



16-August-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	25162	7:07am 16/08/2018	-138	-0.54
▼ S&P 500	2818	7:07am 16/08/2018	-22	-0.76
▼ NASDAQ	7774	7:31am 16/08/2018	-97	-1.23
▼ FTSE 100 Index	7498	1:50am 16/08/2018	-114	-1.49
▼ DAX 30	12163	2:00am 16/08/2018	-196	-1.58
▼ CAC 40	5305	2:15am 16/08/2018	-98	-1.82
▼ Nikkei 225 (Japan)	22204	4:20pm 15/08/2018	-152	-0.68
▼ HKSE	27324	6:23pm 15/08/2018	-429	-1.55
▼ SSE Composite Index	2723	5:16pm 15/08/2018	-58	-2.08
▲ NZ 50	8987	3:21pm 15/08/2018	16	0.17

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street has fallen in a day of heavy trading, with the S&P 500 posting its biggest percentage drop since late June as investors turned risk-averse on disappointing earnings and escalating global tariff worries.

Chinese technology company Tencent Holdings Ltd reported its first profit decline in almost 13 years, putting pressure on the US tech sector.

Technology stocks were the biggest drag on the S&P 500 and the Nasdaq, with the S&P 500 technology index down 1.1 per cent.

Retail shares fell as Macy's Inc stock tumbled 15.9 per cent after margin fears spooked investors, overshadowing its stronger-than-expected sales and earnings.

"There was a lot of optimism heading into retail earnings," said JJ Kinahan, chief market strategist at TD Ameritrade in Chicago.

Macy's results have "taken an edge off that optimism," he added.

Second-quarter U.S. earnings have mostly been stronger than expected, with 79.1 per cent beating analyst expectations, according to Thomson Reuters I/B/E/S.

The trade fracas heated up as Turkish President Tayyip Erdogan doubled tariffs on some US imports, and China lodged a complaint with the World Trade Organisation against American trade policies.

The tariff-sensitive industrial sector slipped 0.5 per cent, with Caterpillar Inc and Boeing Co weighing on the Dow.

The S&P 500 energy index dropped 3.5 per cent as a fall in crude prices was exacerbated by an unexpected surge in US stockpiles.

Computershare Limited (CPU)

-Computershare Provides FY 2018 Market Results

Computershare Limited (CPU)

-Computershare Provides FY 2018 Market Results

Computershare Limited (CPU)

-Computershare Provides FY 2018 Results Management Presentation

Villa World Limited (VLW) -Villa World

Provides 2018 Full Year Results

Aveo Group (AOG) -Aveo Group Provides

FY 2018 Results

Infomedia Limited (IFM) -Infomedia

Provides FY 2018 Results

Metals prices fell, dragging down the materials sector, which ended down 1.6 per cent. The S&P 1500 metals and mining index was down 4.8 per cent.

The Dow Jones Industrial Average fell 137.51 points, or 0.54 per cent, to 25,162.41, the S&P 500 lost 21.59 points, or 0.76 per cent, to 2,818.37 and the Nasdaq Composite dropped 96.78 points, or 1.23 per cent, to 7,774.12.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	1998	3:22am 16/08/2018	-48	-2.35
▼ Copper	5759	3:22am 16/08/2018	-250	-4.16
▼ Nickel	12754	3:22am 16/08/2018	-574	-4.31
▼ Gold	1175	7:01am 16/08/2018	-6	-0.49
▼ Silver	14.4	7:01am 16/08/2018	-0.6	-3.87
▼ Oil - West Texas crude	65.0	7:09am 16/08/2018	-2.0	-3.03
▼ Lead	1901	3:22am 16/08/2018	-149	-7.29
▼ Zinc	2284	3:22am 16/08/2018	-154	-6.34
▼ Ore	68	7:10am 16/08/2018	0	-0.35

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7237	7:55am 16/08/2018	0.0006	0.08
▲ \$A vs GBP	0.5701	7:55am 16/08/2018	0.0016	0.27
▼ \$A vs YEN	80.14	7:55am 16/08/2018	-0.33	-0.41
▲ \$A vs EUR	0.6380	7:55am 16/08/2018	0.0004	0.07
▲ \$A vs \$NZ	1.1017	7:55am 16/08/2018	0.0014	0.13
▼ \$US vs Euro	0.8813	7:55am 16/08/2018	-0.0001	-0.01
▲ \$US vs UK	0.7876	7:55am 16/08/2018	0.0014	0.18
▼ \$US vs CHF	0.9933	7:55am 16/08/2018	-0.0006	-0.06
▲ \$A vs \$CA	0.9509	7:55am 16/08/2018	0.0071	0.75

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	6416	4:30pm 15/08/2018	30	0.46
▲ S&P/ASX 200	6329	4:30pm 15/08/2018	29	0.47
▼ 10-year Bond Rate	2.56	7:10am 16/08/2018	-0.03	-0.97
90 Day Bank Accepted Bills SFE-Day	1.98	12:14am 16/08/2018	--	--
▲ 3-yr Bond Rate	2.03	7:10am 16/08/2018	--	0.25

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 53 points lower at 6,241.

Wednesday 15 August - close [Morningstar with AAP]: Australian shares have hit a fresh ten-year high, with a surge in CSL stocks and gains for Wesfarmers helping the market overcome falls in energy and materials stocks.

The benchmark S&P/ASX200 closed up 29.4 points, or 0.47 per cent, at 6,329.0 points, while the All Ordinaries was up 29.5 points, or 0.46 per cent, at 6,415.7 points.

CSL Ltd, the fifth-largest company on the ASX, posted a near 30 per cent rise in annual net profit on Wednesday.

The news drove CSL shares up \$12.89 - a 6.4 per cent gain that took the stock to a record close of \$214.58 and helped push the wider healthcare sector index to a record high.

Wesfarmers posted record earnings in its core divisions, sending its shares 3.2 per cent higher to \$52.20.

Insurance Australia Group dipped 5.8 per cent to a near four-month low of \$7.76 after the insurer flagged a subdued earnings outlook and reported a modest rise in full-year profit, driven by lower investment income.

Commonwealth Bank also weighed on the financial index after trading ex-dividend.

Materials stocks lost ground, underpinned by lower base metals prices and a fall in Chinese iron ore futures.

Global miner BHP slipped 0.4 per cent to \$33.70, while Rio Tinto dipped 0.7 per cent to \$73.75.

Media group Fairfax Media swung to an annual net loss of \$63.8 million, hurt by significant items totalling \$188.7 million related to impairment charges at Australian Community Media and New Zealand's Stuff, as well as restructuring and redundancy costs.

Fairfax closed 1.7 per cent lower at 87.5 cents.

The Australian dollar was at 72.19 US cents, down from 72.77 US cents on Tuesday, affected by global trade worries and local data showing annual wages growth remains at a low 2.1 per cent.

The NZX 50 gained 15.55 points (0.17%) to 8,987.49 while the Nikkei lost 151.86 points (-0.68%) to be closed at 22,204.22.

ON THE ASX:

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The All Ordinaries was up 29.5 points, or 0.46 per cent, at 6,415.7 points.

Companies Holding Annual General Meeting (ASX 300):

- ▶ Xero Limited

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

- ▶ GUD Holdings Limited
- ▶ Navigator Global Investments Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
ASX*	ASX Limited	Annual
COH*	Cochlear Limited	Annual
MGR*	Mirvac Group	Annual
WHC*	Whitehaven Coal Limited	Annual
ABC*	Adelaide Brighton Limited	Interim
IRE*	IRESS Limited	Interim
QBE*	QBE Insurance Group Limited	Interim
VVR*	Viva Energy REIT	Interim
ASX*	ASX Limited	Prelim
BRG*	Breville Group Limited	Prelim
EVN*	Evolution Mining Limited	Prelim
IPH*	IPH Limited	Prelim
IRI*	Integrated Research Limited	Prelim
NWH*	NRW Holdings Limited	Prelim
QBE*	QBE Insurance Group Limited	Prelim
TLS*	Telstra Corporation Limited	Prelim
TWE*	Treasury Wine Estates Limited	Prelim
IVC	InvoCare Limited	Interim
OML	Oohmedia Limited	Interim
OZL	OZ Minerals Limited	Interim
QBE	QBE Insurance Group Limited	Interim
ASX	ASX Limited	Prelim
CQR	Charter Hall Retail REIT	Prelim
DOW	Downer EDI Limited	Prelim
EHE	Estia Health Limited	Prelim
GOZ	Growthpoint Properties Australia	Prelim
GWA	GWA Group Limited	Prelim
MIN	Mineral Resources Limited	Prelim
ORG	Origin Energy Limited	Prelim
QBE*	QBE Insurance Group Limited	Prelim
SHL	Sonic Healthcare Limited	Prelim
TLS	Telstra Corporation Limited	Prelim
TWE	Treasury Wine Estates Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:06 AM

Wesfarmers Limited (WES) -Wesfarmers Announces Regarding Changes in Department Stores Division Leadership

Wesfarmers announced that Guy Russo will retire as CEO of the Company's Department Stores division and MD of Target. Ian Bailey, MD of Kmart, will assume the additional responsibility of the Company's Department Stores division from 1 November 2018 and Marina Joanou, Chief Financial Officer of the Company's Department Stores division has been promoted to MD of Target effective immediately.

08:18 AM

Senex Energy Limited (SXY) -Senex Energy Announces Regarding Birkhead Oil Discovery on the Cooper Basin Western Flank

Senex Energy announced a Cooper Basin oil discovery from the first well of its FY 2019 drilling campaign, Breguet-1. The Breguet-1 oil exploration well is located in ex PEL 104, 1.6 kms west of the producing Spitfire oil field. The well was identified from the merged Liberator 3D seismic survey and was drilled to test sandstones of the Birkhead Formation within a four-way structural closure. The well is being cased and suspended and is expected to be placed on production in Q2 FY 2019 via a flowline to existing infrastructure.

08:21 AM

Mount Gibson Iron Limited (MGX) -Mount Gibson Iron Provides Profit Result for FY 2018 and Declaration of Final Dividend

Mount Gibson Iron recorded a NPAT of \$99.1m for the year ended 30 June 2018 on total sales revenue of \$254.1m (\$196.5m Free on Board (FOB) after shipping freight) and total ore sales of 3.6 million wet metric tonnes (Mwmt), including sales of low grade material from Extension Hill. The result includes the receipt in July 2017 of the \$64.3m settlement proceeds from the business interruption component of the Company's Koolan Island insurance claim. The result compares with a NPAT of \$26.3m reported for the prior year 2017. The Gross profit before tax from continuing operations totalled \$48.7m, compared with \$36.5m in 2016/2017. The Board has declared a fully franked final cash dividend of 3 cps, payable either in cash or in shares to eligible shareholders as part of the Company's DRP.

08:25 AM

Energy World Corporation Ltd (EWC) -Energy World Announces Standard Chartered Agrees to Revised Transaction

Energy World announced that it has entered into a binding term sheet with Standard Chartered Private Equity (Singapore) (SCPE) in respect of a proposed investment in the Company and SCPE's existing US\$50m Exchangeable Convertible Note previously issued by its wholly-owned subsidiary, Energy World Philippines Holdings. SCPE has elected to re-invest the proceeds of the Existing Convertible Note, due for repayment on 14 August 2018, into a new instrument structured as a US\$50m loan to EWC and an issue of warrants by EWC. The loan has a final maturity 3 years from the date of commencement of the loan with principal repayments required on specified dates during the loan term.

08:31 AM

Senex Energy Limited (SXY) -Senex Energy Announces Regarding FY 2018 Guidance on a Non-Recurring Gain and Impairment

Senex Energy announced that it expects to recognise the following items in its 2018 full year accounts to be released on 21 August 2018. The Company announced the termination of the Senex-Beach unconventional gas JV with consideration of up to \$43m transferred as a free-carry commitment to the mutually owned Senex-operated Cooper Basin western flank oil assets. This transaction was completed in the second half of FY 2018, resulting in the recognition of a non-recurring gain. The Progress has also been made to rationalise non-core Cooper Basin assets, with certain acreage divested, farmed-down and relinquished since the beginning of 2018.

08:34 AM

CSL Limited (CSL) -CSL Provides Full Year Results

CSL provided full year results. The Company announced a reported NPAT of \$1,729m for the twelve months ended 30 June 2018 up 29%, or 28% on a constant currency (CC2) basis. EPS grew 30%, or 29% on a constant currency basis. Its NPAT for FY 2019 is anticipated to be in the range of \$1,880 to \$1,950m at constant currency.

08:37 AM

Insurance Australia Group Limited (IAG) -Insurance Australia Group Announces Regarding FY 2018 Media Release

Insurance Australia Group announced regarding FY 2018 media release. The Board has determined to pay a final fully franked dividend of 20.0 cps (2H 2017: 20.0 cps) on 27 September 2018. This brings the full year dividend to 34.0c, representing an increase of 3% over FY 2017 and a cash payout ratio of 77.9%. Its capital position remains with a Common Equity Tier 1 (CET1) ratio of 1.26 against a target benchmark of 0.9-1.1.

08:40 AM

Computershare Limited (CPU) -Computershare Provides FY 2018 Market Results

Computershare provided FY 2018 market results. EBITDA margins increased by 150 basis points to 27.1%. Margin income assisted, rising to \$175.5m, up 28.9%. Free cash flow is at \$379.2m. It self-funds our technology initiatives, growth plans and strategic investments, as well as supporting the share buyback and reducing debt.

08:42 AM

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08:46 AM

Computershare Limited (CPU) -Computershare Provides FY 2018 Results Management Presentation

Computershare provided FY 2018 results management presentation. The Group's statutory effective tax rate has decreased from 25.7% in FY 2017 to 20.9% in FY 2018. This is primarily driven by the restatement of deferred tax balances due to US tax reform giving rise to a tax credit of \$44.7m. FY 2018 tax expense also included capital gains tax for the pending disposal of Karvy Computershare Private, in addition to increased withholding tax expense. The Group's management effective tax rate has decreased from 29.2% in FY 2017 to 28.3% in FY 2018. The Average debt facility maturity extended to 2.8 years.

08:49 AM

Villa World Limited (VLW) -Villa World Provides 2018 Full Year Results

Villa World provided 2018 full year results. It Continued sales momentum combined with an outstanding delivery of land and housing resulted in 1,2903 accounting settlements of wholly owned lots in FY 2018 (FY 2017: 1,116). As a result, \$441.6m in revenue was recorded (FY 2017: \$386.8m). The reported gross margin was \$117.6m or 26.6% (FY 2017: \$106.3m or 27.5%), ahead of the guidance range of 24% - 26%.

08:52 AM

Aveo Group (AOG) -Aveo Group Provides FY 2018 Results

Aveo Group provided FY 2018 results. On a statutory basis, it recorded a FY 2018 statutory profit after tax of \$365.1m, up 44% on FY 2017. This result was driven by a 40% profit increase from the Group's retirement business and is underpinned by the continuing revaluation uplifts in the retirement portfolio and the sale of the Gasworks complex at Newstead, Brisbane at a substantial premium to its book value. Its net tangible assets per security was up 16% to \$3.92.

08:57 AM

Infomedia Limited (IFM) -Infomedia Provides FY 2018 Results

Infomedia provided FY 2018 results. It reported a 3.5% increase in revenue to \$72.9m for FY 2018, when compared to \$70.4m reported in the pcp and NPAT of \$12.9m, up 7.9% from \$11.9m pcp. EBITDA (earnings before interest tax depreciation and amortisation) was \$29.1m, up 15.2% pcp. As foreshadowed, investing for long term growth impacted Cash EBITDA in FY 2018 with the Company reporting \$10.5m compared to \$11.7m in the prior year 2017. Investment uplift related to the pre-revenue development for parts and service contracts secured in the previous financial year.

Research Report Summaries**Morningstar Rating**

★★★

Share Price

214.580

CSL Limited (CSL) - CSL Exceeds Expectations and Achieves Turnaround in Seqirus Division; Raising FVE

Analyst Note-Narrow-moat CSL ended fiscal 2018 slightly above our bottom line expectations and recent full-year guidance. Reported net profit after tax of USD 1,729 million was above the recently issued guidance range of between USD 1,680 million and USD 1,710 million, and our forecast of USD 1,685 million, buoyed by solid product performances across multiple fronts. These included: impressive growth in the flagship immunoglobulin portfolio in the U.S.; successful launch of Haegarda; ongoing adoption of KCentra in the U.S.; and achieving breakeven in the Seqirus flu vaccine business as targeted.

We are increasing our fair value estimate by 4% to AUD 207 per share, from AUD 200 previously, after incorporating Australian dollar/U.S. dollar exchange rate of 0.73, guidance of 10% of revenue for R&D spend, and capital expenditures in fiscal 2019 of between USD 1.2 billion and USD 1.3 billion to support ongoing expansion of plasma donor sites in the U.S. This compares with our previous assumption of 11% R&D spend given the commencement of CSL112's phase 3 trial. We have also incorporated management guidance for fiscal NPAT of between USD 1,880 million and USD 1,950 million. As such, we forecast fiscal 2019 NPAT of USD 1,942 million. Our revised fair value estimate includes increased valuation of the CSL112 opportunity given time value of money considerations and now accounts for around AUD 57 per share. For further details of our assessment of the CSL 112 opportunity please see our report "Elevating Heart Rates as Potential CSL Blockbuster Enters Phase 3," published July 2018. Nonetheless, at current levels, we think shares in CSL are trading broadly in line with fair value.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	1,745.69	2,256.66	2,606.60	2,964.88
EPS c	383.39	498.88	576.16	655.37
P/E x	29.90	30.03	37.24	32.74
EPS Growth %	5.44	30.12	15.49	13.75
DPS c	177.55	224.54	264.39	302.10
Yield %	1.55	1.50	1.23	1.41
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

0.875

Fairfax Media Limited (FXJ) - Fairfax Media Not Cost-Cutting to Greatness but It Still Helps; FVE up 7% to AUD 0.75

Analyst Note-We raise our fair value estimate for Fairfax Media by 7% to AUD 0.75 per share, predominantly driven by upgrades in two areas.

First, it reflects cost-driven lifts to our metropolitan publishing forecasts. While the division's 120 basis point rise in fiscal 2018 EBIT margin to 9.6% was broadly in line with expectations, we see the improvement continuing at a greater pace than previously anticipated, aided by cost-savings from the recently-struck print-sharing agreement with News Corporation. In fact, we have raised our long term, midcycle metropolitan publishing EBIT margin to 10.0% from 9.0%.

Second, we have cut our corporate overhead cost estimates by AUD 8 million a year on average over the forecast horizon, to around AUD 20 million per year. This is in recognition of the impressive halving of these expenses in fiscal 2018 to AUD 23 million versus our AUD 32 million forecast, with management confidently projecting sub-AUD 20 million level on a rate-run basis in fiscal 2019.

Despite these upgrades, shares in no-moat-rated Fairfax are still trading at a significant premium to our revised intrinsic assessment. This is not surprising given the fresh prism through which investors are now looking at the stock--one that has an implied worth of AUD 0.89 per share based on the current stock price of suitor Nine Entertainment (consideration being 0.3627 Nine shares plus AUD 0.025 cash for each Fairfax share).

As such, we believe the situation provides Fairfax shareholders with a good opportunity to crystallise the premium built into the stock price. This is especially as we assess Nine to be worth AUD 1.50 per share on a long-term, midcycle view (versus current stock price of AUD 2.40). The premium in the current Fairfax stock price is also generous, given its legacy publishing units are still undergoing a transition and whose combined core EBIT fell 28% in the second half of fiscal 2018, with fiscal 2019 total group revenue down a further 5% to-date.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	142.65	124.92	126.59	134.70
EPS c	6.17	5.41	5.50	5.86
P/E x	15.77	15.29	15.91	14.93
EPS Growth %	8.74	-12.20	1.68	6.41
DPS c	4.00	2.90	3.00	3.50
Yield %	4.11	3.51	3.43	4.00
Franking %	85.0	68.97	100.0	100.0

Morningstar Rating

★★★

Share Price

3.090

Infratil Limited (IFT) - Infratil and Mercury to Privatise Tilt; No Change to FVE

Analyst Note-Narrow-moat-rated Infratil announced plans to make a takeover offer for wind farm operator Tilt Renewables at NZD 2.30 per share. It will make a formal offer in September 2018. Infratil already owns 51% of Tilt, which was spun out of Trustpower in 2016. If all goes to plan, Infratil's stake will increase to 80.01%. Mercury NZ will maintain its 19.99% stake in Tilt and nominate one director.

The additional 29% stake will cost NZD 209 million, to be funded by cash and existing debt facilities. Tilt has a large development pipeline of renewable energy projects, mainly in Australia, and will require large ongoing equity injections. This is what Infratil wants - to deploy capital to its preferred themes of renewable energy, retirement living and data centres. But we're not convinced that Australian wind farms will provide good returns on investment, given low barriers to entry, a likely depressive effect on wholesale electricity prices when wind conditions are good, and the inability to cost-effectively store power until prices improve. Overall, though, the acquisition is not material enough to shift our view. At current prices, Infratil is trading 10% above our unchanged NZD 3.10 fair value estimate.

We'll incorporate the acquisition into our earnings forecasts once the takeover completes.

FYE Mar	2017A	2018A	2019E	2020E
Reported Npat \$m	72.59	37.13	49.83	52.36
EPS c	12.93	6.61	8.87	9.32
P/E x	22.56	43.22	34.60	32.95
EPS Growth %	-16.16	-48.85	34.21	5.02
DPS c	14.58	14.81	15.00	15.45
Yield %	5.00	5.18	4.89	5.03
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating



Share Price

52.200

Wesfarmers Limited (WES) - Wesfarmers Rallies Investors as Department Stores Surprise on the Upside; FVE Raised to AUD 39

Analyst Note—Narrow-moat Wesfarmers posted fiscal 2018 underlying net profit after tax in line with our estimates. The results of its two key businesses, Bunnings and Coles--together accounting for two thirds of group operating profits--were broadly in line with our expectations. However, the department store segment, comprising only 15% of group EBIT, surprised with solid results well above our expectations. We interpret the segments' results--EBIT margins are no longer reported separately--as Kmart sustaining its strong EBIT margins generated last year, and the weaker Target chain turning the corner in terms of its earnings earlier than we had expected, despite fierce competition from department stores, specialty stores, and growing online apparel sales.

We've increased our fair value estimate by 4% to AUD 39, due to increases to our earnings forecasts, slightly lower capital expenditures, and the time value of money. On average, we lifted EPS by 2% annually, mainly reflecting slightly higher EBIT margins in the department store and home improvement segments.

The conglomerate looks to have its ducks lined up. It has either divested or is in the process of divesting many of the businesses that were underperforming, exposed to significant structural headwinds, dependent on factors outside of management's control such as price volatility, or simply noncore. The recent flurry of transactions leaves Wesfarmers post-Coles-demerger with a stable dominated by three retail businesses that we expect to grow strongly, take market share, and sustain relatively high EBIT margins--namely Bunnings, Kmart, and Officeworks.

These core businesses are a great platform to build on, either organically or through acquisitions, and the already robust balance sheet is set to become even stronger. The Curragh and Bengalla coal mines and Kmart Tyre and Auto Service transactions alone will provide AUD 1.9 billion in sale proceeds once all have been successfully closed.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	2,873.00	2,770.00	3,053.70	3,036.77
EPS c	254.25	244.48	269.32	267.83
P/E x	16.71	17.51	19.38	19.49
EPS Growth %	21.56	-3.84	10.16	-0.55
DPS c	223.00	223.00	229.00	229.00
Yield %	5.25	5.21	4.39	4.39
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

7.760

Insurance Australia Group Limited (IAG) - Underlying Momentum Underpins IAG's FY18 Result. Capital Returns Continue. FVE Increased to AUD 7.50

Analyst Note-No-moat Insurance Australia Group's fiscal 2018 cash NPAT of AUD 1.03 billion fell just short of our forecast and consensus but was up a solid 4.4% on fiscal 2017. Gross written premium, or GWP, growth of just 1.8% was in line with guidance of "low-single digits," but on an underlying basis increased 4% year on year due primarily to broad based rate increases. Reported insurance margins of 18.3% surged from 14.5% in fiscal 2017 and modestly exceeded guidance of 16%-18%. The underlying insurance margin of 14.1% improved on 12.4% a year ago.

We increase our fair value estimate 3% to AUD 7.50 after rolling our financial model. At current prices, the stock is fairly valued. Strong profitability, a robust capital position and a positive outlook enabled the board to declare a fully franked final dividend of AUD 20 cents per share, or cps, taking total dividends to AUD 34 cps, based on a 78% payout. Despite the solid year-on-year performance, a much softer second half was concerning.

We applaud the previously announced sale of the Thailand, Indonesia and Vietnam businesses, and support the capital management initiatives valued at AUD 592 million. Subject to shareholder approval, Insurance Australia Group is planning a AUD 19.5 cps capital return, a AUD 5.5 cps fully franked special dividend and a share consolidation to reduce ordinary shares on issue by around 2.4% to preserve consistency of the EPS calculation. The AUD 25.0 cps total is scheduled to be paid to shareholders on or about Nov. 26, 2018. Our forecast dividend for fiscal 2019 of AUD 40.5 cps includes the yet-to-be-approved AUD 5.5 cps fully franked special dividend.

A negative was confirmation surplus franking credits continue to decline with guidance for a reduction in the franking rate from the second half of calendar 2019 onwards, with franking expected to be in the 70%-100% range. We estimate a franking rate of 85% for the final fiscal 2019 dividend declared in August 2019 and subsequent dividends.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	990.00	1,034.00	1,140.46	1,220.74
EPS c	41.83	43.68	47.43	51.88
P/E x	14.08	16.61	16.36	14.96
EPS Growth %	16.91	4.42	8.59	9.38
DPS c	33.00	34.00	40.50	37.02
Yield %	5.60	4.69	5.22	4.77
Franking %	100.0	100.0	92.0	85.0

Morningstar Rating

★★★★

Share Price

36.090

Woodside Petroleum Limited (WPL) - Woodside's 1H Evidence of a Platform Primed for Growth. FVE Increased to AUD 46.50.

Analyst Note—We increase our fair value estimate for no-moat Woodside by 3% to AUD 46.50, simply as a result of continued weakening in the AUD/USD exchange rate to roughly 0.73 from 0.75 prior. Our long-term operating assumptions are unchanged. Woodside reported a 12% increase in underlying first-half 2018 NPAT to USD 566 million, about 4% shy of our USD 590 million forecast. However, the small miss reflects chiefly a higher-than-anticipated effective corporate tax rate of 32%, due to timing issues. Net operating cash flow improved 22% to USD 1.2 billion, around 10% ahead of our expectations, facilitating faster-than-anticipated net debt reduction to just USD 3.0 billion.

Our 2018 underlying EPS forecast marginally improves to AUD 2.18 from AUD 2.15, with the weaker Australian dollar more than offsetting any first-half earnings shortfall. An improved first-half dividend of USD 53 cents is in line with expectations, but the more favourable dollar translation again sees our full-year DPS increased 3.0% to AUD 1.77 from AUD 1.72. At the current AUD 35.30 share price, the 2018 dividend equates to a handy fully franked 5.0% yield, and that in a company with no shortage of healthy growth prospects. Woodside's 100 mmboe production target for 2020 is in line with our own, before we forecast growth to 130 mmboe from 2024, with a second Pluto LNG train contributing. Woodside delivered 44.3 mmboe of production in first-half 2018 and increased full-year 2018 guidance to 87-91 mmboe from 85-90 mmboe. Our target stands at 91 mmboe, already slightly above guidance high-end.

Woodside shares remain materially undervalued—we think the market insufficiently pricing for LNG growth potential. This is also before brownfield gains, including construction of the Pluto LNG truck loading facility, begun in April this year. The facility will distribute LNG to Pilbara customers from 2019 from a debottlenecked Pluto Train 1 designed to take capacity from the existing 4.8Mtpa to roughly 6.0Mtpa.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	1,160.08	1,227.96	2,007.23	2,429.30
EPS c	138.46	145.76	219.91	259.49
P/E x	19.83	20.96	16.28	13.80
EPS Growth %	-23.37	5.27	50.87	18.00
DPS c	109.82	124.57	177.26	207.60
Yield %	4.00	4.08	4.95	5.80
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

2.370

Aveo Group (AOG) - Aveo Considers All Options to Unlock Value; FVE Unchanged at AUD 2.80

Analyst Note-Aveo reported fiscal 2018 underlying earnings of AUD 22 cents per security, slightly above June guidance of AUD 21.4 cents per security. The business has yet to fully recover from negative press 14 months ago. Newly completed units are taking longer to sell, resulting in a large buildup of unsold inventory on balance sheet totalling AUD 347 million at June 2018, compared with AUD 135 million a year prior. The sales rate of units upon resident departure is 7.5%, well down on the long-term average of 10%-11%. This is behind the drop in portfolio occupancy over the past year to 90% from 93%. We think the firm has troughed and operations will improve from this point, but it's likely to take some time. Aveo has introduced a variation on its standard contract that provides increased options for residents, but the deferred management fees, or DMF, are still viewed as elevated and may need to be revisited to accelerate sales.

We see Aveo taking a further two years to shake off the negative press and reposition to capitalise on the significant opportunity to provide high-quality housing for the elderly. Our fair value estimate for no-moat Aveo is unchanged at AUD 2.80. Aveo stock screens as undervalued, currently trading at AUD 2.40.

Positives from the result include the continued uptrend in deferred management fees and capital gains for each resold unit, which increased by 6.5% to AUD 104,400 from AUD 98,000 a year prior.

Aveo is soon to embark on a strategic review, with soon-to-be-appointed corporate advisors given an open remit to assess all options. Given the very favourable demographic tailwinds across Australia, Aveo regards a faster and high rate of development as the most accretive use of capital. Consequently, the advisors are likely to focus on avenues to introduce strategic investors in order to accelerate the number of units developed or potentially a share buyback.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	108.20	127.20	116.08	106.06
EPS c	19.04	22.04	20.12	18.38
P/E x	17.09	11.66	11.78	12.89
EPS Growth %	11.62	15.72	-8.70	-8.63
DPS c	9.00	9.00	9.10	9.20
Yield %	2.77	3.50	3.84	3.88
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

10.420

Dexus Prop (DXS) - Sturdy East Coast Office Demand Prompts Dexus Upgrade; FVE Increases to AUD 9.80

Analyst Note-Dexus's fiscal 2018 funds from operations, or FFO, of AUD 60.7 cents per security was up 3% on last year. Adjusted funds from operations, or AFFO, which is after maintenance and lease incentive costs, increased 5% to AUD 47.7 cents per security, aligning with growth in distributions. Dexus estimates rents across its office portfolio are currently 8% below market rates in Sydney and Melbourne. Assuming office demand remains solid, this will see large rent increases for the East Coast leases expiring over the next two to three years. Following raised office rental growth expectations, our fair value estimate for narrow-moat Dexus increases to AUD 9.80 from AUD 9.10. Dexus screens as broadly fairly valued, currently trading around AUD 10.40.

Guidance is for FFO to grow 3% in fiscal 2019. Lower leasing and maintenance costs result in guided AFFO growth of 5%, with distributions to rise in step. We forecast distributions of AUD 50.2 cents per security, implying a yield of 4.8% at the current security price.

At a headline level, gearing remains conservative at 24.1% on a look-through basis, although this metric has been flattered by high asset values. The weighted average capitalisation rate used for valuing the office portfolio is 5.37% and 6.4% for the industrial portfolio. Interest coverage is robust at 4.9 times, providing strong cash flow coverage when borrowing costs eventually move to more neutral settings. Net debt/EBITDA for the year to June 2018 was 4.2 times, a slight deterioration on the 3.8 times a year prior. Net debt/EBITDA, incentives and maintenance costs was 5.3 times. Both are expected to remain at current levels for the next two years while Dexus deploys capital to the development opportunities.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	617.70	653.30	673.64	682.18
EPS c	63.77	67.45	66.23	67.06
P/E x	14.86	14.23	15.73	15.54
EPS Growth %	12.82	5.76	-1.81	1.27
DPS c	45.47	47.80	50.20	51.71
Yield %	4.80	4.98	4.82	4.96
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
▼ 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
▲ 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

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