

17-August-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	25559	7:03am 17/08/2018	396	1.58
▲ S&P 500	2841	7:03am 17/08/2018	22	0.79
▲ NASDAQ	7807	7:31am 17/08/2018	32	0.42
▲ FTSE 100 Index	7556	2:56am 17/08/2018	59	0.78
▲ DAX 30	12237	3:22am 17/08/2018	74	0.61
▲ CAC 40	5349	3:39am 17/08/2018	44	0.83
▼ Nikkei 225 (Japan)	22192	4:20pm 16/08/2018	-12	-0.05
▼ HKSE	27100	6:23pm 16/08/2018	-224	-0.82
▼ SSE Composite Index	2705	5:16pm 16/08/2018	-18	-0.66
▲ NZ 50	8999	3:21pm 16/08/2018	11	0.13

International Markets Roundup

NEW YORK [Morningstar with AAP]: US stocks have rebounded with the Dow posting its biggest percentage gain in over four months, as positive earnings and waning trade jitters buoyed investor confidence.

A broad rally pulled all three major US indexes higher following Wednesday's sell-off.

Walmart shares jumped 9.3 per cent after the world's largest retailer topped earnings estimates and posted its best same-store sales growth in a decade.

Easing trade tensions gave relief to tariff-vulnerable industrials, which led the Dow Jones Industrial Average's advance. Boeing and Caterpillar ended the session up 4.3 per cent and 3.2 per cent, respectively.

The S&P 500 industrial sector gained 1.2 per cent.

Escalating tariff rhetoric cooled down on news that Beijing will send a delegation to Washington to help resolve the growing trade conflict between the world's two largest economies.

"The market's getting a boost with some prominent companies coming in with some decent earnings, such as Walmart," said Chuck Carlson, chief executive officer at Horizon Investment Services in Hammond, Indiana.

"But I think this also shows the schizophrenic nature of the market when short-term market action is pegged so closely to trade wars and tariff talks, especially with China."

The Dow Jones Industrial Average rose 396.32 points, or 1.58 per cent, to 25,558.73, the S&P 500 gained 22.32 points, or 0.79 per cent, to 2,840.69 and the Nasdaq Composite added 32.41 points, or 0.42 per cent, to 7,806.52.

All 11 major sectors of the S&P 500 ended the session higher, with telecom and consumer staples posting the largest percentage gains.

Second-quarter reporting season is winding down. With 463 of S&P 500 companies having posted earnings, 79.3

Telstra Corporation Limited (TLS) -Telstra Announces Financial Results for FY 2018

Breville Group Limited (BRG) -Breville Group Announces Results for the Year Ended 30 June 2018

Breville Group Limited (BRG) -Breville Group Provided Investor Presentation for the Year Ended 30 June 2018

Yancoal Australia Limited (YAL) -Yancoal Australia Provides Media Release of Half Year Financial Results

OZ Minerals Limited (OZL) -OZ Minerals Announces 2018 Half Year Financial Results

per cent have exceeded analyst estimates, according to Thomson Reuters I/B/E/S.

Cisco Systems stock rose 3.0 per cent after beating Wall Street revenue and profit targets.

Cyber security firm Symantec ended a five-day slide, advancing 4.6 per cent after hedge fund Starboard Value LP bought a 5.8 per cent stake in the company.

Among losers, shares of JC Penney Co posted an all-time closing low, plunging 27.0 per cent after it posted disappointing results and forecast a worse-than-expected full-year loss.

Advancing issues outnumbered declining ones on the NYSE by a 2.97-to-1 ratio; on Nasdaq, a 2.40-to-1 ratio favoured advancers.

The S&P 500 posted 33 new 52-week highs and four new lows; the Nasdaq Composite recorded 91 new highs and 69 new lows.

Volume on US exchanges was 6.39 billion shares, compared with the 6.53 billion-share average for the full session over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2022	4:54am 17/08/2018	25	1.24
▲ Copper	5901	4:54am 17/08/2018	142	2.47
▲ Nickel	13230	4:54am 17/08/2018	477	3.74
▲ Gold	1186	7:30am 17/08/2018	7	0.56
▲ Silver	14.6	7:01am 17/08/2018	0.2	1.69
▲ Oil - West Texas crude	65.5	7:09am 17/08/2018	0.4	0.69
▲ Lead	2014	4:54am 17/08/2018	113	5.94
▲ Zinc	2384	4:54am 17/08/2018	101	4.40
▼ Ore	68	7:10am 17/08/2018	0	-0.19

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7261	7:55am 17/08/2018	0.0029	0.39
▲ \$A vs GBP	0.5709	7:55am 17/08/2018	0.0013	0.22
▲ \$A vs YEN	80.54	7:55am 17/08/2018	0.58	0.72
▲ \$A vs EUR	0.6382	7:55am 17/08/2018	0.0006	0.10
▼ \$A vs \$NZ	1.1019	7:55am 17/08/2018	-0.0010	-0.09
▼ \$US vs Euro	0.8791	7:55am 17/08/2018	-0.0026	-0.29
▼ \$US vs UK	0.7864	7:55am 17/08/2018	-0.0014	-0.17
▲ \$US vs CHF	0.9968	7:55am 17/08/2018	0.0036	0.36
▲ \$A vs \$CA	0.9551	7:55am 17/08/2018	0.0045	0.47

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	6413	4:31pm 16/08/2018	-3	-0.05
▼ S&P/ASX 200	6328	4:31pm 16/08/2018	-1	-0.01
▲ 10-year Bond Rate	2.57	7:08am 17/08/2018	0.01	0.39
▲ 90 Day Bank Accepted Bills SFE-Day	1.99	1:27am 17/08/2018	0.01	0.50
▲ 3-yr Bond Rate	2.05	7:08am 17/08/2018	0.02	0.99

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 2 points lower at 6,280.

Thursday 16 August - close [Morningstar with AAP]: Australian shares have closed flat, despite strong individual performances from Telstra, Treasury Wine Estates and QBE as materials and energy stocks come under pressure.

The benchmark S&P/ASX200 closed down 0.7 points, or 0.01 per cent, at 6,328.3 points, while the All Ordinaries was down 3.1 points, or 0.05 per cent, at 6,412.6 points.

Shares fell from the open on Thursday as an overnight slide in crude oil prices compounded losses on Wall Street, while a four per cent drop in Chinese iron ore futures hit major miners BHP and Rio Tinto.

BHP closed 2.6 per cent lower at \$32.84 while Rio Tinto shed 1.1 per cent to \$72.92.

The IT sector bounced however as shares in Telstra jumped 5.9 per cent to a three-month high of \$3.06, despite the telco giant posting an 8.4 per cent drop in full-year profit to \$3.56 billion and delivering a shrunken final dividend.

Insurer QBE jumped 6.8 per cent to \$10.89 on a half-year profit result boosted four per cent to \$US358 million (\$A496 million).

Origin Energy Ltd fell 6.4 per cent to \$9.09 despite lifting full-year revenue by seven per cent to \$14.8 billion and more than doubling underlying profit on the back of improved performance in its retail and gas production operations.

Australia's biggest winemaker, Treasury Wine Estates, jumped 4.5 per cent to \$19.41 as its focus on premium wines lifted full-year profit 34 per cent to \$360.3 million.

Asian markets were lower as trade tension worries continue on world markets.

Locally the under-pressure Australian dollar got a bounce from official jobs data showing a surprise drop in the unemployment rate to 5.3 per cent in July, down from 5.4 per cent.

The Aussie dollar was at 72.69 US cents at 1700 AEST, up from 72.30 US cents on Wednesday.

ON THE ASX:

The benchmark S&P/ASX200 closed down 0.7 points, or 0.01 per cent, at 6,328.3 points

The All Ordinaries was down 3.1 points, or 0.05 per cent, 6,412.6 points.

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

- ▶ Domain Holdings Australia Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
LNK*	Link Administration Holdings Limited	Annual
SPK*	Spark New Zealand Limited	Annual
ABP*	Abacus Property Group	Prelim
LNK*	Link Administration Holdings Limited	Prelim
MYS*	Mystate Limited	Prelim
PRY*	Primary Health Care Limited	Prelim
SPK*	Spark New Zealand Limited	Prelim
ABP	Abacus Property Group	Prelim
GMG	Goodman Group	Prelim
LNK	Link Administration Holdings Limited	Prelim
MYS	Mystate Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:05 AM

QBE Insurance Group Limited (QBE) -QBE Insurance Group Announces 2018 Half Year Results

QBE Insurance Group announced a 2018 half year statutory net profit after tax of \$358m, up 4% from the prior period. The first half combined operating ratio of 95.8% is around the mid-point of the Company's previously announced FY 2018 target combined operating ratio range of 95.0%-97.5%. The Company achieved an average premium rate increase of 4.6% during the half compared with only 1.0% in the prior period. The Debt to equity ratio reduced to 36.9%. During the period, the Company mobilised Brilliant Basics program.

08:09 AM

Nick Scali Limited (NCK) -Nick Scali Announces Results for the Year Ended 30 June 2018

Nick Scali reported a record net profit after tax of \$41.0m for the year ended 30 June 2018, an increase of 10% on FY 2017. Sales Revenue increased 8% to \$250m with the increase derived from a full year's contribution from the four stores opened during FY 2017 and a smaller contribution from six stores opened during FY 2018. Gross margins strengthened by 20 bps to 62.7% driven by efficiencies from supplier consolidation and volume growth. The Directors have declared a fully franked final dividend of 24.0 cps, up 20.0% on FY 2017 and bringing the total dividends for the year to 40.0 cps.

08:14 AM

Resolute Mining Limited (RSG) -Resolute Mining Provides Annual Ore Reserve and Resource Statement

Resolute Mining announced increases in the Company's Annual Group Ore Reserve and Mineral Resource Statement as at 30 June 2018. Global Ore Reserves increased by 17% to 5.9Moz of gold, while Global Mineral Resources increased by 35% to 16.5Moz. Syama Underground Mineral Resources increases 1.8Moz, or 42%, to 5.9Moz at 3.2g/t gold. The increase in Ore Reserves is the result of successful exploration and an updated development plan at the Syama Gold Mine in Mali.

08:18 AM

Iluka Resources Limited (ILU) -Iluka Resources Announces an Increase to Rutile Resources at Sembehun Project and Identifies the Pejebu Exploration Target based on Exploration Results

Iluka Resources announced an increase to rutile resources at the Sembehun Project and the identification of the Pejebu Exploration Target based on Exploration Results, both with potential to extend the life of current mining operations at its wholly owned Sierra Rutile (SRL) Operations. Mineral Resources for the Sembehun Group Deposits including Benduma, Dodo, Gbap, Kamatipa, Kibi and Komende increase by 0.62Mt of rutile, as a result of exploration and updated resource modelling, from 4.4Mt of rutile. The mineral resources were reported using a 0.25% rutile cut-off grade in conjunction with delimiting mineral resource outlines.

08:23 AM

Iluka Resources Limited (ILU) -Iluka Resources Announces Half Year Results to 30 June 2018

Iluka Resources reported its financial results for the six months ended 30 June 2018, with a strong mineral sands market underpinning positive free cash flow of \$226m and Underlying Group EBITDA of \$279m. Mineral sands revenue increased by 21% over the first half of 2017 to \$607m, driven by sales price growth across the suite of the Company's mineral sands products. Despite marginally lower sales volumes, the weighted average price received for Zircon Premium and Standard products grew 47% from the first half of 2017.

08:27 AM

GWA Group Limited (GWA) -GWA Group Provides FY 2018 Results Presentation

GWA Group provided FY 2018 results presentation. It reported divestment of Door & Access Systems business for \$107m. Positive ROFE and EBIT margins were maintained with further cost out program was identified. It reported revenue of \$453.2m, EBITDA of \$89.5m, EBIT of \$84.4m, and NPAT of \$56m. The Company reported effective tax rate of 30.2%. The FY 2019 cash restructuring is expected to be \$3 - \$4m.

08:31 AM

GWA Group Limited (GWA) -GWA Group Provides FY 2018 Results Media Release

GWA Group provided FY 2018 results media release. It reported that the Company Revenue increased by 1.5% with sales in the Bathrooms and Kitchens' division increasing by 2.5% which was ahead of the market growth of 2% from continued profitable share gains in core segments and new product development. It reported revenue of \$453.2m, EBITDA of \$89.5m, and EBIT of \$84.4m. The Board resolved to pay a final dividend of 9.5 cps, fully-franked, bringing the full-year dividend to 18.0 cps.

08:34 AM

Nick Scali Limited (NCK) -Nick Scali Provides FY 2018 Results Presentation

Nick Scali provided FY 2018 results presentation. It reported that the sales increased 7.7% to \$250.8m. The NPAT increased 10.1% to \$41.0m. Six new stores were opened during the year, 5 in Australia and first store in NZ. Operating expenses decreased as a percentage to sales to 38.1% due to continued tight cost control and ability to derive revenue growth off existing infrastructure. Payables have increased due to a higher balance of customer deposits derived from growth in sales order bank.

08:38 AM

Estia Health Limited (EHE) -Estia Health Provides FY 2018 Full Year Results

Estia Health provided FY 2018 full year results. It reported Full Year EBITDA rose to \$90.1m. A Full-Year average occupancy of 94.2% was achieved. The NPAT increased by 1.1% to \$41.2m. During the period, \$4.4m of sustainability capital investment program was completed. A Fully franked final dividend of 8.0 cps was declared.

08:41 AM

Telstra Corporation Limited (TLS) -Telstra Announces Financial Results for FY 2018

Telstra announced Financial Results for FY 2018. During the period, the Company announced a fully franked final dividend of 11 cps. On a reported basis the Company increased Total Income by 3.0%, Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) reduced by 5.2% and Net Profit after Tax (NPAT) decreased by 8.9%. The Company remains on track to realise the benefits of the investment program, with \$1.8bn invested to date, including \$1.5bn in Networks for the Future as the company prepares for the launch of 5G, and \$300m on digitisation.

08:46 AM

Breville Group Limited (BRG) -Breville Group Announces Results for the Year Ended 30 June 2018

Breville Group announced results for the Year Ended 30 June 2018. It reported revenue 8.7% higher than FY 2017 in constant currency, driven by the Global Product segment delivering a 13.4% increase in constant currency. The Group EBIT margin of 13.3% was slightly higher. The Total dividends for the year increased by 8.2% to 33.0 cps, 60% franked. The North American region again reported positive growth, with revenue of \$303.6m, a 14.5% increase in reported revenues and 16.3% in constant currency.

08:49 AM

Breville Group Limited (BRG) -Breville Group Provided Investor Presentation for the Year Ended 30 June 2018

Breville Group provided investor presentation for the Year Ended 30 June 2018. It reported the Global Product segment continued its growth pattern with revenue increasing 13.4% in constant currency. The Company EBIT margin of 13.3% was slightly higher. Trade payables were \$10.2m lower due to adjustments in the sales and operations process as well as the holiday ramp up pattern. Cash generated from operating activities increased to \$88.7m from \$62.7m in FY 2017.

08:53 AM

Yancoal Australia Limited (YAL) -Yancoal Australia Provides Media Release of Half Year Financial Results

Yancoal Australia provided Media Release of Half Year Financial Results. It reported profit before tax of \$539m for the half year ended 30 June 2018, up \$557m on the corresponding period in 2017. Total Operating EBITDA of \$980m, up \$703m on the corresponding period in 2017. It reported Total Saleable coal of 25.39Mt. The Company Completed the purchase of Mitsubishi Development 28.898% interest in the Warkworth JV. The Total equity share ROM coal produced was 23.29Mt.

08:58 AM

OZ Minerals Limited (OZL) - OZ Minerals Announces 2018 Half Year Financial Results

OZ Minerals announced 2018 Half Year Financial Results. It reported Underlying NPAT \$134m, Underlying EBITDA of \$290m. The Open pit closure completed safely and on time, and stockpile processing commenced with cash benefit of no open pit mining costs or associated overheads. The Company reported Positive cash balance of \$493m following investment in growth pipeline and finalisation of 2017 tax.

Research Report Summaries**Morningstar Rating**

★

Share Price

68.180

ASX Limited (ASX) - Strong Fiscal 2018 Performance Unlikely to Be Sustained by ASX

Analyst Note-Wide-moat-rated ASX's fiscal 2018 result was a little stronger than we expected, with the 8% revenue growth rate ahead of our 6% forecast. We have increased our fair value estimate by 2% to AUD 49 per share; this mainly reflects an increase to our revenue forecasts for the information and technical services businesses, which are tracking ahead of our expectations. However, at the current market price of around AUD 68, we still believe the shares are overvalued.

The key driver of the strong result was the listing and issuer services division, which comprises 26% of group revenue and increased revenue by 15%, ahead of our 9% forecast. The main reason for the strong performance was a 46% increase in capital raisings versus the prior year, reflecting buoyant market conditions. However, we don't believe the current cyclical strength in capital markets reflects a structural growth trend for ASX, and we still forecast mid-single-digit revenue and underlying EBITDA CAGR over the next decade. The fiscal 2018 underlying EPS growth of 7% was higher than our 5% forecast, but statutory EPS grew by just 2% due to the impairment of the investment in Yieldbroker.

The market price and our earnings forecast imply a price/earnings ratio of 27 versus 19 at our fair value estimate. One of the reasons for our bearish view on ASX over the past couple of years is that we don't believe the share price rise has been supported by a sustainable improvement in the EPS growth outlook. In this regard, the one-year forward P/E ratio has steadily increased from around 15 at the start of 2013 to around 27 currently. This increase seems inconsistent with the lack of improvement in the EPS growth outlook and the increasing likelihood of interest-rate rises, which arguably justifies a lower rather than higher multiple.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	431.51	463.49	489.38	508.19
EPS c	223.10	239.52	252.90	262.62
P/E x	22.25	23.39	26.96	25.96
EPS Growth %	1.64	7.36	5.59	3.84
DPS c	201.80	216.30	228.00	236.00
Yield %	4.07	3.86	3.34	3.46
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

13.100

Breville Group Limited (BRG) - Offshore Growth and Improving Distribution Segment Drive Breville's Strong Fiscal 2018 Performance

Analyst Note-Narrow-moat-rated Breville delivered a strong fiscal 2018 result with underlying net profit up 9% to AUD 59 million, broadly in line with our expectations. Performance varied between segments, as the core global product segment (85% of group earnings) increased EBIT by just 1%, whereas the distribution segment, which distributes third-party designed products, increased EBIT by over 100%, albeit off a relatively small base. The board declared a final dividend of AUD 16.5 cents per share, taking the total for the year to AUD 33 cents per share (partially franked), an 8% increase on the prior year.

We've lifted our fair value estimate by AUD 1 per share to AUD 10 to reflect the time value of money, stronger sales growth in North America and the rest of world region, or ROW (a reflection of the increasing investment into marketing and research and development, or R&D), and a sustained margin recovery in the distribution segment. Despite the increase in our fair value estimate, shares in Breville remain overvalued. Breville shares currently trade at around 26 times fiscal 2019 EPS, which we believe assumes global product revenue and group earnings increase by almost 20% on average for at least the next five years. This is an unlikely outcome, given the high-single-digit earnings growth generated during the past three years on average. The market's bullish assumption would imply that the company's success in Europe exceeds that of North America, which took the better part of a decade to achieve. This is an overly aggressive view, given the extremely competitive European electronic appliance market.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	53.83	58.52	65.92	74.22
EPS c	41.38	44.98	50.67	57.05
P/E x	22.03	25.87	25.85	22.96
EPS Growth %	7.30	8.70	12.64	12.60
DPS c	30.50	33.00	38.00	42.79
Yield %	3.35	2.84	2.90	3.27
Franking %	60.0	60.0	70.0	70.0

Morningstar Rating



Share Price

19.060

Computershare Limited (CPU) - Computershare's Fiscal 2018 Result Benefits From Cyclical Trends, but Shares Remain Overvalued

Analyst Note-Narrow-moat-rated Computershare's fiscal 2018 financial result was in line with our forecasts. However, we've made a number of minor adjustments to our financial model, which has increased our fair value estimate 3% to AUD 13.70 per share. Specifically, we've slightly lowered our forecast revenue, increased margins, and lowered capital expenditure. At their current market price of AUD 18.82, we continue to believe that the shares are overvalued and that the market is overestimating the potential benefits from further interest rate rises and growth from the mortgage servicing and employee share plan businesses. Based on our underlying earnings per share forecast and the current market price, the fiscal 2019 price/earnings ratio is 21 versus 15 at our fair value estimate. The market price also implies a fiscal 2019 dividend yield of 2.4%, or 2.9% including franking credits. Management provided fiscal 2019 underlying constant currency EPS growth of "around 10%" for fiscal 2018, a little stronger than our 8.5% forecast.

Although Computershare increased underlying EPS by 16% in fiscal 2018, and the 14% increase in constant currency EPS exceeded management's guidance of "12.5% growth with a positive bias," we believe these growth rates are stronger than the company can sustain and we maintain our mid-single-digit underlying EPS compound annual growth rate over the next decade. Of the 15% increase in group EBITDA in fiscal 2018, foreign exchange movements drove a 2-percentage-point increase, higher margin income contributed a 7-percentage-point increase, and underlying business performance drove a 6-percentage-point increase. That's not to say the increase in margin income isn't sustainable, just that it doesn't necessarily reflect a strong operational performance and that it's largely outside management's control.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	408.73	473.94	498.38	524.36
EPS c	74.69	86.95	91.43	96.20
P/E x	16.19	18.56	20.62	19.59
EPS Growth %	-1.24	16.42	5.15	5.22
DPS c	36.00	41.25	45.33	48.00
Yield %	2.98	2.56	2.40	2.55
Franking %	14.17	52.5	50.0	50.0

Morningstar Rating

★★

Share Price

3.580

GWA Group Limited (GWA) - Bathrooms and Kitchens Are Taking Share, But Narrow-Moat GWA Group Remains Overvalued

Analyst Note-We increase our fair value estimate for narrow-moat-rated GWA Group to AUD 2.80 from AUD 2.65 following the release of fiscal 2018 results, which saw the firm grow net profit after tax, or NPAT, by 1.1% to AUD 54 million, in line with our forecast. We are now more optimistic on the bathrooms and kitchens division's ability to grow share in the higher-margin repair and remodel segment. However, despite small positive adjustments to our near-term housing forecasts, we continue to expect softer housing completions beyond fiscal 2019 to weigh in on bathroom and kitchen sales, and shares in GWA remain overvalued.

Fiscal 2018 represents the final full year of door and access systems business following its sale in July 2018. This divestment allows GWA to focus on its core bathrooms and kitchens division, which underpins the firm's narrow moat rating. With revenue growth of 2.5% outpacing the market, bathrooms and kitchens grew share over the year. We have adjusted our revenue growth forecasts to reflect further market share gains in the repair and remodel segment, along with higher capital expenditure assumptions to reflect the firm's focus on growth.

We also expect the firm can continue to grow operating income by 2.4% CAGR over the five years to fiscal 2023, higher than our previous 0.3% forecast. We're encouraged that the bathrooms and kitchens segment grew EBIT by 2.5% to AUD 89.8 million, maintaining fiscal 2017 margins of 25%. Going forward, we expect share gains in the higher-margin repair and remodel market, which contributes approximately half the sales in bathrooms and kitchens, to drive higher profitability than we previously assumed.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	53.67	50.14	48.77	51.35
EPS c	20.22	18.89	18.37	19.34
P/E x	13.64	16.37	19.49	18.51
EPS Growth %	6.33	-6.59	-2.72	5.28
DPS c	16.50	18.00	18.00	18.00
Yield %	5.98	5.82	5.03	5.03
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

13.140

InvoCare Limited (IVC) - Soft Industry Volume and Funeral Home Closures Weigh on InvoCare's Near-Term Earnings

Analyst Note-While fiscal 2018 is shaping up to be a more challenging year than we had previously expected, we maintain our AUD 17.00 per share value for wide-moat-rated InvoCare. The company's interim 2018 operating EBITDA was flat at AUD 54 million and is tracking marginally below our full-year expectations, mainly due to soft industry volume, and some pricing weakness. Whereas operating EPS declined by 7% to AUD 21.6 cents per share, reflecting higher depreciation and interest expense a consequence of the major reinvestment program. The board declared an interim dividend of AUD 17.5 cents per share, down 5% on the previous corresponding period, or pcp.

Despite the near-term earnings pressure, the stock is undervalued at the current price. Most of these challenges are either temporary in nature (the store closure for refurbishment, and lower prices) or cyclical (the decline in the annual number of deaths), both of which will be overcome in the near term. Notwithstanding causing some temporary disruption, the Protect and Grow initiatives are showing some positive signs, with a volume uplift of almost 30% at the three renovated pilot locations. The outstanding refurbishments are progressing with 40% of the network to be complete by the end of fiscal 2018, and upon completion the performance of 70% funeral homes exceeded or met expectations. InvoCare should emerge from the program with a completely refreshed service and product offering, in a great position to resume growing market share, and better ability to justify its premium pricing.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	58.32	63.54	58.32	62.38
EPS c	53.06	57.40	53.01	56.69
P/E x	24.31	26.18	24.79	23.18
EPS Growth %	17.84	8.18	-7.66	6.96
DPS c	42.50	46.00	42.41	45.36
Yield %	3.29	3.06	3.23	3.45
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

4.220

Pact Group Holdings Ltd (PGH) - Resin and Energy Prices Hit Narrow-Moat Pact in Fiscal 2018; Cost-Out Measures Imperative

Analyst Note-Competitive pressures, powerful customers, and an adverse macroeconomic environment saw narrow-moat Pact deliver a soft fiscal 2018 result. Operating income in the Australian segment of AUD 103 million was 19% below our expectations for AUD 128 million, with resin price volatility, a 40% jump in energy costs in the second half, and lost rigids volumes acting together to arrive at the weak result. EBIT margins in the segment were 8.1%, down from 8.9% a year earlier. The international segment, with contributions from New Zealand and Asia, delivered EBIT of 60 million, largely in line with our expectations. We reduce our fair value estimate 8% to AUD 4.90 per share, reflecting the Australian segment's loss of volume and the near-term cost headwinds.

Pact announced cost-reduction initiatives for the Australian rigids business, having identified AUD 50 million in annual cost savings. We view a continuous focus on cost reduction as imperative for Pact to maintain EBIT margins. Pact intends to optimise its overly complex rigid plastics manufacturing network, a symptom of the 50 acquisitions since inception in 2002 that have brought scale but also inefficiencies. Improved operations management, higher capacity utilisation and productivity, and lower freight and warehousing costs will combine to provide the targeted savings, but these come at a cost of some AUD 175 million.

Pact also announced the acquisition of TIC Retail Accessories, a closed-loop plastic garment hanger reuse business with AUD 95 million in annual revenue. The business supports leading apparel retailers in Australia, the U.S., and the U.K., and customers include Target, Kmart, Myer, Bonds, and Big W in Australia, and Tesco and Kohl's in the U.K. and the U.S., respectively. At a purchase price of AUD 122 million, the deal was struck at an enterprise value/EBITDA ratio of 6.5. Pact will fund the purchase with AUD 62 million in cash and the remainder by issuing stock to the business' current owners.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	98.59	84.28	93.24	105.67
EPS c	33.01	26.45	27.38	30.41
P/E x	19.41	20.93	15.23	13.71
EPS Growth %	7.03	-19.86	3.52	11.06
DPS c	0.00	0.00	20.54	22.81
Yield %	0.00	0.00	4.93	5.47
Franking %	65.0	65.0	0.0	0.0

Morningstar Rating

★★

Share Price

21.970

SEEK Limited (SEK) - Seek Looking Overvalued Despite Making a Strong Case for Reinvestment

Analyst Note-Narrow-moat-rated Seek already announced the key components of its fiscal 2018 financial result last week, meaning the official result came as little surprise. We maintain our fair value estimate at AUD 18.00 per share, and at the current market price of AUD 21.29, continue to believe the shares are overvalued.

Management has been under pressure from investors recently due to its strategy of reinvesting earnings into the business to maintain strong revenue growth at the expense of short-term profit margins and cash flow. However, we believe this strategy makes sense as the type of markets in which Seek competes, such as the online employment advertising market, are generally "winner takes all" markets meaning it's important to prioritise market share dominance. The current market price and our earnings estimate imply a fiscal 2019 price/earnings ratio of 38, versus 33 at our fair value, and a dividend yield of 2.1% or 3.0% including franking credits.

As expected, Seek reported an 84% fall in statutory NPAT to AUD 53 million but this decline was largely due to the impact of AUD 144 million in one-off items, which primarily relate to the AUD 182 million noncash impairment of Seek's South American businesses, including Brazil Online and OCC in Mexico. Both businesses have been struggling with cyclical macroeconomic headwinds for some time, but we don't believe either faces structural challenges, and we expect both to recover eventually. Combined, these businesses only contribute around 7% of group EBITDA, meaning they aren't key earnings drivers for the group and their book values have a high degree of subjectivity. The noncash nature of the impairment reduces the sting, but the loss still represents value destruction. On an underlying basis, NPAT fell just 1% despite a 24% increase in revenue and 16% increase in EBITDA, with higher reinvestment, depreciation and amortisation, net interest expense, and share based payments, the main factors.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	192.94	196.90	195.31	228.47
EPS c	55.50	56.20	55.74	65.21
P/E x	28.30	33.49	38.20	32.65
EPS Growth %	7.89	1.26	-0.81	16.98
DPS c	44.00	46.00	45.00	52.00
Yield %	2.80	2.44	2.11	2.44
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

26.300

Sonic Healthcare Limited (SHL) - Sonic Meets Expectations and Continues to Expand International Pathology by Stealth; Raising FVE

Analyst Note-Narrow-moat Sonic reported full-year results broadly in line with our expectations with steady growth achieved on multiple fronts. Adjusting for nonrecurring items, EBITDA came in at AUD 962 million, up 6.4% (constant currency) compared with the previous guidance range of 6%-8% and our forecasts of AUD 953 million. Net profit after tax came in at AUD 476 million on group revenue of AUD 5,541 million, up 11% and 8%, respectively, compared with our forecasts of AUD 470 million and AUD 5,405 million. This compares with our five-year group revenue CAGR of 6%, in the context of incremental expansion of consolidated group operating margin from 12.5% in fiscal 2018 to around 14% by fiscal 2023. We believe this is achievable, given Sonic's strong track record of efficiency gains and its well-established consolidation strategy executed to date.

We raise our fair value estimate by 6% to AUD 25.50 per share from AUD 24 to reflect the time value of money and a 1% increase in our growth assumption for Australian pathology to incorporate the national bowel cancer screening contract won in second-half 2018. This incorporates management's EBITDA guidance of 3%-5% EBITDA growth for fiscal 2019. However, given comments by management, we think acquisitions are imminent in Germany and regard guidance as overly conservative. As such, our 8% forecast increase on underlying fiscal 2018 EBITDA assumes uplift from acquisitions in the short term. Nonetheless, we consider shares in Sonic Healthcare to be trading in line with fair value.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	427.52	475.65	502.95	562.05
EPS c	102.04	112.24	118.34	132.15
P/E x	21.53	20.43	22.22	19.90
EPS Growth %	-6.53	10.00	5.43	11.67
DPS c	77.00	81.00	83.00	93.00
Yield %	3.51	3.53	3.16	3.54
Franking %	20.0	30.0	30.0	30.0

Morningstar Rating

★★★★★

Share Price

3.060

Telstra Corporation Limited (TLS) - Telstra Joins the Fight Club

Analyst Note-Telstra's fiscal 2018 earnings release was uneventful, with the 5% decline in EBITDA to AUD 10.1 billion in line with our expectations and fiscal 2019 guidance reiterated at an EBITDA range of AUD 8.8 to 9.5 billion (up AUD 100 million but purely due to accounting changes). Then again, the narrow-moat-rated group could do with a little uneventfulness, having just endured a torrid stretch marred by rising competitive intensity, negative earnings revisions, and heavy restructuring pains, both at the staff and product level.

While still early days, there are some encouraging signs of Telstra's fightback plans bearing fruit. The 174,000 post-paid mobile subscriber addition in the June half was solid, with the momentum especially impressive in the June quarter (114,000 versus 60,000 in the March quarter). The 135,000 increase in fixed-line retail-bundle broadband customers during the six months was also notable. While these increases are coming at a cost--mobile EBITDA margin down 290 basis points to 39.9%, fixed data margins almost halving to 16.0%--it is critical Telstra shore up its customer base and positions itself to monetise them in the upcoming 5G era.

The cost-out story is also taking shape, with AUD 480 million in core fixed expenses cut during fiscal 2018, or AUD 700 million in cumulative amount over the past two years. The importance of continuing progress on this front, towards the AUD 2.5 billion cost-reduction target by fiscal 2022 cannot be underestimated, not only to offset competitive pressures and NBN's margin-crunching impact but for the sake of management credibility. Indeed, this "self-help" measure is a key plank behind our unchanged Telstra fair value estimate of AUD 4.40 per share, while the solid balance sheet arms Telstra with the necessary financial resources to see through the "fightback" and transformation journey--one that will no doubt be punctuated with periodic hiccups and challenges.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	3,891.00	3,563.00	2,569.42	2,910.69
EPS c	32.48	29.98	21.60	24.47
P/E x	15.22	11.64	13.38	11.81
EPS Growth %	-1.02	-7.70	-27.94	13.28
DPS c	31.00	22.00	15.00	16.00
Yield %	6.27	6.31	5.19	5.54
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating



Share Price

19.410

Treasury Wine Estates Limited (TWE) - Treasury Wines Sees Some Small Hiccups in FY18; Long-Term Forecast Intact and Shares Overvalued

Analyst Note-No-moat Treasury Wine's business remains a solid long-term growth engine, and we expect the business to enjoy further structural growth in China, market share gains from new product launches, and improving profitability from positive mix shift. But fiscal 2018 results show that the road could be bumpy along the way. Treasury saw underlying operating earnings in its Americas segment fall 1.5% from the year prior, as it works to restructure its go-to-market distribution strategy in the region. And with import clearance hiccups in China during the year, the firm saw a massive buildup of inventory on its books, leading to declining free cash conversion.

We expect these short-term issues to prove temporary, and Treasury's results largely tracked our other expectations. However, shares still screen as substantially overvalued. We've lifted our fair value estimate to AUD 11.70 to account for better long-term profitability in Treasury's Australian division, slightly better pricing in Asia, and a lower tax rate than we previously assumed (26% versus 27%). But we see little room for error in issues such as market expansion in China, competitive response from other global wine producers, or disruptions in global economic growth, on top of continued executional risk.

Treasury's bottom-line results were in line with our forecasts. Operating margins were slightly better than we expected, at 21.8% versus 20%, but this was largely due to continued deliberate efforts to shed sales of low-margin commercial wine. As such, revenue growth of 1.1% for the full year trailed our forecast for 2.4% gains, leading to full-year operating income of AUD 530 million, only slightly ahead of our AUD 520 million forecast. Similarly, Treasury's reported NPAT of AUD 360.3 million was ahead of our AUD 335 million projection but included a one-off tax benefit of AUD 20.9 million due to restatement of a deferred tax liability following the recent U.S. tax cuts; adjusted income was AUD 339.4 million.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	291.10	364.90	451.48	532.21
EPS c	39.10	49.95	62.71	73.92
P/E x	28.98	31.55	30.95	26.26
EPS Growth %	29.60	27.75	25.54	17.88
DPS c	26.00	32.00	41.00	49.00
Yield %	2.29	2.03	2.11	2.52
Franking %	25.0	88.3	48.62	42.91

Morningstar Rating

★★★★

Share Price

10.890

QBE Insurance Group Limited (QBE) - QBE's 1H18 Result in Line. No Bad News is Good News. FVE Upgraded to AUD 12.50

Analyst Note-There is finally light at the end of the tunnel for long-suffering QBE Insurance shareholders with the no-moat insurer delivering a steady, no frills result for first-half 2018. Importantly, there were no negative surprises with clear evidence remedial work initiated by new CEO Pat Regan is on track to deliver consistently higher quality results going forward. Fortuitously, in addition to internal operational improvements, the group is benefiting from an improving external environment, with increasing premium rates, higher interest rates and improving global economic conditions. The group continues to slim down, simplify and focus on risk-adjusted returns with underperforming business lines in Latin America, Thailand, Hong Kong, North America and Australia sold or exited. Our USD earnings forecasts from 2019 are broadly unchanged, but our fair value estimate increases 4% to AUD 12.50 due to lower Australian dollar/U.S. dollar exchange rate applied to our AUD valuation. At current prices, the stock is undervalued, trading 12% below our valuation. Since mid-June, the stock has increased 15% on the back of increasing confidence the new strategy will deliver a sustainable improvement in future earnings.

The long-awaited earnings recovery has started with first-half 2018 cash profits in line with expectations, up a modest 3% to USD 385 million. We like the result, especially the absence of negative surprises and no deterioration in outlook. Underlying fundamentals continue to improve, and we expect further good progress with legacy issues during the next 12 months. The 8% tax rate for the half was below our full-year 2018 forecast of 18%. Management expects full-year 2018 tax rate in the low to mid-teens range and high teens for the next couple of years. We increase our adjusted cash NPAT forecast for 2018 to USD 775 million from USD 743 million due to a lower tax rate of 14%. Longer term our tax rate forecast is in line with management guidance of the low 20% range.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	1,208.61	-336.81	1,047.26	1,430.34
EPS c	87.01	-24.68	76.77	104.84
P/E x	12.50	-47.89	14.11	10.33
EPS Growth %	-2.78	-128.36	0.00	36.56
DPS c	54.00	26.00	46.00	62.00
Yield %	4.97	2.20	4.25	5.72
Franking %	50.0	30.0	30.0	30.0

Morningstar Rating

★★★

Share Price

9.750

Iluka Resources Limited (ILU) - Iluka's 1H a Mixed Bag, But Underlying Fundamentals Remain Strong

Analyst Note-Iluka's first-half 2018 net profit after tax of AUD 126 million was more than double the adjusted net profit of AUD 53 million in the first half of 2017 and slightly ahead of our expectations. The uplift was entirely due to higher prices with mineral sands revenue increasing 21% to AUD 607 million despite 3% lower combined zircon, rutile and synthetic rutile sales volumes of 439,000 tonnes. Adjusted group EBITDA was up 80% to AUD 279 million, driven by the higher prices. The contribution to EBITDA from the Mining Area C iron ore royalty was basically steady at AUD 29 million. Iluka's realised zircon price rose 46% to USD 1,240 per tonne while rutile was up 20% to USD 906 per tonne versus a year ago. Pricing momentum remains strong with the rutile price up 14% for the second half of 2018 while zircon will rise 11% from the fourth quarter of 2018.

We maintain our AUD 10.50 per share fair value estimate for no-moat Iluka. The unchanged fair value estimate reflects several negative and positive factors which broadly balance out. On the negative side, Iluka expects the cost to develop the Sembehun mine and expand the processing plant at Sierra Rutile to cost 40% to 60% more than the prior estimate of USD 300 million. In addition, the company will also incur higher operating costs at Sierra Rutile following unplanned outages in the first half. Iluka expects its unit costs of goods sold for the group to increase to AUD 725 per tonne from AUD 710 previously. The capital cost increase is an unpleasant surprise, a result of a prior estimate from Sierra Rutile's previous management team.

Offsetting those negatives are several positives. Further near-term zircon and rutile price increases are the key positive. Iluka has continued to sell inventories to support customer demand and faster than we expected. Inventories are now close to normal levels. Iluka has increased its 2018 zircon production guidance by 10% to 330,000 tonnes to help satisfy robust customer demand.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	-31.30	95.60	271.94	362.64
EPS c	-7.49	22.84	64.57	85.92
P/E x	-85.81	37.64	15.10	11.35
EPS Growth %	-136.40	-405.07	182.66	33.08
DPS c	3.00	31.00	30.00	30.00
Yield %	0.47	3.61	3.08	3.08
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

13.850

Mineral Resources Limited (MIN) - Mineral Resources' Strong Fiscal 2018 Cost Performance Sees Earnings Beat Target. No Change to FVE.

Analyst Note—We make no change to our AUD 12.85 per share fair value estimate. Mineral Resources announced a 35% increase in underlying fiscal 2018 NPAT to AUD 272 million, 22% ahead of our AUD 222 million forecast. However, lower-than-anticipated depreciation, down 30% to AUD 113 million was a key contributor to outperformance versus our forecast. Depreciation fell, but in the context of AUD 65 million of impairments which are excluded from underlying fiscal 2018 earnings, largely in the mining segment. Net operating cash flow was strong, up 68% to AUD 408 million, somewhat flattered by working capital moves including an AUD 108 million build in payables. But the cash result regardless also exceeded expectations, and Mineral Resources' balance sheet remains creditably unleveraged—that's despite a 75% increase in fiscal 2018 development expenditure to AUD 320 million, including on lithium mine developments.

Our unmoved fair value estimate reflects little if any meaningful change to our long-term expectations, in combination with the appearance of near-term headwinds. On the crushing and processing side, Mineral Resources guides for fiscal 2019 tonnage to be slightly less than in fiscal 2018 due to the loss of Mining Area C and reduced volumes at Roy Hill. These hitherto undiscussed contracts are expected to be only partially offset by ramp-up of Wodgina lithium, in addition to two additional new projects during fiscal 2019. Mineral Resources only reports installed crushing capacity, not the portion of that capacity actually utilised. On the commodity exports side, Mineral Resources anticipates a total 11.5 million tonnes to be shipped in fiscal 2019, 12% down on fiscal 2018's 13.2 million tonnes but at an increased ratio of higher value 6% lithium ore to lower grades including direct shipping ore. Our fiscal 2019 EPS forecast is unchanged at AUD 1.09. Mineral Resources is cutting direct shipping ore exports in preference for later higher grade/value lithium product.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	205.81	277.37	203.88	220.00
EPS c	109.76	147.84	108.62	117.21
P/E x	10.03	11.64	13.78	12.77
EPS Growth %	96.89	34.70	-26.53	7.91
DPS c	46.00	46.00	54.00	58.00
Yield %	4.18	2.67	3.61	3.87
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

9.090

Origin Energy Limited (ORG) - Origin Posts Strong FY18; Guidance Disappoints

Analyst Note-No-moat-rated Origin Energy's underlying EBITDA increased 36% to AUD 2,947 million, driving a 110% increase in fiscal 2018 underlying NPAT to AUD 838 million. The result was good, but a little below expectations because of higher corporate costs and a slightly weaker-than-expected result from the integrated gas divisions. The utility business was in line with expectations and guidance. Forward guidance disappointed, with EBITDA in the utility business to fall around 6% in fiscal 2019, mainly because of competitive pressure. Considering medium-term headwinds from government policy to improve utility bill affordability, it is hard to see where earnings growth will come from in this division. The other negative surprise was an outlook for higher maintenance capital expenditure at Origin's LNG export business than we previously assumed. We downgrade our near-term earnings forecasts in line with guidance but remain comfortable with our AUD 8 fair value estimate. We continue to think the stock is modestly overvalued, despite falling 6% after releasing its financial results.

Energy markets--the utility business--underlying EBITDA increased 21% to AUD 1,811 million, in the middle of the guidance range and in line with expectations. Growth was driven by stronger wholesale electricity and gas prices, as well as stronger gas sales volumes as major peers faced gas supply constraints. Electricity sales volumes fell 5% on customer losses, milder weather and ongoing improvements in energy efficiency. The firm upped efforts to defend market share amid intense retail competition, pushing costs to acquire and maintain customers higher. Underlying EBITDA guidance disappointed, coming in at just AUD 1,500 to 1,600 million. This is 14% lower than fiscal 2018, part due to tough retail competition and part due to a change in the treatment of electricity hedge premiums.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	423.75	837.62	1,167.57	1,257.03
EPS c	33.53	47.66	66.44	71.53
P/E x	19.05	17.92	13.68	12.71
EPS Growth %	19.92	42.16	39.39	7.66
DPS c	0.00	0.00	20.00	35.00
Yield %	0.00	0.00	2.20	3.85
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

4.330

Charter Hall Retail REIT (CQR) - Charter Halls Purge of Struggling Malls Removes Earnings Drag. FVE Increases to AUD 3.90

Analyst Note-Charter Hall Retail's fiscal 2018 operating earnings of AUD 123.2 million or AUD 30.5 cents per security, or cps, were up 0.4% on the prior year as expected. The tepid growth reflects earnings dilution from selling 15 lower-growth, but higher yielding properties for AUD 309 million, partly offset by AUD 215 million of acquisition. Leasing outcomes for specialty tenants are turning around with new and renewed leases negotiated 1.3% above prior leases for the year. This is better than the 0.2% leasing spread a year prior, but still points to a sector that faces challenges. Guidance is for earnings to grow by more than 2% in fiscal 2019, implying operating earnings of AUD 31.1 cps.

We've raised rental growth assumptions largely due to a stronger performance from the supermarkets and our fair value estimate for no-moat-rated Charter Hall Retail increases to AUD 3.90 from AUD 3.70. Currently trading around AUD 4.30, the firm screens as overvalued, with our forecast fiscal 2019 distribution of AUD 28.8 cps implying a yield of 6.7%.

We are increasingly warming to Charter Hall's "convenience plus" strategy. At its core, the strategy involves focusing the portfolio on malls that offer extremely high amenity, ideally with the three major supermarkets of Coles, Woolworths, and Aldi. The strategy makes sense as a mall with three supermarkets will face very low risk of a competing supermarket opening nearby. Further, shoppers appear to be making more frequent visits to the supermarket, presenting a good opportunity to garner sales for the high rent paying specialties in cafés, beauty, take-away, and pharmacy. In time, we expect medical services will become a more important feature in the tenant mix, enabling the landlord to leverage the ample car-parking facilities.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	123.30	123.20	125.14	127.76
EPS c	30.38	30.50	31.09	31.74
P/E x	14.29	13.20	13.94	13.66
EPS Growth %	-0.03	0.39	1.93	2.09
DPS c	28.10	28.20	28.80	29.00
Yield %	6.47	7.01	6.64	6.69
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

2.730

Vicinity Centres (VCX) - Vicinity to Purge a Further AUD 2 Billion in Malls. FVE Increases to AUD 2.85

Analyst Note-Narrow-moat-rated Vicinity Centres' fiscal 2018 earnings on a funds from operations, or FFO, basis of AUD 18.2 cents per security, or cps, were in line with guidance. Our fair value estimate increases 5% to AUD 2.85 from AUD 2.70 as we raise long-term rental growth projects as a further AUD 1.9 billion of lower growth assets are planned to be sold over the year to June 2019. This is a very significant sales program, representing 11.5% of the portfolio by value. Gearing will fall materially from 26.4% at June 2018 to approximately 18% on a pro forma basis. Capital released from the sales will be redeployed initially to the retail development opportunities. In around three years, the first of the flagged 12 mixed-use opportunities are likely to commence, generating yields on capital deployed and raising the amenity in the underlying assets.

We are supportive of the strategy to enhance shopping centres by building office towers, hotels, or apartments in areas of the mall that don't adversely impact the main retail trade areas. Mixed-use developments of this type are very common in densely populated cities throughout Asia and are especially successful in Japan. The most logical locations for mixed use are at sites adjacent to rail stations as these provide high operational leverage and are likely to be looked upon favourably by city planners. So it is not a major surprise the Box Hill Central, which sits on a major rail line, is likely to be one of the first major mixed development opportunities to progress. Given the sites for the mixed-use developments are notionally acquired at very little cost, development returns are expected to be superior to that of most property developers who have to competitively bid for development sites.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	712.90	708.70	705.53	729.27
EPS c	17.99	18.17	18.19	18.80
P/E x	16.62	14.44	15.04	14.55
EPS Growth %	-3.63	1.03	0.10	3.36
DPS c	17.30	16.30	14.80	15.70
Yield %	5.79	6.21	5.41	5.74
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
▲ 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
▲ GEM	G8 Education	★★★★★	13/08/2018	Upgrade due to price change
▲ JHG	Janus Henderson Group	★★★★	13/08/2018	Upgrade due to price change
▲ SGM	Sims Metal Management	★★	13/08/2018	Upgrade due to price change
▲ MIN	Mineral Resources	★★★	10/08/2018	Upgrade due to price change
▼ NEC	Nine Entertainment Co. Holdings	★	09/08/2018	Downgrade due to price change
▼ OFX	OFX Group	★★	09/08/2018	Downgrade due to price change
▲ ORA	Orora	★★	09/08/2018	Strong Fiscal 2018 for No-Moat Orora; Outlook Unchanged

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