14-August-2018

Morningnote

Contents

Flashnotes

Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	25188	7:10am 14/08/2018	-125	-0.50
▼ S&P 500	2822	7:10am 14/08/2018	-11	-0.40
▼ NASDAQ	7820	7:31am 14/08/2018	-19	-0.25
▼ FTSE 100 Index	7642	1:50am 14/08/2018	-25	-0.32
▼ DAX 30	12359	2:00am 14/08/2018	-66	-0.53
▼ CAC 40	5412	2:15am 14/08/2018	-2	-0.04
▼ Nikkei 225 (Japan)	21857	4:20pm 13/08/2018	-441	-1.98
▼ HKSE	27937	6:23pm 13/08/2018	-430	-1.52
▼ SSE Composite Index	2786	5:16pm 13/08/2018	-9	-0.34
▼ NZ 50	8945	3:21pm 13/08/2018	-66	-0.73

International Markets Roundup

NEW YORK [Morningstar with AAP]: US stocks have dropped as global jitters from Turkey's plummeting currency spread to Wall Street, with the S&P 500 and the Dow falling for the fourth session in a row.

Financial stocks bore the brunt of Turkey contagion fears, with shares of Citigroup, Bank of America, Wells Fargo & Co and JPMorgan Chase & Co closing down between 0.8 per cent and 2.2 per cent.

A pledge by Turkey's central bank to stabilise the plummeting lira failed to calm investors' nerves. The currency has dropped 40 per cent against the US dollar so far this year.

"The market's all about Turkey and the continuation of the trade issues out there," said Gary Bradshaw, portfolio manager of Hodges Funds in Dallas.

"The market definitely wants to go higher but we're having some curves thrown at us along the way that have caused a few day-to-day pull-backs."

But Apple shares hit an all-time high as the first US listed company to reach $US1 trillion in market value continued a post-earnings rally. The stock finished the day up 0.6 per cent.

Amazon also reached a record level, hitting $US1,925 per share. The stock closed 0.5 per cent higher.

The Dow Jones Industrial Average fell 125.44 points, or 0.5 per cent, to 25,187.7, the S&P 500 lost 11.35 points, or 0.40 per cent, to 2,821.93 and the Nasdaq Composite dropped 19.40 points, or 0.25 per cent, to 7,819.71.

The second-quarter earnings season is approaching the finish line. Of the 455 companies in the S&P 500 that have reported so far, 79 per cent have beaten analysts' estimates, according to Thomson Reuters I/B/E/S.

The CBOE Volatility Index, a gauge of investor anxiety, rose for the third straight session to its highest in more than a month.

Cooper Energy Limited (COE) -Cooper Energy Provides Reserves and Contingent Resources Update as at 30 June 2018

Cooper Energy Limited (COE) -Cooper Energy Announces FY 2018 Financial Results

Cooper Energy Limited (COE) -Cooper Energy Provides FY 2018 Financial Results Investor Presentation

Aurizon Holdings Limited (AZJ) -Aurizon Holdings Provides Full Year Results Presentation

Netflix announced the departure of chief financial officer David Wells. The streaming service's shares fell 1.3 per cent.

Motorcycle maker Harley-Davidson slid by 4.3 per cent after President Donald Trump tweeted support for a boycott against the company.

Rite Aid fell to more than a five-year low, extending its losses after the retail drugstore chain ended its merger with Albertsons. The stock closed down 5.4 per cent.

Among gainers, Tesla shares edged up 0.3 per cent. Chief executive Elon Musk said he was in discussion with Saudi Arabia's sovereign wealth fund and other potential backers of his plan to take the electric car maker private, but he said financing was not yet nailed down.

Nielsen Holdings jumped 12.1 per cent after activist hedge fund Elliott Management disclosed it had taken a stake in the media and consumer research company.

Declining issues outnumbered advancing ones on the NYSE by a 2.09-to-1 ratio; on Nasdaq, a 1.88-to-1 ratio favoured decliners.

The S&P 500 posted 12 new 52-week highs and 8 new lows; the Nasdaq Composite recorded 65 new highs and 111 new lows.

Volume on US exchanges was 6.34 billion shares, compared with the 6.43 billion average over the last 20 trading days.

Commodities		Latest Price	Time/Date (AEST)	Change	% Change
▼	Aluminium	2064	3:24am 14/08/2018	-24	-1.14
▼	Copper	6123	3:24am 14/08/2018	-37	-0.60
▼	Nickel	13455	3:24am 14/08/2018	-281	-2.05
▼	Gold	1188	7:43am 14/08/2018	-13	-1.09
▼	Silver	14.9	7:00am 14/08/2018	-0.3	-2.04
▼	Oil - West Texas crude	67.2	7:10am 14/08/2018	-0.4	-0.64
▲	Lead	2111	3:24am 14/08/2018	28	1.33
▼	Zinc	2470	3:24am 14/08/2018	-80	-3.16
▼	Ore	69	7:10am 14/08/2018	0	-0.04

Currency		Latest Price	Time/Date (AEST)	Change	% Change
▼	$A vs $US	0.7270	7:50am 14/08/2018	-0.0014	-0.19
▼	$A vs GBP	0.5697	7:50am 14/08/2018	-0.0013	-0.22
▼	$A vs YEN	80.55	7:50am 14/08/2018	-0.06	-0.07
▼	$A vs EUR	0.6375	7:50am 14/08/2018	-0.0020	-0.31
▼	$A vs $NZ	1.1052	7:50am 14/08/2018	-0.0012	-0.11
▼	$US vs Euro	0.8768	7:50am 14/08/2018	-0.0007	-0.08
▼	$US vs UK	0.7833	7:50am 14/08/2018	-0.0002	-0.03
▼	$US vs CHF	0.9930	7:50am 14/08/2018	-0.0014	-0.14
▼	$A vs $CA	0.9548	7:50am 14/08/2018	-0.0031	-0.33

Australian Market Report

Australian Equities		Latest Price	Time/Date (AEST)	Change	% Change
▼	All Ordinaries	6341	4:31pm 13/08/2018	-25	-0.40
▼	S&P/ASX 200	6252	4:31pm 13/08/2018	-26	-0.42
▲	10-year Bond Rate	2.59	7:09am 14/08/2018	--	0.19
	90 Day Bank Accepted Bills SFE-Day	2.01	1:41am 14/08/2018	--	--
▲	3-yr Bond Rate	2.05	7:05am 14/08/2018	--	0.25

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 5 points higher at 6,205.

Monday 13 August - close [Morningstar with AAP]: Australian shares have continued to slide in lines with declines on Wall Street and Asian markets as trade worries and the Turkish lira's plunge dominate markets, while the Aussie dollar is again under pressure and under 73 US cents.

The benchmark S&P/ASX200 ended Monday 26.2 points, or 0.42 per cent, at 6,252.2 points, while the All Ordinaries was down 25.5 points, or 0.4 per cent, at 6,341.3 points.

In futures trading the SPI200 futures index was down 18 points, or 0.29 per cent, at 6,200 points at 1630 AEST.

The ASX mining index fell to its lowest in more than three months as global trade tensions pressured commodity prices.

Mining stocks led falls on the ASX with BHP, Rio Tinto and Fortescue all suffering declines greater than one per cent as new Chinese production curbs led to concerns about lower iron ore demand.

BHP closed 41 cents, or 1.2 per cent, lower at $33.31, Rio Tinto shed $1.17, or 1.6 per cent, to $74.20 and Fortescue dropped six cents, or 1.8 per cent, to $4.33.

Globally markets were fragile as a result of heightened tensions between Turkey and the US, making Asian shares a sea of red as investors fled to safer assets such as the dollar, Swiss franc and yen.

Turkey's currency has fallen more than 40 per cent against the greenback this year on worries over President Tayyip Erdogan's increasing control over the economy and a deepening diplomatic rift with the United States.

In company news, electronics and whitegoods retailer JB Hi-Fi dropped 0.4 per cent to $23.38 after posting a 35 per cent jump in full-year profit and boosting its final dividend.

Steelmaker Bluescope unveiled net profit of $1.57 billion for the 12 months ended June 30, a 119 per cent increase from a year ago and its shares dropped 1.5 per cent to $17.61.

The Australia dollar was at 72.81 US cents, down from its Friday close of 73.17 US cents as investors fled to the security of the greenback.

ON THE ASX:

The S&P/ASX200 closed down 26.2 points, or 0.42 per cent, at 6,252.2 points

The All Ordinaries was down 25.5 points, or 0.4 per cent, at 6,341.3 points.

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

- Magellan Financial Group Limited
- Reckon Limited
- Scentre Group

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
CGF*	Challenger Limited	Annual
DMP*	Domino's Pizza Enterprises Limited	Annual
PLG*	Propertylink Group	Annual
REA*	REA Group Ltd	Annual
SGF*	Sg Fleet Group Limited	Annual
BLA*	Blue Sky Alternative Investments Limited	Prelim
CGF*	Challenger Limited	Prelim
CQR*	Charter Hall Retail REIT	Prelim
DMP*	Domino's Pizza Enterprises Limited	Prelim
FXL*	FlexiGroup Limited	Prelim
NWS*	News Corporation	Prelim
PLG*	Propertylink Group	Prelim
SGF*	Sg Fleet Group Limited	Prelim
CGF	Challenger Limited	Annual
CGF	Challenger Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

07:36 AM

Contact Energy Limited (CEN) -Contact Energy Provides FY 2018 Full Year Results

Contact Energy provided FY 2018 full year results. It reported a statutory profit for the year ended 30 June 2018 of $132m, $19m lower than the pcp as EBITDAF fell by $20m, or 4%, to $481m. The Operational improvements resulted in a sustainable reduction in operating costs of $20m, 8% down on the pcp. The operating free cash flow remained at $301m, down 1% on FY 2017. Generation EBITDAF fell by $13m to $372m in the twelve months to 30 June 2017 when compared to the same period a year ago, primarily as a result of ASX earnings volatility with the sudden hydrological swings.

07:39 AM

Contact Energy Limited (CEN) -Contact Energy Provides July 2018 Operating Report

Contact Energy provided July 2018 operating report. For the month of July 2018, it recorded electricity and gas sales of 769 GWh (July 2017: 790 GWh). The Netback of $91.58/MWh (July 2017: $94.80/MWh) and the Cost of energy was $26.19/MWh (July 2017: $45.44/MWh). As at 10 August 2018, South Island controlled storage was 115% of mean (31 July 2018: 119%) and North Island controlled storage was 111% of mean (31 July 2018: 117%).

08:28 AM

APA Group (APA) -APA Group Enters into Implementation Agreement with CKI

APA Group entered into a conditional Implementation Agreement (Implementation Agreement) with CK Infrastructure Holdings (CKI), CK Asset Holdings (CKA), Power Assets Holdings (PAH) and CKM Australia Bidco (Bidder) (CKA, CKI and PAH together the CKI Consortium) under which Bidder (a wholly owned subsidiary of CKA) will acquire all of the stapled securities in the Company under trust schemes (Schemes). The transaction does not affect its final distribution for the 2018 financial year, which the Board expects to be 24.0c per stapled security, and which is expected to be paid on 12 September 2018.

08:31 AM

APA Group (APA) -APA Group Provides Letter to Securityholders

APA Group announced that it has entered into a binding Implementation Agreement with the CKI Consortium, comprising CK Infrastructure Holdings, CK Asset Holdings and Power Assets Holdings, to acquire 100% of its stapled securities for an all cash consideration of A$11.00 per stapled security. The transaction does not affect its final distribution for the FY 2018, which the Board expects to be 24.0c per stapled security, and which is expected to be paid on 12 September 2018.

08:33 AM

Wesfarmers Limited (WES) -Wesfarmers Announces Regarding Agreement to Sell Kmart Tyre and Auto Service

Wesfarmers announced that it has agreed to sell its Kmart Tyre and Auto Service (KTAS) business to Continental AG for $350m. On successful completion of the transaction, the Company estimates that it will report a pre-tax profit on sale of $270m to $275m, subject to completion adjustments. The sale is subject to certain consents and approvals including from the Australian Competition and Consumer Commission and the Foreign Investment Review Board.

08:36 AM

Capilano Honey Limited (CZZ) -Capilano Honey Enters into Scheme Implementation Agreement

Capilano Honey announced that it has entered into a Scheme Implementation Agreement with Bravo Hold, an entity owned by Wattle Hill RHC Fund 11 (Wattle Hill) and ROC Capital (Roc Partners) (together, the Consortium), and will unanimously recommend it to its shareholders in the absence of a superior offer emerging, subject to the independent expert concluding that the offer is fair and reasonable and in the best interests of its shareholders. If the Scheme is implemented, its shareholders will be entitled to $20.06 per share cash, which represents a premium of 28.2% to the last close of $15.65 per share and implies an FY 2018 P/E multiple of 19.3x and an EV / FY 2018 EBITDA multiple of 12.5x.

08:40 AM

Capilano Honey Limited (CZZ) -Capilano Honey Enters into Scheme Implementation Agreement

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08:43 AM

BlueScope Steel Limited (BSL) -BlueScope Steel Provides FY 2018 Full Year Results

BlueScope Steel provided FY 2018 full year results. It announced a $1,569.1m reported NPAT for FY 2018 (including unusual and one-off benefits of $743.1m) a 119% or $853.2m increase on FY 2017. The Underlying NPAT was $826.0m. The Board has approved the payment of an increased final dividend of 8.0 cps and a larger on-market share buy-back of $250m to be conducted during 1H FY 2019.

08:46 AM

BlueScope Steel Limited (BSL) -BlueScope Steel Provides FY 2018 Results Investor Presentation

BlueScope Steel provided FY 2018 results investor presentation. The larger buy-back of $250m and increased 8.0 cps final dividend reflects current operating commitments, balance sheet strength and capital requirements. Option to expand existing production flows through possible third electric arc furnace and second caster. The preliminary capital estimate is of US$500m to US$700m.

08:51 AM

BlueScope Steel Limited (BSL) -BlueScope Steel Announces Regarding Buy-Back - Appendix 3C

BlueScope Steel announced an on-market buy-back of up to $A250m worth of shares for capital management purposes. The buy-back will commence within 6 months of the date of this announcement 13 August 2018. UBS AG, Australia Branch will act as a broker on Company's behalf.

08:56 AM

Cooper Energy Limited (COE) -Cooper Energy Provides Reserves and Contingent Resources Update as at 30 June 2018

Cooper Energy announced that it has updated its Reserves and Contingent Resources assessment as at 30 June 2018. Its Reserves at 30 June 2018 are assessed to be 52.4 million barrels of oil equivalent (MMboe). This is a 42.2 MMboe year-on-year increase from 30 June 2017, and a decrease of 1.7 MMboe from 2P Reserves reported on 25 August 2017 following the Sole FID update The key factor contributing to the year-on-year revision is the declaration of the Final Investment Decision (FID) for the Sole gas project and reclassification of Sole Contingent Resources as Reserves.

08:58 AM

Cooper Energy Limited (COE) -Cooper Energy Announces FY 2018 Financial Results

Cooper Energy announced turnaround in annual profit and growth of more than 400% in cash flow and EBITDA in its FY 2018 financial results, its first to include a full 12-month performance as a gas business since its transformative Vic gas assets acquisition in January 2017. Net profit after tax for the period of $27m for the 12 months ended 30 June 2018 compares with the loss of $12.3m recorded in the 2017. The underlying EBITDA of $32.6m for the FY 2018 increased 515% from the previous corresponding figure of $5.3m.

09:00 AM

Cooper Energy Limited (COE) -Cooper Energy Provides FY 2018 Financial Results Investor Presentation

Cooper Energy provided FY 2018 financial results investor presentation. Zero lost time injuries and zero reportable environmental incidents, inclusive of 112 days of offshore drilling and workover. There was a Successful workover of Casino-5 lifts Casino Henry gas production. The financial results is revenue up by 73%, EBITDA, cash generation and statutory profit all grew by 2 times or more.

09:04 AM

Aurizon Holdings Limited (AZJ) -Aurizon Holdings Provides Full Year Results Presentation

Aurizon Holdings provided full year results presentation. The proceedings commenced in Federal Court of Australia, where it will with PN seek to clear the Acacia Ridge transaction and defend other allegations. The final dividend declared at 13.1c - 100% underlying NPAT for continuing operations. The Operating Ratio is 69.8%.

Research Report Summaries

Morningstar Rating

★★

Share Price

4.480

Aurizon Holdings Limited (AZJ) - Aurizon's Earnings Recover in FY18 but Heading Lower Again in Next Two Years

Analyst Note-Narrow-moat-rated Aurizon Holdings reported a good fiscal 2018 result with underlying NPAT up 10% to AUD 542 million, 3% above expectations. The result was driven by cost-out initiatives, improved volumes in the coal division, and closure of loss-making bulk operations. Earnings in the rail network division were flat. The outlook is weak, with earnings likely to fall over the next two years on headwinds across the business. We increase our fair value estimate 3% to AUD 3.80 after rolling our financial model. At current prices, the stock is overvalued considering the risks.

Fiscal 2019 guidance is for above rail underlying EBIT of AUD 390 to 430 million, down from AUD 479 million in 2018 because of cessation of iron ore haulage contracts and higher costs as the firm prepares for new coal haulage contracts. Above rail earnings should improve in fiscal 2020 as costs reduce and new contract revenue ramps up. Network EBIT will depend on when the new, lower regulatory tariffs are implemented. If the firm remains on transitional tariffs for the full fiscal 2019, EBIT should be AUD 470 to 490 million. However, if tariffs from the tough UT5 regulatory decision were implemented for the full year, EBIT would be AUD 340 to 360 million. Our forecasts, which are largely unchanged, assume UT5 starts in fiscal 2020.

Dividends comfortably beat expectations, but that's not a good thing. We recently downgraded our forecasts to factor in the need to retain more earnings to cope with rising gearing and major earnings headwinds. Instead, the firm declared fiscal 2018 dividends of AUD 37.1 cents per share, up 20% on last year and representing a payout ratio of 100% of underlying earnings--and that comes on top of a AUD 300 million share buyback earlier in the year. Meanwhile, group gearing--net debt/net debt plus equity--increased 270 basis points to 42.3%, and network division gearing--net debt/regulated asset base--increased 830 basis points to 62.4%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	461.06	542.10	488.64	435.11
EPS c	22.47	26.93	24.55	21.86
P/E x	22.48	17.78	18.25	20.49
EPS Growth %	-7.85	19.82	-8.81	-10.95
DPS c	22.50	27.10	23.33	21.86
Yield %	4.45	5.66	5.21	4.88
Franking %	62.0	55.0	60.0	60.0

Morningstar Rating

★★★

Share Price

3.310

Domain Holdings Australia Limited (DHG) - Domain Remains Overvalued as Fiscal 2018 Result Meets Expectations

Analyst Note-Our investment thesis for both narrow-moat-rated Domain and REA Group--namely, that both companies comprise a significant component of the real estate marketing value chain but capture a relatively small component of real estate marketing spending--is largely unchanged following their results. We expect this situation to enable both to keep increasing listing prices and increasing revenue and margins without taking significant market share from each other.

Domain's fiscal 2018 result was broadly in line with our forecasts, and we have maintained our fair value estimate at AUD 3.10 per share. As with REA Group's result last week, Domain hasn't yet been significantly affected by the recent downturn in the Australian real estate market. However, we see little reason to justify the 4% jump in the Domain share price that followed the result, and at the current market price of AUD 3.31, we still believe the shares are overvalued. We forecast EPS to grow by 15% in fiscal 2019 and at a CAGR of 13% over the next decade, driven by a combination of revenue growth and margin expansion. At the current price, Domain trades on a fiscal 2019 price/earnings ratio of 31 versus 29 at our fair value estimate. Management remains unable to provide convincing examples of how Domain will materially benefit from the proposed merger of Nine and Fairfax, and we still assume no benefit to Domain from the deal.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	49.10	52.80	59.86	76.06
EPS c	12.37	9.10	10.31	13.01
P/E x	0.00	35.55	32.10	25.44
EPS Growth %	-9.11	-26.48	13.36	26.21
DPS c	0.00	8.00	9.00	10.00
Yield %	0.00	2.47	2.72	3.02
Franking %	0.0	50.0	75.0	100.0

Morningstar Rating

★★★

Share Price

8.540

IOOF Holdings Limited (IFL) - IOOF's Unconvincing Evidence Increases Royal Commission Risks

Analyst Note-The Royal Commission put narrow-moat IOOF under the blow-torch at the end of last week, and while there wasn't the same level of fallout as after AMP's appearance a few months ago, we still believe it was a weak performance. Christopher Kelaher, IOOF CEO and Mark Oliver, IOOF's general manager distribution provided unconvincing testimony. This may come back to haunt IOOF when senior counsel gives his closing submission and/or when the Commission publishes its Interim Report on Sept. 30, 2018. IOOF is currently trading below our fair value estimate of AUD 9.80, but given these near-term catalysts, a high margin of safety is warranted.

Although Kelaher did not admit to IOOF breaching its trustee's best interest duty, we believe the Commission hearings revealed this may have occurred. This includes conduct by the now non-operational IOOF subsidiary Questor Financial Services Limited, or Questor. Questor held the dual role of being a registrable superannuation entity, or RSE, trustee for its superannuation funds and a responsible entity, or RE, for its cash management trust, or CMT. Evidence showed Questor reduced the distribution from the CMT to recoup a previous overdistribution without telling unit holders, including its superannuation members. Questor then used the super fund's reserve fund to compensate members. While Kelaher recognised an error in distribution, he maintained members were compensated in full. This was even after senior counsel put it to Kelaher this was inaccurate because an asset of the fund was used to compensate them.

We do not believe IOOF's position is sustainable or passes what it refers to as the "pub test," which Kelaher described as acting within community expectations. We think community expectations would require IOOF to compensate members out of their own funds and not use the trust's assets, which is what we expect will be the Royal Commission's position.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	169.74	191.46	202.41	233.47
EPS c	56.49	54.39	57.50	66.33
P/E x	15.56	19.07	15.18	13.16
EPS Growth %	-0.84	-3.71	5.72	15.34
DPS c	52.00	54.00	54.00	56.31
Yield %	5.92	5.21	6.19	6.45
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

23.380

JB Hi-Fi Limited (JBH) - JB Hi-Fi Increases Market Share but Competition Arrests Margin Expansion; FVE Raised to AUD 24.50

Analyst Note-We have increased our fair value estimate for no-moat-rated JB Hi-Fi by 7% to AUD 24.50 from AUD 23.00, mainly due to the time value of money. We expect JB Hi-Fi to continue consolidating the fragmented Australian consumer electronics market, taking share from smaller brick-and-mortar retailers, and our revenue and EBIT margin estimates arelargely unchanged over our 10-year forecast period. In Australia, total sales for JB Hi-Fi and The Good Guys grew by 6.8% in fiscal 2018, well ahead of the Australian consumer electronics and home appliances market at 2.6%.

The Good Guys business, which JB Hi-Fi acquired in 2016, and the software category within JB Hi-Fi Australia were a drag on group sales. On a comparable 12-month basis, total sales at The Good Guys were up by 1.5% with like-for-like sales growth of only 0.9%. Fiscal 2018 was a year of transition for the home appliances specialist. We expect a stronger fiscal 2019 for The Good Guys, with much of the disruption associated with the new ownership behind it, and the introduction of a new incentive scheme for its sales staff to accelerate sales growth. Despite fierce price competition among home appliance retailers, The Good Guys posted positive comparable sales growth of 1.4% in July 2018, a noticeable improvement from the virtually flat like-for-like sales in the second half of fiscal 2018.

The Australian JB Hi-Fi segment increased total sales by 9.4% and like-for-like sales by 6.2%. Excluding the struggling software category and weak DVD sales, JB Hi-Fi Australia increased total sales by a whopping 11.9% and like-for-like at 8.6%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	207.80	233.20	253.77	266.54
EPS c	184.38	201.21	218.95	229.98
P/E x	14.30	12.28	10.68	10.17
EPS Growth %	22.23	9.12	8.82	5.03
DPS c	118.00	132.00	144.00	151.00
Yield %	4.48	5.34	6.16	6.46
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

3.150

Primary Health Care Limited (PRY) - Lowered Guidance Suggests Medical Centres Still Bleeding: Lowering FVE for Primary Health Care

Analyst Note-We cut our fair value estimate for no-moat Primary Health Care by 4% to AUD 3.85 from AUD 4.00 per share after adjusting for management's confirmed expectations for fiscal 2018 earnings, now at the lower end of previous guidance of AUD 92 million-AUD 97 million, compared with our previous forecast of AUD 99 million. This assumes slower ramp-up of general practitioners, or GPs, dampening operating leverage, leading to EBITDA margin compression for the medical centre division in conjunction with lower share of revenue flowing back to Primary from contract arrangements, given the higher reliance on bulk-billing rebates. However, our divisional revenue forecasts are unchanged, implying higher volumes processed by fewer doctors. Nonetheless, we see EBITDA margins stabilising in the medical centre division at around 37% over the medium term, while the market appears to be overly negative regarding the achievable segment profitability. At current levels, shares in Primary are screening as undervalued.

GP numbers remain key to operating leverage in medical centres. At first-half 2018, Primary cited 958 full-time equivalent GPs, compared with 959 at the end of fiscal 2017, with the company's share of revenue ratio declining to 41.3% from 42.9% over the same period. Although incoming CEO Malcolm Parmenter's credentials in building Sonic's medical centre business (in terms of increasing GP numbers over nine years) are impressive, we are now more cautious about the much-touted revamp of medical centres and his focus on increasing GP numbers, increasing operating leverage, and improving divisional operating margins. As such, we think the medical centre will remain heavily skewed to bulk billing, which in turn will weigh on fee-sharing ratios for Primary. Previously, we assumed growth of the private billing business would increase GP numbers by 2.2% over five years for a total GP number of 1,068 by 2020, given gap fees paid out of pocket by patients.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat $m	104.00	92.10	92.55	107.84
EPS c	19.99	17.66	17.75	20.68
P/E x	18.08	21.34	17.75	15.23
EPS Growth %	-25.10	-11.65	0.50	16.52
DPS c	12.00	10.60	12.00	13.98
Yield %	3.32	2.81	3.81	4.44
Franking %	75.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

1.295

Southern Cross Media Group Limited (SXL) - So What There Is Radio Silence on Southern Cross Media?

Analyst Note-There are fears Southern Cross Media may be left out of media sector consolidation, especially with the proposed Nine-Fairfax combination potentially cooling interest for the no-moat-rated TV and radio broadcaster.

If the concern is this will lead to a reversal of the 26% stock price rally since early April 2018, then we view this as misplaced. The recent performance merely brings Southern Cross shares to our AUD 1.30 fair value estimate on a stand-alone basis. Shares are trading at just 12.3 times our fiscal 2019 EPS estimate and still forecast to yield 6.0% fully franked on current prices.

This is before factoring cost-out potentials from management's recent decision to fully integrate Southern Cross' metropolitan and regional media assets. Improved operating efficiencies from such an initiative could coincide with monetisation from fiscal 2019 of recent radio ratings gains. For instance, 2Day FM in Sydney has increased its ratings share in 2018 to-date by 1.3 percentage points. Continuation of this momentum would render conservative our five-year EBITDA CAGR forecast of 1.8% for the metropolitan radio unit (a third of group earnings before corporate costs). Management commentary on these issues will be of utmost of interest come Aug. 23 when the group reports its fiscal 2018 results.

As for its position in a consolidating landscape, our intrinsic assessment has never been based on Southern Cross being an acquisition target. However, extensive radio assets spanning metropolitan and regional areas are likely to feature in the thoughts of traditional media entities looking to diversify, or for private equity looking to pursue a regional media roll-up strategy. Radio is a medium whose share of the Australian advertising pie has held at around the 8% mark for the past two decades. This is remarkably resilient in the face of digital disruption which has pummelled advertising share of newspapers (down from 42% to 7%) and TV (from 36% to 21%).

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat $m	77.24	93.76	77.45	81.05
EPS c	10.10	12.15	10.07	10.54
P/E x	10.59	11.23	12.76	12.19
EPS Growth %	13.10	20.34	-17.11	4.64
DPS c	6.75	7.75	7.75	7.75
Yield %	6.31	5.68	6.03	6.03
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

6.250

NIB Holdings Limited (NHF) - NIB Surprises with Stronger-Than-Expected Earnings Growth; FVE Unchanged at AUD 6.20

Analyst Note-Fast-growing, narrow-moat private health insurer, NIB Holdings, surprised with an uplift in fiscal 2018 earnings guidance, primarily due to lower-than-expected claims costs. NIB now expects group underlying operating profit, or UOP, to be approximately AUD 184 million, up 20% on fiscal 2017, and group statutory operating profit of approximately AUD 169 million, up 12% on fiscal 2017. NIB defines UOP as profit before amortisation, interest expense, investment income, and income tax. Updated UOP guidance was 8% higher than our previous forecast and we now forecast UOP and statutory operating profit in line with guidance.

Our positive long-term view on NIB is supported by the stronger-than-expected outlook for fiscal 2018. Despite recent market volatility, the stock is fairly valued, trading in line with our AUD 6.20 valuation. Despite increasing our fiscal 2018 earnings forecasts, our valuation is unchanged as longer-term forecasts are intact. Our fiscal 2018 earnings forecast increases to AUD 132 million from our previous forecast of AUD 122 million, suggesting a second-half NPAT of AUD 61 million and a final fully franked dividend of AUD 12 cents per share. Fiscal 2018 financials are due Aug. 20. Our total dividend forecast for fiscal 2018 of AUD 21 cps is 11% higher than fiscal 2017 and represents a payout of 70%--the top end of the firm's 60%-70% target range. Longer term, we expect the payout to average 69% per year.

Management now expect Australian resident health insurance, or arhi, net margins of approximately 6.9%, above previous guidance and long-term trends. CEO Mark Fitzgibbon noted, “international students and workers health insurance businesses have also exceeded our expectations.” Tighter cost containment, medical device price reductions and some downgrading in cover underpinned lower growth in claims inflation. The insurer highlighted soft economic conditions as contributing to lower growth in the volume of medical, dental and other treatment.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat $m	91.83	120.20	132.39	147.24
EPS c	21.32	27.18	29.49	32.55
P/E x	17.36	18.44	19.33	17.51
EPS Growth %	24.39	27.49	8.50	10.38
DPS c	14.75	19.00	21.00	23.00
Yield %	3.98	3.79	3.68	4.04
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★

Share Price

17.610

BlueScope Steel Limited (BSL) - BlueScope Is Still Enjoying a Favourable Price Tailwind for Now

Analyst Note-BlueScope’s underlying fiscal 2018 EBIT of AUD 1.24 billion was in line with our forecast and 14% ahead of fiscal 2017. The result was primarily driven by improvement in the Australian steel products business, where underlying EBIT increased 28% to AUD 587 million. EBIT at the New Zealand operations, though small, also rose 83% to AUD 112 million. Underlying EBIT at the remaining divisions--building products, buildings, and North Star BlueScope--in aggregate was close to flat on a year ago. Australian steel products benefited primarily from higher steel prices and, to a lesser extent, a more favourable mix of products. The demand environment remained favourable, underpinned by the continued boom in housing construction and infrastructure. New Zealand similarly benefited from higher prices but also from cost improvement.

However, we still view BlueScope’s shares as meaningfully overvalued. We retain our AUD 8.70 per share fair value estimate, with the benefit of the time value of money and slightly higher near-term earnings offset by the plan to repurchase an additional AUD 250 million of expensive shares. First-half fiscal 2019 guidance is for EBIT to increase by 10% from second-half 2018. As a result, we’ve increased our underlying earnings forecast to AUD 1.60 per share from AUD 1.53.

Still, our midcycle earnings forecast is unchanged at AUD 0.75 per share in fiscal 2023, based on an expected normalisation of margins. Profits are at highs not seen for a decade. Current margins are elevated and unlikely to persist. BlueScope recorded 10.7% underlying EBIT margin in fiscal 2018 compared with five- and 10-year averages of 5.7% and 2.8%, respectively. We think it’s likely that margin support from strong domestic demand will moderate over time. It’s also likely there will be a supply response from the steel industry more broadly, given the improving financial position of the competing firms, the low barriers to entry, and attractive current steel spreads.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	660.50	773.60	893.22	696.45
EPS c	112.21	135.99	159.82	124.61
P/E x	8.86	10.70	11.02	14.13
EPS Growth %	140.85	21.19	17.52	-22.03
DPS c	9.00	14.00	55.00	43.00
Yield %	0.91	0.96	3.12	2.44
Franking %	100.0	100.0	42.86	0.0

Morningstar Rating

★★★

Share Price

6.410

Santos Limited (STO) - No-Moat Santos Accelerating Cooper Basin Gas Development. FVE Unchanged at AUD 6.50.

Analyst Note-Our AUD 6.50 fair value estimate is unchanged and Santos trades at close to fair value. The shares have more than doubled since June 2017 AUD 3.00 lows, as energy prices have risen and concerns around LNG resource sufficiency have ebbed. News Santos is accelerating Cooper Basin natural gas development is more confirmatory of our investment thesis than additive, pleasing though it is. A fourth Cooper drill rig has begun work and will drill eight wells by the end of this year, taking total 2018 Cooper Basin wells to 90, the most in four years. Santos has reduced development costs in the Cooper by 40% since 2015, and can more readily access vast already-discovered gas resources. Cooper basin gas production jumped by 8% in the June quarter to 15.4 petajoules, if evidence was required.

The non-LNG component of our Santos fair value estimate is AUD 2.30 per share or 35% of total, substantially the Cooper Basin. But this probably belies the Cooper's importance given its moaty asset attributes and that it operates in support of the Gladstone LNG project in Queensland, which comprises a similar additional 34% group fair value share. While we ascribe no moat to Santos, competitive advantage regardless stems from the Moomba hub, where efficient scale discourages replication of infrastructure which can gather, store and ready gas for piping to east coast markets, including for export via Gladstone.

The market has long fretted over a perception of insufficient gas reserves for Gladstone, something we have not. Our confidence is in no small part due to the Cooper’s gas--although we’ve also thought Gladstone’s indigenous coal seam gas reserves have been under-appreciated. Santos last listed its contingent 2C gas resources in the Cooper/Eromanga basins at almost 3.0 trillion cubic feet, or tcf, more than a third of total company gas resources, with additional multi-tcf conventional upside potential. A substantial portion of current Cooper production is going to Gladstone LNG.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	83.23	437.85	780.02	1,063.79
EPS c	4.53	21.02	37.44	51.07
P/E x	88.53	18.48	16.99	12.45
EPS Growth %	15.13	363.89	78.14	36.39
DPS c	0.00	0.00	14.99	20.42
Yield %	0.00	0.00	2.36	3.21
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

5.280

GPT Group (GPT) - GPT to Benefit from the Shortage in East Coast CBD Office Supply. FVE up 2% to AUD 5.10

Analyst Note-Narrow-moat-rated GPT Group's first-half 2018 earnings on a funds from operations, or FFO, basis of AUD 16 cents per security, or cps, were in line with expectations and increased 3.1% on the previous corresponding period. Guidance was reiterated for 3% growth in FFO per security and distributions and our forecasts are consistent with guidance. The major positive was the ongoing strength in the CBD office markets in Sydney and Melbourne, with vacancy rates for both now around 4.5%. GPT Group estimates rents for its offices in these markets are now 8% below market rates. Provided office demand remains solid, this supports continued rental growth for the next two to three years. Thereafter, more office floorspace is scheduled to come to market weighing on future rent growth. We've raised medium-term office rents expectations and our fair value estimate increases to AUD 5.10 from AUD 5.00. With GPT trading around AUD 5.30, the stock screens as slightly overvalued, with the guided 2018 distributions of AUD 25.3 cps implying a yield of 4.8% at current levels.

Performance across GPT's retail portfolio continues the multiyear trend. Sales that traditionally occurred in apparel and department stores are shifting to other areas that include bricks-and-mortar consumer electronics and online retail. Even though GPT has substantially remixed its portfolio, there still is a high weighting to apparel. The category represents 30% of specialty sales at June 2018, but is materially down on the 38% three years ago. We remain supportive of the strategy to focus on small projects to reinvigorate highly trafficked malls, such as Melbourne Central, where returns on investment is high. We account for the risk of sales leakage to online channels and a remixing to tenancies that focus on services rather than physical goods (and hence have less operational leverage), but assuming outer year rents grow by 2.8%, rather than the 4.5% implicit in many specialty leases.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	537.00	554.20	571.62	598.65
EPS c	29.83	30.73	31.64	33.12
P/E x	16.89	16.40	16.69	15.94
EPS Growth %	5.70	3.01	2.97	4.68
DPS c	23.40	24.60	25.30	26.00
Yield %	4.65	4.88	4.79	4.92
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

11.390

Bendigo and Adelaide Bank Limited (BEN) - Steady as She Goes as NIM Uplift Drives Bendigo Bank's FY18 Result; AUD 11.50 FVE Unchanged

Analyst Note-No-moat-rated Bendigo and Adelaide Bank announced an in-line fiscal 2018 financial result boosted by a healthy lift in net interest margins, or NIMs. Underlying cash earnings of AUD 445 million represented a 6.5% increase on the prior year and came in slightly under our AUD 452 million forecast, while the fully franked final dividend of AUD 0.35 per share was in line with expectations and a full-year fully franked dividend of AUD 0.70. We retain our AUD 11.50 fair value estimate, suggesting the stock is currently fairly valued.

Profitability remains healthy, reflected in an increase in net interest margin during the year but offset by below-system growth in total lending. NIM was up an impressive 12 basis points during the year to 1.96%, driven by an 11-basis-point pickup in retail deposit pricing. On the other hand, higher bank bill swap, or BBSW, rates led to wholesale deposit pricing pressure in the second half, which is likely to recur should BBSW rates increase again, as we expect. The repricing of the mortgage book in late July 2018 will support NIMs in fiscal 2019, although front book discounts will act as a NIM headwind. We adjust our NIM assumptions upwards from 1.85% for our forecast period to 1.94%, still lower than current levels, on our expectation of continued challenges from higher funding costs, as well as increasing risks of slowing revenue growth amid a slowing housing market and lending challenges.

While revenue growth remains a challenge for the industry, cost management remains a key focus for the bank. A 50-basis-point improvement in the cost/income ratio to 55.6% was encouraging, although as management guided in the earnings call, it is unlikely to see any major improvement in the near term, given increased costs of compliance and regulation. We adjust our cost/income ratio assumption from 58% in fiscal 2019 to 56% trending towards 55% during the duration of our 2019-23 forecast period.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	418.30	446.10	466.33	499.58
EPS c	88.54	92.29	93.95	99.25
P/E x	12.88	12.12	12.12	11.48
EPS Growth %	1.36	4.24	1.80	5.64
DPS c	68.00	70.00	70.00	73.00
Yield %	5.96	6.26	6.15	6.41
Franking %	100.0	100.0	100.0	100.0

Recommendation Updates Over the Last Week

	ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▲	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
▲	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