

13-August-2018

# Morningnote

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## Overseas Market Report

| Foreign Equities      | Latest Price | Time/Date (AEST)  | Change | % Change |
|-----------------------|--------------|-------------------|--------|----------|
| ▼ Dow Jones (US)      | 25313        | 7:25am 11/08/2018 | -196   | -0.77    |
| ▼ S&P 500             | 2833         | 7:25am 11/08/2018 | -20    | -0.71    |
| ▼ NASDAQ              | 7839         | 7:31am 11/08/2018 | -53    | -0.67    |
| ▼ FTSE 100 Index      | 7667         | 1:50am 11/08/2018 | -75    | -0.97    |
| ▼ DAX 30              | 12424        | 2:00am 11/08/2018 | -252   | -1.99    |
| ▼ CAC 40              | 5415         | 2:20am 11/08/2018 | -88    | -1.59    |
| ▼ Nikkei 225 (Japan)  | 22298        | 4:20pm 10/08/2018 | -300   | -1.33    |
| ▼ HKSE                | 28367        | 6:23pm 10/08/2018 | -241   | -0.84    |
| ▲ SSE Composite Index | 2795         | 5:16pm 10/08/2018 | 1      | 0.03     |
| ▲ NZ 50               | 8940         | 8:34am 13/08/2018 | 70     | 0.79     |

## International Markets Roundup

NEW YORK [Morningstar with AAP]: US stocks slid on Friday as a deepening economic crisis in Turkey dragged on bank shares and triggered a move out of riskier assets.

The Dow and S&P 500 posted declines for the week following five straight weeks of gains, but the S&P 500 remains just 1.4 per cent below its record high from January 26.

A drop in technology shares added to the day's bearish tone. The S&P technology index fell 0.8 per cent, with Intel down 2.6 per cent after Goldman Sachs downgraded the stock to "sell."

Microchip Technology shares fell 10.9 per cent after a disappointing second-quarter revenue forecast.

A slump in the Turkish lira worsened after US President Donald Trump doubled tariffs on steel and aluminium imported from the country.

Investors fled to safe-haven assets, pushing the dollar higher and weighing on US bond yields.

"It was a classic risk-off move," said Quincy Krosby, chief market strategist at Prudential Financial in New Jersey. "You worry about the collateral damage. You worry about the effects on Europe. You have banks losing because the 10-year US Treasury (yield) came down."

The S&P financial index fell 1.2 per cent, among the biggest drags on the S&P 500.

The Dow Jones Industrial Average fell 196.09 points, or 0.77 per cent, to 25,313.14, the S&P 500 lost 20.3 points, or 0.71 per cent, to 2,833.28 and the Nasdaq Composite dropped 52.67 points, or 0.67 per cent, to 7,839.11.

For the week, the Dow fell 0.6 per cent and the S&P 500 dipped 0.3 per cent. The Nasdaq gained 0.3 per cent for the week after strong gains in some technology shares.

Citigroup, the most global of the major US banks, fell 2.4 per cent. JPMorgan, Wells Fargo and Bank of America

**Charter Hall Long Wale REIT (CLW)**

-Charter Hall Long Wale REIT Provides FY 2018 Results Presentation

**Centuria Industrial REIT (CIP)** -Centuria Industrial REIT Acquires 616 Boundary Road and Divests 7.7% Holding in Propertylink Group

**Infigen Energy (IFN)** -Infigen Energy Reports Production Generated for July 2018

**Bega Cheese Limited (BGA)** -Bega Cheese Announces the Approval of ACCC for the Purchase of SDA Koroit Dairy Processing Facility

**Aventus Retail Property Fund (AVN)** -Aventus Retail Property Fund Notes the Signing of Implementation Deed by ACL

**Environmental Clean Technologies Limited (ECT)** -Environmental Clean Technologies Trading Halted, Pending Company Announcement

were also lower.

"Any time that there's any movement in currencies, financials tend to reap the contagion risks," said Jamie Cox, managing partner for Harris Financial Group in Richmond, Virginia.

Shares of trade-sensitive companies also declined, including Boeing, 3M and Caterpillar, which were all down at least one per cent.

Tesla shares ended up 0.9 per cent. The number of Tesla shares sold short rebounded and are now higher than before Chief Executive Elon Musk on Tuesday proposed taking the electric car maker private, according to data from financial technology and analytics firm S3 Partners.

Data on Friday showed US consumer prices rose in July and the underlying trend continued to strengthen, pointing to a steady increase in inflation pressures.

| Commodities              | Latest Price | Time/Date (AEST)  | Change | % Change |
|--------------------------|--------------|-------------------|--------|----------|
| ▲ Aluminium              | 2087         | 8:30am 11/08/2018 | 27     | 1.29     |
| ▼ Copper                 | 6160         | 8:31am 11/08/2018 | -38    | -0.62    |
| ▼ Nickel                 | 13737        | 8:31am 11/08/2018 | -67    | -0.49    |
| ▼ Gold                   | 1212         | 8:34am 13/08/2018 | -2     | -0.19    |
| ▲ Silver                 | 15.3         | 8:34am 13/08/2018 | 0.1    | 0.37     |
| ▲ Oil - West Texas crude | 67.6         | 8:35am 13/08/2018 | 0.8    | 1.23     |
| ▼ Lead                   | 2083         | 8:32am 11/08/2018 | -8     | -0.39    |
| ▼ Zinc                   | 2550         | 8:32am 11/08/2018 | -82    | -3.12    |
| ▼ Ore                    | 69           | 7:10am 11/08/2018 | 0      | -0.52    |

| Currency       | Latest Price | Time/Date (AEST)  | Change  | % Change |
|----------------|--------------|-------------------|---------|----------|
| ▼ \$A vs \$US  | 0.7286       | 8:34am 13/08/2018 | -0.0013 | -0.18    |
| ▼ \$A vs GBP   | 0.5707       | 8:34am 13/08/2018 | -0.0012 | -0.21    |
| ▼ \$A vs YEN   | 80.61        | 8:34am 13/08/2018 | -0.35   | -0.43    |
| ▲ \$A vs EUR   | 0.6394       | 8:34am 13/08/2018 | 0.0002  | 0.04     |
| ▼ \$A vs \$NZ  | 1.1063       | 8:34am 13/08/2018 | -0.0028 | -0.25    |
| ▲ \$US vs Euro | 0.8774       | 8:34am 13/08/2018 | 0.0021  | 0.24     |
| ▲ \$US vs UK   | 0.7831       | 8:34am 13/08/2018 | 0.0001  | 0.01     |
| ▼ \$US vs CHF  | 0.9932       | 8:34am 13/08/2018 | -0.0019 | -0.19    |
| ▼ \$A vs \$CA  | 0.9580       | 8:34am 13/08/2018 | -0.0024 | -0.25    |

**Australian Market Report**

| Australian Equities        | Latest Price | Time/Date (AEST)  | Change | % Change |
|----------------------------|--------------|-------------------|--------|----------|
| ▼ All Ordinaries           | 6367         | 4:31pm 10/08/2018 | -17    | -0.26    |
| ▼ S&P/ASX 200              | 6278         | 4:31pm 10/08/2018 | -19    | -0.31    |
| ▼ 10-year Bond Rate        | 2.58         | 7:09am 11/08/2018 | -0.01  | -0.58    |
| 90 Day Bank Accepted Bills | 2.02         | 5:17am 11/08/2018 | --     | --       |
| SFE-Day                    |              |                   |        |          |
| ▲ 3-yr Bond Rate           | 2.04         | 7:09am 11/08/2018 | --     | 0.25     |

## Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 11 points higher at 6,229.

Friday 10 August - close [Morningstar with AAP]: Australian shares have suffered a late slide with energy and materials stocks falling, while the Aussie dollar has hit its lowest level since January 2017, as worries about eurozone bank stability trigger a risk-off flight to the greenback.

The benchmark S&P/ASX200 index closed down 19.3 points, or 0.31 per cent, at 6,278.4 points on Friday while the broader All Ordinaries index was down 16.8 points, or 0.26 per cent, at 6,366.8 points.

In futures trade the SPI200 Futures Index was down 20 points, or 0.32 per cent, to 6,219 points.

For the week the S&P/ASX200 gained 0.7 per cent.

The Australian dollar was at 73.17 US cents at 1700 AEST, down from 74.31 US cents on Thursday to a 19-month low as investors flocked to the safe-haven US dollar.

NAB head of FX strategy Ray Attrill said the Aussie's punishment was fallout from a global risk-off rush to the greenback triggered by a report that eurozone banks could be overly exposed to the tumbling Turkish lira.

The Turkish lira hit an all-time low on Friday after a meeting the day before between a Turkish delegation and US officials in Washington yielded no apparent solution to a diplomatic rift over the detention in Turkey of a US pastor.

A report in the Financial Times on Friday afternoon flagged concerns about the exposure of EU banks to Turkish debt.

On the ASX on Friday, the energy index lost 1.8 per cent with crude prices pressured by worries over demand fuelled by China-US trade dispute concerns.

Front-month Brent crude oil futures were trading at \$US71.91 per barrel at 1707 AEST, down 0.22 per cent from their last close.

Beach Energy dropped 3.5 per cent to \$1.92 and led losses on the energy sector.

With reporting season ending its first week, baby goods retailer Baby Bunting soared 38.5 per cent to \$2.41 after flagging improved trading in 2018/19 despite a 29 per cent drop in full-year profit.

Online real estate giant REA Group lifted 3.6 per cent to \$85.30 after showing a 23 per cent lift in full-year net profit to \$280 million.

James Hardie shares dropped 6.6 per cent to \$21.70 as the building supplies group gave guidance for its 2018/19 adjusted operating profit below the average of analyst expectations.

"With rising (US) interest rates, it is going to get harder for them going forward and so the market is reading into that," said Mathan Somasundaram, market portfolio strategist at Blue Ocean Equities.

ON THE ASX:

The benchmark S&P/ASX 200 index closed down 19.3 points, or 0.31 per cent, at 6,278.4 points.

The broader All Ordinaries index was down 16.8 points, or 0.26 per cent, at 6,366.8 points.

#### Companies Reporting Today (ASX 300):

| ASX Code | Company Name                      | Report  |
|----------|-----------------------------------|---------|
| AZJ*     | Aurizon Holdings Limited          | Annual  |
| CBA*     | Commonwealth Bank of Australia    | Annual  |
| CMA*     | Centuria Metropolitan Reit        | Annual  |
| OML*     | Oohmedia Limited                  | Interim |
| ANN*     | Ansell Limited                    | Prelim  |
| AZJ*     | Aurizon Holdings Limited          | Prelim  |
| BEN*     | Bendigo and Adelaide Bank Limited | Prelim  |
| CIP*     | Centuria Industrial REIT          | Prelim  |
| CMA*     | Centuria Metropolitan Reit        | Prelim  |
| JBH*     | JB Hi-Fi Limited                  | Prelim  |
| NCM*     | Newcrest Mining Limited           | Prelim  |

\* Estimated based on release date of previous report

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**Market Sensitive Announcements**


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08:07 AM

**REA Group Ltd (REA) -REA Group Provides Result for the Year Ended 30 June 2018**

REA Group announced its results for the year ended 30 June 2018. Financial highlights from core operations include revenue growth of 20% on the prior year 2017 to \$807.7m, and an increase in EBITDA of 22% to \$463.7m. The reported net profit is \$253.1m increased 23%, reflecting one-off transactions in both periods. The Revenue growth was driven by a 21% increase in the Australian business. The Board has declared a final dividend of 62.0 cps fully franked. This represents a total dividend of 109.0 cps for the FY 2018.

08:27 AM

**News Corporation (NWS) -News Provides Financial Results**

News reported financial results for the three months and fiscal year ended 30 June 2018. The Company reported fiscal 2018 fourth quarter total revenues of \$2.69bn, a 29% increase compared to \$2.08 bn in the prior year period, reflecting the inclusion of Foxtel's results. Total Segment EBITDA for the quarter was \$312 million, a 45% increase compared to \$215 million in the prior year, reflecting the inclusion of Foxtel's results and continued strength in the Book Publishing and Digital Real Estate Services segments. The Adjusted Total Segment EBITDA increased 13%. The Loss per share available to Company's stockholders was (\$0.64) as compared to (\$0.74) in the prior year.

08:33 AM

**Baby Bunting Group Limited (BBN) -Baby Bunting Group Provides FY 2018 Results**

Baby Bunting Group reported NPAT for the financial year ended 24 June 2018 of \$8.7m. On a pro forma basis, NPAT was \$9.6m. Total sales grew by 9.0% to \$303.1m and total transactions grew 12.5% with comparable stores seeing transaction growth of 2.6%. During FY 2018, sales from its expanding range of private label and products grew 100%. The Board has announced a final fully franked dividend of 2.5 cps. Total dividends for the year are 5.3 cps. The record date is 24 August 2018 and the dividend payment date is 14 September 2018.

08:39 AM

**Aventus Retail Property Fund (AVN) -Aventus Retail Property Fund Provides Full Year Results and Proposal to Internalise Management**

Aventus Retail Property Fund announced its results for the full year ended 30 June 2018 and a proposal to internalise its management functions. Aventus Capital (Responsible Entity) is to present a Proposal to internalise the management of the Company which aims to achieve immediate benefits to earnings and governance, as well as create long term strategic value for unitholders. Under the terms of the Proposal, it will pay \$143m to internalise the management of the Company and \$5m to acquire the existing net assets of APG by establishing a new stapled security structure for the Company. The distributions per unit for the year ended 30 June 2018 are 16.3 cpu. This represents a payout ratio of 90% of FFO, within the Fund's distribution policy of 90% -100% of FFO.

08:47 AM

**Aventus Retail Property Fund (AVN) -Aventus Retail Property Fund Provides Full Year Results and Proposal to Internalise Management Presentation**

Aventus Retail Property Fund proposed to internalise its management functions (including investment management, property management and development management), establishing a new stapled structure to acquire the Aventus Property Group (APG) (the Proposal). The Proposal is subject to a number of conditions including its unitholder approval scheduled for 25 September 2018. It will pay \$143m to internalise the management of the Company and \$5m to acquire the existing net assets of APG which represents an EBIT multiple of 9.3x and a fee waiver adjusted EBIT multiple of 8.6x. It owns and will manage interests in its portfolio of 20 LFR centres valued at \$1.9bn and employ 60+ professionals across investment management, asset management and corporate services.

|          |  |
|----------|--|
| 08:52 AM | <p><b>Fleetwood Corporation Limited (FWD) -Fleetwood Announces Regarding First Completion of Caravan Manufacturing Sale</b></p> <p>Fleetwood Corporation announced that it has completed the sale of the Coromal and Windsor Caravan brands to Apollo Tourism &amp; Leisure (Apollo) for \$1m, which was announced to the ASX on 21 June 2018. The Company and Apollo will enter into a transition period following which Apollo will purchase the agreed raw materials and finished goods stock from the Company to commence manufacturing.</p>   |
| 08:56 AM | <p><b>Artemis Resources Limited (ARV) -Artemis Resources Provides Update on Deep Hole Drilling in West Pilbara</b></p> <p>Artemis Resources provided update on ASD-2, part of the West Pilbara deep hole drilling program. The initial results of ASD-1 have increased the prospectivity of the Balmoral project area for shallower than previously thought mineral targets. The ASD-1 core is being prepared to be delivered to CSIRO on 20-21 August 2018. The Minalyzer integrated system, designed by CSIRO, provides high resolution non-destructive XRF analysis with inbuilt QA/QC software, coupled to high resolution core photography with digital structural logging including semi-automatic fracture density analysis and specific gravity.</p> |
| 09:00 AM | <p><b>Charter Hall Long Wale REIT (CLW) -Charter Hall Long Wale REIT Releases FY 2018 Results for the Period 1 July 2017 to 30 June 2018</b></p> <p>Charter Hall Long Wale REIT announced its FY 2018 results for the period 1 July 2017 to 30 June 2018. The operating earnings were \$58.4m. The FY 2018 EPS and DPS of 26.4c, reflecting 3.9% annual growth. The Company reported 6.13% portfolio cap rate, 7bps compression since June 2017. The Company completed \$101m of new property acquisitions and \$4.1m of divestments. The target distribution payout ratio remained at 100% of Operating Earnings.</p>   |
| 09:05 AM | <p><b>Charter Hall Long Wale REIT (CLW) -Charter Hall Long Wale REIT Provides FY 2018 Results Presentation</b></p> <p>Charter Hall Long Wale REIT provided FY 2018 results presentation. It reported the operating earnings were \$58.4m. The FY 2018 EPS and DPS of 26.4c, reflecting 3.9% annual growth. The total portfolio value growth was \$128m. The Company undertook a number of transactions during 2018, improving the portfolio and increasing its Eastern Seaboard exposure. The Company reported 6.13% portfolio cap rate, 7bps compression since June 2017. The Company completed \$101m of new property acquisitions and \$4.1m of divestments. The target distribution payout ratio remained at 100% of Operating Earnings.</p>             |
| 09:11 AM | <p><b>Centuria Industrial REIT (CIP) -Centuria Industrial REIT Acquires 616 Boundary Road and Divests 7.7% Holding in Propertylink Group</b></p> <p>Centuria Industrial REIT announced the acquisition of 616 Boundary Road, Richlands, Qld for \$15.9m. The property will generate an initial yield of 8.2%. The Company also commenced due diligence for the off-market acquisition of a substantial industrial property in WA. The Company has divested its entire 7.7% holding in Propertylink Group at a price of \$1.01 per stapled security realising \$46.3m.</p>  |
| 09:17 AM | <p><b>Infigen Energy (IFN) -Infigen Energy Reports Production Generated for July 2018</b></p> <p>Infigen Energy reported production generated for July 2018. The Alinta windfarm in WA generated 19 GWh in FY 2019. The Capital windfarm in NSW generated 46 GWh in FY 2019. The Woodlawn windfarm reported a production of 19 GWh for the FY 2019. The total production generated during the FY 2019 was 170 GWh, reflecting a variance of 8% as compared to the production of FY 2018 of 157 GWh.</p>  |

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09:22 AM

**Bega Cheese Limited (BGA) -Bega Cheese Announces the Approval of ACCC for the Purchase of SDA Koroit Dairy Processing Facility**

Bega Cheese announced that the ACCC has approved the purchase of Saputo Dairy Australia (SDA) Koroit dairy processing facility located at Koroit in Western Vic. The Company can work with SDA to achieve a timely completion of the purchase.

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09:24 AM

**Aventus Retail Property Fund (AVN) -Aventus Retail Property Fund Notes the Signing of Implementation Deed by ACL**

Aventus Retail Property Fund noted that Aventus Capital (ACL) enters into implementation deed for the proposal of internationalisation proposal with the BBRC International and Holland Management Holdings. ACL agreed to propose the internationalisation proposal to the unitholders and to carry out the transaction steps required to implement the internationalisation proposal for which it is responsible in accordance with the deed, and each other party agrees to carry out the transaction steps for which it is responsible in accordance with the deed.

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09:45 AM

**Environmental Clean Technologies Limited (ECT) -Environmental Clean Technologies Trading Halted, Pending Company Announcement**

The securities of Environmental Clean Technologies will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 14 August 2018 or when the announcement is released to the market.

## Research Report Summaries

## Morningstar Rating

★★★

## Share Price

21.700

## James Hardie Industries Plc (JHX) - Weak Market Share Gains for Narrow-Moat James Hardie in 1Q; Looking Fairly Valued After Sell-Off

**Analyst Note**-Muted market share gains in narrow-moat Hardie's important North American fibre cement segment disappointed the market in the first quarter of fiscal 2019 but were in line with our expectations. Investors had expected gains in share to drive a better showing than the 5% increase in North American sales volumes, which rose to 591 million square feet, or mmsf. Shares sold off accordingly, down 6.5% on the day as the market rethinks the trajectory for future share gains. We still think increased market share for Hardie's fibre cement will be harder to come by, with engineered wood siding alternative LP Smartside getting traction in the U.S. market. Thus, we still expect no increase in share for Hardie in fiscal 2019, followed by a gain of 8% of share over the coming decade. While considerable, our forecast for share gains still trails management's long-term aspirations for 31.5% terminal market share. We maintain our fair value estimate of AUD 21.20 per share and note that Hardie shares now look fairly valued, having previously rallied into the result.

While smaller in size, the Asia-Pacific fibre cement segment delivered 7% year-on-year EBIT growth, which is roughly in line with our full-year expectations for 6.6% EBIT growth for the segment. Meanwhile, Europe performed well, with the Fermacell acquisition having been completed early in the quarter. While it is early days, first signs are encouraging, with net sales in Europe of USD 95.4 million reflecting strong sales growth of 8% on a pro forma basis, excluding the tailwind from foreign exchange translation. EBIT came in at USD 11.4 million, excluding transaction and integration costs, leading to an underlying EBIT margin of 11.9%, ahead of our expectations for 10% margins. While we've upgraded our margin expectations for Europe in fiscal 2019 to 11.9%, we had already assumed further margin accretion in Europe, and remain comfortable with our 15% forecast for fiscal 2028.

| FYE Mar           | 2017A  | 2018A  | 2019E  | 2020E  |
|-------------------|--------|--------|--------|--------|
| Reported Npat \$m | 335.34 | 418.92 | 444.89 | 530.41 |
| EPS c             | 75.55  | 94.71  | 100.64 | 119.99 |
| P/E x             | 27.02  | 21.59  | 21.56  | 18.09  |
| EPS Growth %      | 3.53   | 25.37  | 6.26   | 19.22  |
| DPS c             | 52.05  | 52.05  | 60.39  | 72.00  |
| Yield %           | 2.55   | 2.55   | 2.78   | 3.32   |
| Franking %        | 0.0    | 0.0    | 0.0    | 0.0    |

## Morningstar Rating

★★★

## Share Price

21.000

## News Corporation (NWS) - Lord of the Rings Brings Good News, Not So Much Foxtel; FVE Cut 4% to USD 15.30

**Analyst Note**—We cut our fair value estimate on News Corporation by 4% to USD 15.30 (or AUD 20.50) per share. While the Foxtel-boosted 49% lift in fiscal 2018 fourth-quarter normalised EBITDA to USD 327 million met our expectations, it masked some compositional weaknesses.

The halving of Foxtel's EBITDA to USD 76 million (versus our forecast of USD 104 million) is disappointing, given News has just upped its interest from 50% to 65% with the pay TV operator's result now consolidated in News' accounts. Pressure on Foxtel is likely to continue, as revenue impact of diversifying into lower-priced streaming products (average revenue per user down 3% in the quarter) will be compounded by the cost impact of investment into content (cricket, a step-up in National Rugby League rights cost), as well as the burden of introducing more genre-specific subscription video on demand offers.

A 35% jump in "Other" losses to USD 46 million in the fourth quarter was also discouraging. We recognise the need to carry a certain amount of firepower to incubate some loss-making ventures or to find the next growth units such as REA Group or Move. However, we view USD 173 million of such annual costs (up from USD 165 million in fiscal 2017) as too high. Still, we have lifted our "Other" loss forecast to reflect the reality these higher costs are likely to continue for the foreseeable future.

While the 82% (or USD 32 million) jump in book EBITDA to USD 71 million was impressive, we treat the growth as mostly a one-off event. An estimated USD 21 million of the increase reflects the windfall from sub-licensing the "Lord of the Rings" trilogy titles to Amazon during the quarter--something we are not extrapolating in our forecasts.

The combined effect of these dynamics has led to an average 5% fall in our EBITDA forecasts for the next three years. This drove the 4% cut in our fair value estimate for no-moat-rated News, with shares in the group now trading broadly in line with our intrinsic assessment.

| FYE Jun           | 2017A  | 2018A  | 2019E  | 2020E  |
|-------------------|--------|--------|--------|--------|
| Reported Npat \$m | 287.61 | 254.10 | 287.58 | 441.41 |
| EPS c             | 49.50  | 43.58  | 49.32  | 75.71  |
| P/E x             | 35.27  | 45.83  | 42.01  | 27.37  |
| EPS Growth %      | -10.18 | -11.96 | 13.17  | 53.50  |
| DPS c             | 26.51  | 25.80  | 29.53  | 32.03  |
| Yield %           | 1.52   | 1.29   | 1.42   | 1.55   |
| Franking %        | 0.0    | 0.0    | 0.0    | 0.0    |

## Morningstar Rating

★★

## Share Price

85.300

## REA Group Ltd (REA) - REA Group Brushes Off Property Market Downturn but Remains Overvalued

**Analyst Note**-We have increased our fair value estimate for narrow-moat-rated REA Group by 5% to AUD 59.00 per share. The fiscal 2018 result was broadly in line with our expectations, with the 20% increase in revenue to AUD 808 million matching our forecast and the 23% increase in underlying EBITDA (to AUD 471 million) 2% ahead of our forecast. We were slightly surprised by the strength of the Australian real estate business, which increased revenue by 14% and generated an EBITDA margin of 64.4% in fiscal 2018, up from 63.8% in the prior year, despite property market weakness.

We have increased our revenue growth forecasts for the Australian real estate division, which has increased our fair value estimate, but at the current market price of AUD 84.00, we still believe the shares are materially overvalued. As usual, management did not provide earnings guidance but expects margin expansion in 2019, which is consistent with our forecasts. Nevertheless, earnings growth is slowing. Our model assumes an EPS CAGR of 11% over the next decade versus a 21% CAGR over the past five years. The current market price implies a fiscal 2019 price/earnings ratio of 33 versus the fair-value-implied P/E ratio of 23. Over the past decade, the P/E ratio has ranged between 12 and 39, but it has increased in recent years as EPS growth slowed, which isn't a trend that's likely to be sustainable.

| FYE Jun           | 2017A  | 2018A  | 2019E  | 2020E  |
|-------------------|--------|--------|--------|--------|
| Reported Npat \$m | 228.32 | 278.76 | 333.34 | 383.52 |
| EPS c             | 173.34 | 211.64 | 253.08 | 291.17 |
| P/E x             | 33.32  | 35.77  | 33.70  | 29.30  |
| EPS Growth %      | 17.92  | 22.09  | 19.58  | 15.05  |
| DPS c             | 74.50  | 74.50  | 152.00 | 204.00 |
| Yield %           | 1.29   | 0.98   | 1.78   | 2.39   |
| Franking %        | 100.0  | 100.0  | 100.0  | 100.0  |

## Morningstar Rating

★★★

## Share Price

5.090

## Investa Office Fund (IOF) - Corporate Action: Vote in Favour of Blackstone Offer for Investa

**Analyst Note**-U.S. multinational private equity asset manager, Blackstone Group, is proposing to acquire all the units in Investa Office Fund by way of a trust scheme, with Investa Office Fund unitholders scheduled to vote on the proposal on Aug. 21, 2018. We believe the offer price of AUD 5.15 per unit represents a good outcome for investors and recommend unitholders in Investa Office Fund vote in favour of the proposal.

The proposal has been unanimously recommended by the directors of Investa Listed Funds Management Ltd, the responsible entity of Investa Office Fund. The proposal has also been assessed as in the best interests of securityholders by an external independent expert engaged by Investa Listed Funds Management Ltd. The directors of the responsible entity recommend Blackstone's proposal in the absence of a higher offer.

Blackstone's offer, made on May 28, represented a 13% to Investa's previous closing price of AUD 4.55 per unit. Since then, Investa has had its entire portfolio revalued, resulting in a net tangible asset, or NTA, increase of AUD 0.53 per unit or 8% to AUD 5.47 from AUD 4.94. Even though the offer price of AUD 5.15 per unit is at a 6% discount to the most recent NTA we still see the offer price as compelling. First, the upwards revaluation of Investa's assets is premised on a wide range of assumptions, many of which may not come to fruition. Second, many other Australian REITs are trading at discounts of 5%-10% to the NTAs indicating investment markets are generally discounting the values ascribed to commercial properties by professional valuers.

| FYE Jun           | 2017A  | 2018A  | 2019E  | 2020E  |
|-------------------|--------|--------|--------|--------|
| Reported Npat \$m | 182.60 | 184.00 | 174.82 | 179.79 |
| EPS c             | 29.74  | 29.97  | 29.21  | 30.04  |
| P/E x             | 15.28  | 15.14  | 17.43  | 16.94  |
| EPS Growth %      | 3.99   | 0.77   | -2.51  | 2.84   |
| DPS c             | 20.20  | 20.30  | 20.30  | 20.43  |
| Yield %           | 4.45   | 4.47   | 3.99   | 4.01   |
| Franking %        | 0.0    | 0.0    | 0.0    | 0.0    |

## Morningstar Rating

★★★

## Share Price

2.320

## Mirvac Group (MGR) - Tight Office Market Glosses Over Slower Volumes in Mirvac's Residential Business. FVE up to AUD 2.20

**Analyst Note**-Mirvac Group's fiscal 2018 operating profit of AUD 15.6 cents per security, or cps, was up 8% on the prior year and at the top end of the guidance range of AUD 15.3 and 15.6 cps. Earnings going forward will be reported on a funds from operations, or FFO, basis. Guidance is for fiscal 2019 FFO growth of 2% to 4%, implying FFO of AUD 16.7 to 17.1 cps and distributions of AUD 11.6 cps, up 5% on fiscal 2018. We forecast FFO of AUD 16.7 cps, at the bottom of the guidance range. Following upgraded rental growth expectations for the Sydney and Melbourne office assets, our fair value estimate increases to AUD 2.20 from AUD 2.15, with no-moat-rated Mirvac slightly overvalued, currently trading at AUD 2.35.

It is prudent to call out that while we view Mirvac as overvalued, we view nearly all Australian property firms under coverage as overvalued. The current level of pricing for property of most classes points to ultralow bond yields persisting indefinitely, a view we struggle to reconcile given all the major central banks (with the exception of Japan) are taking steps to unwind extremely stimulatory monetary policies. These stimulatory policies combined with surging household and government indebtedness have spurred economic activity, driving down unemployment rates and most corners of the global economy have enjoyed a very long period of economic expansion. History tells us these periods of expansion (particularly debt-fuelled) will not run forever. The current pricing of most REITs doesn't appear to have given appropriate weighting to inherent risks ahead.

| FYE Jun           | 2017A  | 2018A  | 2019E  | 2020E  |
|-------------------|--------|--------|--------|--------|
| Reported Npat \$m | 534.00 | 608.00 | 620.46 | 609.20 |
| EPS c             | 14.41  | 16.39  | 16.72  | 16.42  |
| P/E x             | 15.00  | 13.76  | 13.88  | 14.13  |
| EPS Growth %      | 10.64  | 13.70  | 2.05   | -1.81  |
| DPS c             | 10.40  | 11.00  | 11.60  | 11.80  |
| Yield %           | 4.81   | 4.88   | 5.00   | 5.09   |
| 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  |
|----------|---------------------------------------|--------------------|--------------|--|
| ▲ 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                                      |
| ▲ ALL    | Aristocrat Leisure                    | ★★                 | 08/08/2018   | Upgrade due to price change  |
| ▼ EVT    | Event Hospitality and Entertainment   | ★★                 | 08/08/2018   | Downgrade due to price change  |
| ▲ WHC    | Whitehaven Coal                       | ★★                 | 08/08/2018   | Raising our Whitehaven FVE to AUD 3.40 With Higher Coal Prices                               |
| ▲ SCP    | Shopping Centres Australasia Property | ★★★                | 07/08/2018   | SCA Property Delivers Solid Result in Sluggish Retail Environment. FVE Increases to AUD 2.30 |
| ▲ FXL    | FlexiGroup                            | ★★★                | 06/08/2018   | Upgrade due to price change  |
| ▲ RMD    | ResMed                                | ★★★                | 06/08/2018   | Upgrade due to price change  |

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