00
Yield %	4.93	3.85	4.95	4.75
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

1.760

Mortgage Choice Limited (MOC) - Mortgage Choice Resets and Moves on Despite Increasing Industry Headwinds. FVE of AUD 1.70 Unchanged

Analyst Note-No-moat-rated broker, Mortgage Choice is at the cross roads and has reset the business model to cope with a rapidly changing operating environment. The pre-released AUD 23.4 million fiscal 2018 cash NPAT increased 3% on fiscal 2017 and was driven by a 1.5% increase in net commission income to AUD 60 million and a 1.4% decline in operational expenses to AUD 35 million. The finally fully franked dividend of AUD 9 cents per share took total dividends to AUD 18 cents per share, 3% higher than a year ago based on a 96% payout. Our fair value is unchanged at AUD 1.70 and the stock is trading broadly in line with our valuation.

Following the result, we maintain our fiscal 2019 cash NPAT forecast of AUD 16.6 million and full-year dividend of AUD 13 cents per share, underpinned by the newly introduced franchise payout and reduced operating expenses, broadly in line with profit guidance. We continue to forecast a subdued medium-term outlook for Mortgage Choice and expect no growth in EPS in fiscal 2020 and fiscal 2021, before some modest improvement in fiscal 2022 and fiscal 2023 on the back a stabilisation in the new lending volumes and increased contribution from trail commission as average loan lengthens.

The mortgage broking industry has been hit with a wide range of regulatory, government and independent inquiries as well as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry. Future changes to industry structure will impact the broker's earnings and valuation, but at this stage, uncertainty prevails. We expect some industry clarity by mid- to late-2019 following the government response to any recommendations made by the Royal Commission. The Commission's final report is due to the government in February 2019.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	22.63	23.38	16.56	16.54
EPS c	18.14	18.70	13.20	13.10
P/E x	12.29	11.58	12.88	12.98
EPS Growth %	9.84	3.09	-29.44	-0.78
DPS c	17.50	18.00	13.00	13.00
Yield %	7.85	8.31	7.65	7.65
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

9.860

Super Retail Group Limited (SUL) - Half of Super Retail Group's Businesses Facing More Competition Than the Market Appreciates

Analyst Note-No-moat-rated Super Retail Group's underlying net profit after tax of AUD 145 million beat our estimate by 6%, largely driven by a stronger outdoor segment. The EBIT contribution from the newly acquired Macpac business even surpassed management's expectations in the first three months of ownership. The results of the company's two key segments accounting for almost 90% of group EBIT, auto and sports, were broadly in line with our expectations. Our long-term sales growth and EBIT margin forecasts for the individual segments are substantially unchanged. However, we lift our fair value estimate by 4% to AUD 7.50 per share, reflecting the time value of money.

The group is the market leader in all three retailing categories and is positioned to consolidate and expand the respective markets. However, we expect competition to remain fierce in the outdoor segment and to increase in the sports segment. We view the auto segment as more insulated, especially against the rising tide of online competition. The market is potentially underestimating the threats from traditional physical store chains expanding, as well as online. Capitalising on the migration of consumers to the online channel, Super Retail Group is quickly increasing its online sales capability in all three segments. Online sales penetration is improving, but this comes at a cost, both in capital expenditure shifting from new store rollouts to boost omnichannel capabilities, and in higher expenses in fulfilling online orders for delivery. In this context, we also forecast smaller store networks than the group's aspirational five-year targets.

Shares are materially overvalued at current prices, trading at a price/earnings ratio of 13, which is too high considering the headwinds and our estimate EPS CAGR of only 3.5% over the next five years. On a payout ratio of 66%, the shares trade at a 5% dividend yield, which we anticipate will be fully franked.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	135.80	145.30	150.26	154.80
EPS c	68.24	73.01	75.50	77.78
P/E x	14.07	10.94	13.06	12.68
EPS Growth %	24.60	7.00	3.41	3.02
DPS c	46.50	49.00	49.52	51.01
Yield %	4.84	6.13	5.02	5.17
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★

Share Price

1.065

Seven West Media Limited (SWM) - Sunrise for Seven

Analyst Note-We lift our fair value estimate on Seven West Media by 6% to AUD 0.70 per share. This is the first upgrade in recent memory, reflecting not only the 3% beat on fiscal 2018 EBIT (down 10% to AUD 236 million versus our AUD 229 million forecast), but also the strong earnings guidance. Indeed, management's projected fiscal 2019 EBIT growth of 5% to 10% has led to an average 10% increase to our medium-term operating earnings forecasts, providing the foundation for our intrinsic assessment uplift.

The expected return to profit growth in fiscal 2019, after six straight years of decline, is underpinned by a confluence of factors. The recovery in the TV advertising market (up 2.5% in fiscal 2018, 3.8% in the June-half) is likely to continue in fiscal 2019, by 2.0% on our forecast. This will coincide with Seven's resurgent TV ratings which achieved a record 41.6% commercial share in the June-half, driving our forecast 39.3% share of the TV advertising market for Seven in fiscal 2019 (up from 38.1% in fiscal 2018). All this will be augmented by continuing benefits of the current cost-out program, one that resulted in an AUD 21 million saving in fiscal 2018 and is projected for a further AUD 10 to 20 million in fiscal 2019.

Still, we are not convinced the strength of no-moat-rated Seven's near-term outlook justifies the doubling of its stock price since April this year. The 52% premium at which the shares are trading relative to our AUD 0.70 fair value estimate appears to incorporate anticipation of corporate activity, amidst consolidation currently under way post the recent media reform. Management did little to quell such thinking, trumpeting its desire to deepen a relationship with entities such as News Corporation--a sure-fire way to keep the mergers and acquisitions proponents occupied. We reiterate that our intrinsic assessment is based on Seven as a stand-alone entity, and is predicated on our view of Seven's sustainable, midcycle TV revenue share and margins.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	166.81	142.46	146.36	144.25
EPS c	11.07	9.45	9.71	9.57
P/E x	6.95	7.04	10.97	11.13
EPS Growth %	-19.42	-14.62	2.72	-1.44
DPS c	4.00	0.00	0.00	2.00
Yield %	5.20	0.00	0.00	1.88
Franking %	100.0	0.0	100.0	100.0

Morningstar Rating

★★★

Share Price

5.740

Virtus Health Limited (VRT) - Virtus Health Faces Domestic Challenges by Growing Offshore

Analyst Note-No-moat Virtus Health reported results broadly in line with expectations after a challenging second half that was marred by market share losses in the price-sensitive markets of Queensland and Tasmania, offset by growing contribution from burgeoning offshore operations now in four countries. Reported net profit after tax of AUD 30.8 million on group revenue of AUD 262.1 million, up 2% and 9%, respectively, tracked our forecast of AUD 31.7 million and AUD 266 million, respectively. We are maintaining our fair value estimate at AUD 6.35 per share, which implies shares are undervalued at current levels.

Australian IVF performance remains mixed, with the disruptive impact of Primary Health Care leading to market share declines in price-sensitive Queensland and Tasmania, offset by growth in key markets of NSW and Victoria. Total IVF cycle numbers in fiscal 2018 declined by 3.4% to 15,235 cycles for Virtus Health. At a product level, Virtus' full service activity declined by 2.5%, with its low-cost offering, TFC, also declining by 9.2%. However, the firm enjoyed a 70-basis-point increase in EBITDA margin to 30.7%, stemming from a 2.9% increase in average total revenue per cycle, coupled with disciplined cost control and restructuring initiatives, mostly in Virtus' Victorian operations.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	28.10	30.75	35.08	38.51
EPS c	34.68	37.86	43.63	47.90
P/E x	18.55	14.48	13.16	11.98
EPS Growth %	-14.80	9.19	15.24	9.78
DPS c	25.00	26.00	29.96	32.89
Yield %	3.89	4.74	5.22	5.73
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

9.000

Oil Search Limited (OSH) - Oil Search Navigates Impactful 1H2018 Earthquake with Earnings to Recover in 2H

Analyst Note-We make no change to our AUD 6.00 fair value estimate for no-moat Oil Search. The company reported a 39% decline in first-half fiscal 2018 NPAT to USD 79 million, close to expectations, featuring earnings impacts from the PNG earthquake. At AUD 9.00, no-moat Oil Search shares remain materially overvalued, but we think the market is insufficiently accounting for risks. A lower than expected USD 2 cent interim dividend was a surprise, a payout of just 38% of already quake-impacted earnings, the board presumably watching the balance sheet. Net debt is USD 3.18 billion, following first-quarter acquisition of Alaska Slope for USD 416 million, and Oil Search must prepare for intended expansionary expenditure at PNG LNG.

Annualised first-half net debt/EBITDA is a hefty 4.5. We expect this to improve to 3.0 by year's end, though that's still high for a company potentially heading into expenditure. We consequently assume just one additional 3.7Mtpa LNG train, rather than taking-on Oil Search's more aggressive 8.0Mtpa expansion aspirations via three new 2.7Mtpa trains. However, we don't think the fair value is materially different under either scenario. We expect greater capital efficiency under our lesser capacity increase, leveraging off existing tankage and wharfage, with more infrastructure needing to be duplicated under a larger expansion. Material synergies decline under the three train scenario, and that before potential for application of a more punitive discount rate due to excessive debt. We admit Oil Search seems wedded to the three train LNG concept with joint venture alignment being achieved in first-quarter 2018.

First-half group sales volumes fell 30% to 9.8 million barrels of oil equivalent, or mmboe, following the magnitude 7.5 quake. Higher realised average pricing, up 20% to USD 58 per boe, was a useful partial offset. Unit costs increased 65% to USD 18.70 per boe, reflecting remediation work, make-up LNG cargo purchases, and reprioritised maintenance.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	143.33	394.13	466.85	708.40
EPS c	9.42	25.87	30.64	46.49
P/E x	72.57	27.20	29.37	19.36
EPS Growth %	-70.04	174.73	18.44	51.72
DPS c	4.70	12.39	14.53	23.25
Yield %	0.69	1.76	1.61	2.58
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

2.230

Arena REIT (ARF) - Arena Performing Well but in Line with Expectations. Securities Remain Undervalued.

Analyst Note-No-moat-rated Arena REIT continues to traverse the turbulent child care sector well and the 6.5% increase in earnings per security, or EPS, in fiscal 2018 is in line with both our forecasts and management's guidance. We have maintained our fair value estimate of AUD 2.50 and, at the current market price of AUD 2.21, continue to believe the securities are undervalued. Our fiscal 2019 distribution forecast implies a 6.3% increase versus fiscal 2018 which is in line with management's new guidance. The market price implies a fiscal 2019 price/distributable earnings, or P/E, ratio of 16, versus 18 at our fair value, and a distribution yield of 6.1%, versus 5.4% at our fair value. As a trust, Arena's distributions are unfranked.

We were particularly intrigued that Arena's child care centre tenants managed to increase fees by 5% in fiscal 2018, which drove like-for-like revenue growth of 2% and EBITDA growth of 5%, despite a fall in their occupancy rates. Arena management also said they'd noticed a growing confidence from operators that the expected long-term positive benefits from the introduction of the child care subsidy would be felt earlier than previously expected. This contrasts with the market view that child care centre oversupply will impact operator's earnings, as implied by the relatively low earnings multiples on which child care centre operators trade. However, it is in line with our view that the introduction of the child care subsidy, or CCS, in July 2018 will benefit most child care customers and provide a significant boost to the sector.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	28.73	34.69	36.80	38.16
EPS c	12.30	13.10	13.89	14.41
P/E x	16.69	17.09	16.05	15.48
EPS Growth %	10.70	6.49	6.08	3.70
DPS c	12.00	12.80	13.60	14.10
Yield %	5.84	5.72	6.10	6.32
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

4.200

Scentre Group (SCG) - Still No Sign of Kick in Consumer Spending in the Scentre; FVE Unchanged at AUD 3.85

Analyst Note-Scentre Group reported first-half fiscal 2018 funds from operations, or FFO, of AUD 12.38 cents per security, up 3% on the prior corresponding period. Distribution growth was lower at 2% to AUD 11.08 cents per security for the half as Scentre retains more cash to help fund developments. Our fair value estimate is unchanged at AUD 3.85. At current levels Scentre screens as fairly valued, with the guided 2018 distribution of AUD 22.16 cents per security representing a yield of 5.3%. Forecast revisions are minor, including slightly raised expectations for redevelopment projects at Eastgardens in inner Sydney for AUD 720 million.

Specialty sales remain sluggish, with sales for retailers under 400 square metres up 0.9% for the year. This is in sharp contrast to the 3.6% growth reported for specialties over 400 sqm. We see the divergence being mostly due to sales cannibalisation of smaller fashion retailers by low-cost international giants like H&M, Zara, and Uniqlo. The unresolved challenge is how to level the playing field with the larger-format retailers, which can negotiate better rental deals by reason of their scale and ability to lure foot traffic to the mall.

Sales performance has slightly improved over the past six months, with trailing six-month sales for all specialty (under and over 400 sqm) up 2.1% versus trailing 12-month sales growth of 1.6%. We had expected a stronger showing from the specialty retailers across Scentre's portfolio, given low unemployment and management's efforts to remix to more contemporary categories.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	1,237.60	1,290.20	1,340.59	1,394.17
EPS c	23.23	24.22	25.18	26.21
P/E x	19.70	17.36	16.68	16.02
EPS Growth %	3.16	4.26	3.98	4.07
DPS c	21.30	21.73	22.16	22.60
Yield %	4.65	5.17	5.28	5.38
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
▲ 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
▼ API	Australian Pharmaceutical Industries	★★★	15/08/2018	Downgrade due to price change
▲ DXS	Dexus	★★★	15/08/2018	Sturdy East Coast Office Demand Prompts Dexus Upgrade; FVE Increases to AUD 9.80
▼ GMG	Goodman Gp	★★	15/08/2018	Downgrade due to price change
▲ PGH	Pact Group Holdings	★★★★	15/08/2018	Upgrade due to price change
▼ SEK	SEEK	★★	15/08/2018	Downgrade due to price change

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