iInvest Securities
Stockbroking & Wealth Management

21-August-2018

Morningnote

Contents

Flashnotes

Overseas Market Report

	Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲	Dow Jones (US)	25759	6:59am 21/08/2018	89	0.35
▲	S&P 500	2857	6:59am 21/08/2018	7	0.24
▲	NASDAQ	7821	7:31am 21/08/2018	5	0.06
▲	FTSE 100 Index	7591	1:50am 21/08/2018	33	0.43
▲	DAX 30	12331	2:00am 21/08/2018	121	0.99
▲	CAC 40	5380	2:15am 21/08/2018	35	0.65
▼	Nikkei 225 (Japan)	22199	4:20pm 20/08/2018	-71	-0.32
▲	HKSE	27598	6:23pm 20/08/2018	385	1.41
▲	SSE Composite Index	2698	5:16pm 20/08/2018	29	1.11
▲	NZ 50	9109	3:21pm 20/08/2018	56	0.62

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street's major indexes have risen on optimism over trade talks between the United States and China, though they fell from session highs after President Donald Trump criticised the Federal Reserve for raising interest rates.

US stocks moved lower in the last 10 minutes of the session on Monday after Trump, in an interview with Reuters, said he was "not thrilled" with Fed chairman Jerome Powell and accused China and Europe of manipulating their respective currencies.

But stocks retained most of their gains from earlier in the day, as talks between the US and China planned for later this week provided a boost to the trade-sensitive industrial sector. Industrial stocks rose 0.6 per cent.

The S&P 500 energy and materials indexes both rose 0.7 per cent as easing trade concerns also helped lift prices of oil and metal.

"What's working are things that would benefit from any relief on the trade side," said Keith Lerner, chief market strategist at SunTrust Advisory Services in Atlanta. "Industrials, materials and energy are all outperforming."

The Dow Jones Industrial Average on Monday rose 89.37 points, or 0.35 per cent, to 25,758.69, the S&P 500 gained 6.92 points, or 0.24 per cent, to 2,857.05 and the Nasdaq Composite added 4.68 points, or 0.06 per cent, to 7,821.01.

This week, investors are turning their attention to central bank policies as the earnings season winds down.

The Federal Market Open Committee will release minutes from its August policy meeting on Wednesday. The minutes are expected to indicate the Fed's confidence in US economic growth and commitment to further interest rate increases.

Elanor Retail Property Fund (ERF) -Elanor Retail Property Fund Provides FY 2018 Investor Presentation

Ansell Limited (ANN) -Ansell Provides 2018 Full Year Results

The Citadel Group Limited (CGL) -The Citadel Group Provides FY 2018 Full Year Results

Oohmedia Limited (OML) -Oohmedia Provides 2018 Half Year Results

Tassal Group Limited (TGR) -Tassal Group Announces Regarding Strategic Growth Opportunities

Later in the week, Fed chair Jerome Powell and other central bankers will meet in Jackson Hole, Wyoming. On their agenda is a discussion of the root causes of stubbornly low inflation, slow wage growth and weak productivity gains in the US economy

Shares of Nike hit a record high of $US82.42 after Piper Jaffray and Susquehanna raised their ratings on the stock. Nike shares ended the day up 3.0 per cent at $US82.18.

Intel Corp shares dropped 1.3 per cent after brokerage Cowen & Co said the chipmaker's disclosure of new security bugs in some of its microprocessors may push cloud companies to seek other suppliers.

Estee Lauder rose 3.4 per cent after topping quarterly profit and sales estimates as customers bought more of its high-margin Clinique and La Mer skin care products.

Advancing issues outnumbered declining ones on the NYSE by a 2.36-to-1 ratio; on Nasdaq, a 1.55-to-1 ratio favoured advancers.

The S&P 500 posted 50 new 52-week highs and no new lows; the Nasdaq Composite recorded 114 new highs and 70 new lows.

Volume on US exchanges was 5.31 billion shares, compared to the 6.53 billion average for the full session over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2031	3:22am 21/08/2018	27	1.33
▲ Copper	5962	3:22am 21/08/2018	72	1.22
▲ Nickel	13476	3:22am 21/08/2018	86	0.64
▲ Gold	1190	8:09am 21/08/2018	5	0.40
▲ Silver	14.7	8:09am 21/08/2018	--	0.03
▲ Oil - West Texas crude	65.4	8:10am 21/08/2018	0.2	0.32
▼ Lead	1948	3:22am 21/08/2018	-14	-0.74
▼ Zinc	2382	3:22am 21/08/2018	-9	-0.38
▼ Ore	68	7:10am 21/08/2018	0	-0.06

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ $A vs $US	0.7340	8:09am 21/08/2018	0.0035	0.47
▲ $A vs GBP	0.5736	8:09am 21/08/2018	0.0005	0.09
▲ $A vs YEN	80.78	8:09am 21/08/2018	0.09	0.11
▲ $A vs EUR	0.6388	8:09am 21/08/2018	0.0001	0.01
▲ $A vs $NZ	1.1036	8:09am 21/08/2018	0.0017	0.15
▼ $US vs Euro	0.8700	8:09am 21/08/2018	-0.0041	-0.47
▼ $US vs UK	0.7812	8:09am 21/08/2018	-0.0031	-0.40
▼ $US vs CHF	0.9909	8:09am 21/08/2018	-0.0041	-0.41
▲ $A vs $CA	0.9573	8:09am 21/08/2018	0.0030	0.31

Australian Market Report

	Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲	All Ordinaries	6435	4:31pm 20/08/2018	9	0.14
▲	S&P/ASX 200	6345	4:31pm 20/08/2018	6	0.09
▼	10-year Bond Rate	2.52	7:09am 21/08/2018	-0.01	-0.40
	90 Day Bank Accepted Bills SFE-Day	1.99	7:06am 21/08/2018	--	--
▼	3-yr Bond Rate	2.02	7:09am 21/08/2018	--	-0.25

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 3 points lower at 6,311.

Monday 20 August - close [Morningstar with AAP]: Australian shares have ended Monday slightly higher despite falls for the major banks, as mining stocks gained ground and reporting season began its busiest week.

The benchmark S&P/ASX200 index ended the day up 5.8 points, or 0.09 per cent, at 6,345.0 points, while the All Ordinaries was up 8.9 points, or 0.14 per cent, at 6,435.1 points.

Materials stocks climbed in line with gains on Asian markets as upcoming talks between China and the United States raised the prospect that damaging retaliatory tariffs threatened by each country may be avoided.

"We've had some positive leads from international trading... in particular, news of an agreement between China and the US that both sides were looking to put in place by November, turned sentiment around," said Michael McCarthy, chief strategist at CMC Markets and Stockbroking.

Locally Fortescue Metals rose 1.2 per cent after the miner said it would produce a 60 percent iron content product in the second half of the fiscal 2019, combating the widening discount for its lower grade ore.

Fortescue, the world's fourth-largest iron ore miner, reported a full-year net profit of $US879 million, down from $US2.09 billion a year ago and missing analyst estimates of $US1.08 billion.

Global miner BHP rose for the first time in four sessions to end Monday 1.3 per cent higher at $33.17 while rival Rio Tinto added 0.3 per cent to $73.35.

Consumer stocks went backwards as Wesfarmers traded ex-dividend and Woolworths posted a 12.5 per cent jump in full-year net profit but flagged a slowdown in sales at the start of the new financial year.

Woolies blamed its decision to remove free plastic shopping bags from checkouts for the slowdown, saying customers had not taken well to the move.

Gloves and safetywear maker Ansell lost 7.2 per cent to $25.80 after it warned that its annual earnings could fall, citing uncertainty over costs and tariffs on US imports

Ansell's 2017/18 net profit surged to $US484.3 million ($662.4 million) from $US147.7 million a year earlier, bolstered by a US$345 million gain on the sale of its condoms business, Sexual Wellness.

Health insurer NIB reported an 11 per cent rise in annual net profit to $132.4 million, boosted by improved profitability in its Australian business thanks to a slowdown in the cost of claims.

NIB shares closed three cents higher at $6.62.

The Australian dollar made its way back above 73 US cents as the planned US-China trade talks boosted optimism that trade tensions - and any resulting impact on Chinese demand for iron ore - would dissipate.

The Australian dollar was buying 73.03 US cents at 1700 AEST, up from 72.71 US cents on Friday.

ON THE ASX:

The benchmark S&P/ASX200 closed up 5.8 points, or 0.09 per cent, at 6,345.0 points

The All Ordinaries was up 8.9 points, or 0.14 per cent, at 6,435.1 points.

The NZX 50 added 56.38 points (0.62%) closed at 9,109.15 while the Nikkei dropped 71.38 points (-0.32%) at the time writing Nikkei closed at 22,199.0

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

- Domino's Pizza Enterprises Limited
- IOOF Holdings Limited
- Wesfarmers Limited
- Companies commencing Ex-Dividend Trading Today (ASX 300):
- Computershare Limited
- Fairfax Media Limited
- Infomedia Limited
- Insurance Australia Group Limited
- IPH Limited
- REA Group Ltd

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
GXL*	Greencross Limited	Annual
NST*	Northern Star Resources Ltd	Annual
SVW*	Seven Group Holdings Limited	Annual
SXY*	Senex Energy Limited	Annual
VRT*	Virtus Health Limited	Annual
OSH*	Oil Search Limited	Interim
SIQ*	Smartgroup Corporation Ltd	Interim
SYD*	Sydney Airport	Interim
AMC*	Amcor Limited	Prelim
BHP*	BHP Billiton Limited	Prelim
CTD*	Corporate Travel Management Limited	Prelim
CWP*	Cedar Woods Properties Limited	Prelim
IEL*	IDP Education Limited	Prelim
INA*	Ingenia Communities Group	Prelim
ING*	Inghams Group Limited	Prelim
MND*	Monadelphous Group Limited	Prelim
NST*	Northern Star Resources Ltd	Prelim
SKT*	Sky Network Television Limited	Prelim
SVW*	Seven Group Holdings Limited	Prelim
SXY*	Senex Energy Limited	Prelim
VRT*	Virtus Health Limited	Prelim
WSA*	Western Areas Limited	Prelim
AHY	Asaleo Care Limited	Interim
SCG	Scentre Group	Interim
AMC	Amcor Limited	Prelim
ARF	Arena REIT	Prelim
BHP	BHP Billiton Limited	Prelim
FXL	FlexiGroup Limited	Prelim
HSO	Healthscope Limited	Prelim
ING	Inghams Group Limited	Prelim
MND	Monadelphous Group Limited	Prelim
MOC	Mortgage Choice Limited	Prelim
OSH	Oil Search Limited	Prelim
SUL	Super Retail Group Limited	Prelim
VRT	Virtus Health Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:20 AM

Woolworths Group Limited (WOW) -Woolworths Group Provides Full Year Results

Woolworths Group provided full year results. The Sales from continuing operations were $56,726m, an increase of 3.4% in FY 2018. The Sales growth of 4.3% and 4.5% in Australian Food and Endeavour Drinks respectively was the major driver of the Group's sales increase. NPAT from continuing operations attributable to equity holders of the parent entity increased by 12.9% on the prior year 2017 to $1,605m, with corresponding EPS up 11.4% to 123.4c. The continued digital and data investment in WooliesX over the past year has delivered positive results with Online VOC scores improving 6 pts to 79% at the end of June 2018 and Rewards VOC improving 9 pts to 71%.

08:25 AM

NIB Holdings Limited (NHF) -NIB Holdings Provides 2018 Full Year Investor Presentation Results

NIB Holdings provided 2018 full year results investor presentation. The FY 2019 investment returns in line with internal benchmarks. The Gross margin improvement reflects continued favourable claims experience, including FY 2017 outstanding claims provision release. The Operating expenses reflect investment in expansion strategy and includes building European operations base (Cork, Ireland).

08:28 AM

Greencross Limited (GXL) -Greencross Provides FY 2018 Full Year Results

Greencross provided FY 2018 full year results. The Company incurred $24.2m of exceptional items in FY 2018, which include $21.8m of non-cash impairments and provisions which were foreshadowed in the trading update of 9 May 2018. A further $2.4m of items relate to provisions and acquisition and restructuring costs incurred in H1 FY 2018 ($1.6m) and acquisition costs incurred in H2 FY 2018. The impact of exceptional items on FY 2018 EBITDA was $22.8m, with the balance of $1.4m recognised in depreciation. NPAT attributable to shareholders decreased by 51% to $20.7m and included $24.2m of exceptional items which were primarily non-cash.

08:31 AM

Greencross Limited (GXL) -Greencross Provides FY 2018 Full Year Results - Investor Presentation

Greencross provided FY 2018 full year results. The Unallocated corporate costs in FY 2019 expected to be $15m to $16m. The Corporate restructure completed in June 2018 realising $3.1m of corporate cost savings. The Net movement in working capital facility reflects net movement and subsequent repayment of short term working capital credit facility to optimise cost of debt. The Underlying capex increased $7m due to additional investment in core operating systems.

08:34 AM

Galaxy Resources Limited (GXY) -Galaxy Resources Provides Mt Cattlin Mineral Resource and Exploration Update

Galaxy Resources announced a Mineral Resource update following drilling activities undertaken during the first half of 2018 at the Mt Cattlin Project in WA. There has been a 14% increase in Measured and Indicated Resource after depletion for mining during the period January 2018 to May 2018 compared with the equivalent position as at 31 December 2017. The increase has been the result of in-fill drilling completed during this period. It has commenced implementing a series of capital works at Mt Cattlin, which includes the installation of an ultra-fines DMS (dense media separation) circuit and process optical sorting, which will further optimize processing efficiencies and is expected to assist in improving plant recoveries to a targeted 70-75%.

08:40 AM

Mineral Resources Limited (MIN) -Mineral Resources Provides FY 2018 Results

Mineral Resources provided FY 2018 results. The FY 2019 EBITDA likely to be weighted towards second half of financial year given Mount Marion all-in 6% Spodumene Concentrate upgrade project and Wodgina Spodumene Concentrate project are both currently scheduled to commence commissioning during Q2 FY 2019. The Capital expenditure is A$73m.

08:43 AM

Sydney Airport (SYD) -Sydney Airport Provides Traffic Performance for July 2018

Sydney Airport provided traffic performance for July 2018. The domestic growth was up 0.9% compared to the pcp, driven by a modest improvement in load factors, with airlines keeping capacity broadly constant in July 2018. The Passenger growth has remained solid, increasing 2.6% during the month of July 2018 compared to the pcp. International traffic grew 5.4%.

08:46 AM

Elanor Retail Property Fund (ERF) -Elanor Retail Property Provides FY 2018 Results

Elanor Retail Property provided FY 2018 results. The statutory net profit for the period was $23.0m. The Core Earnings for the period were $14.0m, or 10.86c per security. The ERF has declared a final distribution of 5.16c per security for the six months to 30 June 2018 (to be paid on 4 September 2018). The Fund's core strategy will remain focused on actively managing and growing earnings from its investment portfolio and acquiring additional high investment quality retail properties.

08:52 AM

Nanosonics Limited (NAN) -Nanosonics Provides 2018 Full Year Results

Nanosonics provided 2018 full year results. The Operating profit before tax was $5.6m compared with $13.9m in the prior year 2017. The Free cash flow for the year was $6.2m and cash as at 30 June 2018 totalled $69.4m, up from $63.0m at end of June 2017. The Operating expenses for the year were $42.6m compared to $37.0m in the prior year 2017. Other net gains, comprising mainly of net gain on foreign currency forward contracts and options, were $1.6m and compare with a net loss in 2017 of $0.3m.

08:54 AM

Elanor Retail Property Fund (ERF) -Elanor Retail Property Fund Provides FY 2018 Investor Presentation

Elanor Retail Property Fund provided FY 2018 investor presentation. As at 30 June 2018, the Portfolio comprises seven high investment quality retail shopping centre assets valued at $311.3m. The Statutory net profit is $23.0m for the year ended 30 June 2018.The Core Earnings is $14.0m or 10.86c per security. The Distribution is 10.31c per security (representing 95% of Core Earnings).

08:58 AM

Ansell Limited (ANN) -Ansell Provides 2018 Full Year Results

Ansell provided 2018 full year results. The revenue growth momentum continues. The Operating Cash Flow solid but lower than FY 2017 due to Sexual Wellness divestment. It Continue to expect FY 2019 tax rate of 20% -22%, subsequently rising to 24% -25% by FY 2020. The Sale price is $600.2m, net after cash tax and costs, cash proceeds of $523.2m.

09:00 AM

The Citadel Group Limited (CGL) -The Citadel Group Provides FY 2018 Full Year Results

The Citadel Group provided FY 2018 full year results. The record number of contracts wins and extensions totalling $74m across all key markets, with pivot to software. No material contracts due for renewal in FY 2019. The Total revenue up 9.8% to $108.5m.

09:02 AM

Oohmedia Limited (OML) -Oohmedia Provides 2018 Half Year Results

oOh!media announced that it continued double-digit revenue growth (up 11%) with improved gross margin and underlying earnings for the half-year ended 30 June 2018 (1H 2018). Underlying EBITDA increased by 11% to $37.9m with Underlying NPATA lifting by 2% to $14.9m. It continues to benefit from above-market revenue growth in Road with ongoing improvements in its Fly and Locate businesses from the second half of last year.

09:05 AM

Tassal Group Limited (TGR) -Tassal Group Announces Regarding Strategic Growth Opportunities

Tassal Group announced regarding strategic growth opportunities. It advises that the Fortune Group of Companies is the vendor of the various assets associated with that business. It wishes to reiterate that the possible purchase terms are incomplete and not yet finalised. No formal binding purchase agreement has been signed and accordingly there is no certainty that a transaction will eventuate.

Research Report Summaries

Morningstar Rating

★★★

Share Price

25.800

Ansell Limited (ANN) - Ansell Meets Expectations as Transformation Continues

Analyst Note-Narrow-moat Ansell delivered full-year results in line with expectations after adjusting for the divestment of its sexual wellness business. Net profit after tax of USD 146.7 million on group revenue of USD 1,489 million, up around 23% and 8%, respectively, year on year and on a continuing business basis, tracked our forecast of USD 150 million and USD 1,483 million. A full-year dividend of USD 0.455 was declared. We maintain our long-term forecasts and raise our fair value estimate by 4% to AUD 27 per share from AUD 26, after adjusting for an Australian dollar/U.S. dollar exchange rate of 0.73. At current levels, we consider shares in Ansell fairly valued.

Looking beyond the many moving parts and adjustments resulting from its ongoing transformational program, growth in its two major global business units of healthcare and industrial was in line with forecasts, with organic growth of about 4% in constant-currency terms, in the middle of management's targeted 3%-5% range. However, selling, general, and administrative expenses as a percentage of group revenue, a key area of focus for the company given streamlining efforts, ended the year higher than we expected despite USD 7 million of transformational benefit. We remain positive on Ansell's strategic rationale of streamlining operations consolidating distribution channels, rather than catering to retail end customers under its transformation program unveiled in July 2017, and we see the divestment of its sexual wellness business as a move in the right direction. Still, we think the targeted savings in the key operating metric of SG&A may take longer to realise than we first assumed. We now forecast SG&A will rise to 24% of revenue in fiscal 2019, compared with previous forecasts of 22.8%, though we still expect the company to hit our projection by fiscal 2023. Management guided to fiscal 2019 EPS of USD 1.00-USD 1.12. Our updated forecast is at the low end of this range.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat $m	215.52	202.88	190.36	194.52
EPS c	142.35	135.89	134.99	144.40
P/E x	14.07	16.67	19.11	17.87
EPS Growth %	-2.74	-4.54	-0.67	6.97
DPS c	59.75	60.44	57.30	61.42
Yield %	2.98	2.67	2.22	2.38
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

4.140

Greencross Limited (GXL) - Greencross' Fiscal 2018 Was Soft Although Outlook Improving and Integrated Model Starting to Deliver

Analyst Note-No-moat-rated Greencross' fiscal 2018 underlying EBITDA fell by 6% to AUD 98 million, albeit in line with our expectations, and the recent guidance. The main driver of the earnings decline was weakness in the Australian stand-alone veterinary and emergency clinics, although we are pleased the performance stabilised in the fourth quarter of fiscal 2018 and is now showing signs of improvement. Underlying net profit declined by 14% to AUD 37 million, slightly behind our estimates reflecting higher than expected depreciation charges. The board declared a final dividend of AUD 5.5 cents per share, taking the fiscal 2018 total to AUD 15.5 cents per share (fully franked), down almost 20% on the prior year, although maintaining a payout ratio of around 50%.

We've trimmed our near-term EBITDA estimates by around 5%, and project 7% annual growth on average during the next three years, reflecting a slower retail store rollout, softer vet sales, and the margin-dilutive impact of the new in-store clinics. However, our thesis and AUD 6.00 per share fair value estimate remain intact. Shares in Greencross continue to trade at a meaningful discount to our fair value estimate. We have long been advocates of the integrated model, the benefits of which are taking longer than expected to materialise. We do, however, expect margins to improve in the long run as the integrated stores mature, which should drive a rerating. Early success of this strategy is highlighted by the 8.5% like-for-like, or LFL, sales growth generated by the integrated sites during fiscal 2018, double the pace of stand-alone clinics. We also expect the company to add 15 new in-store clinics per year, for at least the next five years, at which point almost 50% of the retail network should feature, up from the current 20%. This rollout, along with growing LFL sales, are the key contributors of our high-single-digit vet revenue forecasts.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	42.93	37.22	38.55	40.63
EPS c	36.66	31.42	32.26	34.00
P/E x	18.21	17.58	12.83	12.18
EPS Growth %	3.86	-14.31	2.68	5.39
DPS c	19.00	15.50	16.13	17.00
Yield %	2.85	2.81	3.90	4.11
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

4.770

Oohmedia Limited (OML) - oOh Media Oozes Confidence as It Invests Ahead of Curve

Analyst Note-The 11.5% lift in oOh media's fiscal 2018 first-half underlying EBITDA to AUD 37.9 million was broadly in line with our expectations, as was the 1.5% drop in normalised net profit to AUD 16.1 million. However, the quality of the result was noteworthy, with a stellar 16.4% jump in revenue from the key roadside billboard category (38.7% of group revenue) and AUD 14.6 million in free cash flow the highlights. In fact, the 119% EBITDA/cash flow conversion was the highest ever recorded for the June half, partly contributing to net debt/EBITDA deleveraging to 1.3 times, down from 1.4 times six months ago.

Even the maintenance of the 19.7% EBITDA margin from a year ago was commendable. Management could have easily succumbed to the temptation of banking the 11.0% group revenue growth to the bottom line. However, its unwavering commitment to investing for future earnings sustainability is encouraging, with operating costs jumping 20% to AUD 49.7 million. That commitment, anchored on a strategic desire to step-up oOh media's systems and capability (especially in data and sales), is all geared towards transforming the group to a more flexible and data-driven outdoor entity--one that can meet the demands of advertisers struggling to reach audience in an ever-fragmenting media landscape.

As such, we are comfortable with management's decision to maintain fiscal 2018 full-year underlying EBITDA guidance at AUD 94 to 99 million. This is in line with our AUD 97.3 million estimate, with our outer-year forecasts also largely intact. Shares in no-moat-rated oOh media are trading 4% below our unchanged AUD 4.95 fair value estimate, one that already incorporates the Adshel acquisition and the recently-completed equity raising to fund it. We believe the acquisition will obtain the greenlight from the competition regulator whose views are likely being enlightened by the current digital inquiry showing the challenges facing traditional media from proliferating digital onslaught.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	38.17	49.26	41.57	78.21
EPS c	24.73	29.72	20.67	32.84
P/E x	18.17	14.18	23.22	14.62
EPS Growth %	30.66	20.14	-30.44	58.89
DPS c	14.00	15.00	13.00	17.00
Yield %	3.11	3.56	2.71	3.54
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

3.200

Primary Health Care Limited (PRY) - Corporate Action: Primary Meets Guidance and Unveils AUD 250 Million Capital Raising

Analyst Note-No-moat Primary Health Care met our expectations following recently issued guidance. However, the firm surprised by announcing a AUD 250 million capital raising to fund the acquisition of a day-hospital network, along with new initiatives aimed at improving operational capacity in existing medical centres and upgrading pathology infrastructure over a five year horizon. The capital raising is a 1-for-5.21 rights issue at AUD 2.50 per share. We assume the hospital purchase component is around AUD 75 million, representing an EBITDA multiple of around 10.7 times. We think the price is reasonable, given the AUD 155 million acquisition of Pulse Health in 2017, reflecting an EBITDA multiple of 12.8 times. Our revised forecasts include the capital raising and incorporate the estimated impact to earnings of the day-hospital group, subject to the planned spend, but does not factor in potential synergies with existing medical centre services such as IVF, radiology, and pathology. As such, we lower our fair value estimate by 9% to AUD 3.50 from AUD 3.85. Although shares are in a trading halt pending the raising, we view the shares as undervalued based on the last closing price of AUD 3.20. As such, we recommend that shareholders participate and take up the offer.

Key metrics of the result included underlying net profit after tax of AUD 92.3 million on group revenue of AUD 1,740 million after adjusting for impairment and restructuring charges, which came in essentially flat and up 4.9%, respectively, year on year.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	92.10	92.30	103.25	124.54
EPS c	17.66	17.68	18.06	20.03
P/E x	21.34	20.33	17.72	15.98
EPS Growth %	-11.65	0.12	2.11	10.92
DPS c	10.60	10.60	10.60	11.76
Yield %	2.81	2.95	3.31	3.67
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

29.410

Woolworths Group Limited (WOW) - Woolworths Supermarkets' Sales Growth Decelerates as Competition Reintensifies; FVE Unchanged

Analyst Note-We maintain our fair value estimate on narrow-moat-rated Woolworths at AUD 24.50 per share after the company reported results broadly in line with our estimates, and shares screen as overvalued at current prices. The group's Australian supermarket sales growth came roaring back in fiscal 2017 after significant price cuts; since then, comparable sales growth has outpaced that of archrival Coles throughout fiscal 2018. Unfortunately, competition rarely sleeps for too long.

Coles has been picking up its game, and the successful Little Shop campaign of collectible toys carried its sales momentum into the first quarter of fiscal 2019. Woolworths' like-for-like food sales have been slowing since the second quarter of fiscal 2018, and have hit a 21-month low in the first seven weeks of fiscal 2019. We estimate Woolworths' like-for-like food sales growth currently sits below Coles' growth rate. The strong supermarket sales growth over the past two years underpinned gradual food EBIT margin expansion, but we expect this trend to reverse in fiscal 2019. We consider Woolworths' stock loss to be at industry-leading levels currently, and the significant cost savings from improving shrinkage from relatively high previous levels are unlikely to be repeated. Also, as sales growth slows, so should operating leverage benefits.

Once Aldi's relatively high sales growth peters out in 2020, we expect Woolworths and Coles to increase top-line sales in line with the overall Australian food market at 4% on average. However, we expect the ongoing competition for market share among incumbents to remain intense and keep EBIT margins in check. The entry of hypermarket chain Kaufland, if successful, as well as the possibility of Amazon rolling out its Fresh offering, present threats to our base-case scenario of stabilising market shares across the industry and EBIT margins for Woolworths at around 4% in the longer term.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	1,422.10	1,605.00	1,693.84	1,687.69
EPS c	110.47	123.09	129.91	129.43
P/E x	22.18	21.83	22.64	22.72
EPS Growth %	-10.39	11.42	5.54	-0.36
DPS c	84.00	93.00	107.00	105.00
Yield %	3.43	3.46	3.64	3.57
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

6.620

NIB Holdings Limited (NHF) - NIB's FY18 Profit Impressive But Softer Outlook Creates Uncertainty. No Change to AUD 6.20 FVE

Analyst Note-Narrow-moat-rated private health insurer, NIB Holdings' impressive fiscal 2018 result was substantially pre-released and we were more interested in the softer fiscal 2019 guidance and increased uncertainty around future potential regulatory capital requirements. Fiscal 2018 NPAT increased 11% to AUD 133.5 million on the back of a strong performance from the key Australian operations and the nine month contribution from GU Health acquired in September 2017. Despite the strong fiscal 2018 group performance and the year-end roll forward of our valuation model, our fair value estimate is unchanged at AUD 6.20 due to a modestly softer short-term outlook than we had previously expected. The softer-than-expected fiscal 2019 guidance results in a broadly flat fiscal 2019 NPAT forecast of AUD 135 million, about 8% lower than our previous fiscal 2019 forecast. The stock screens as broadly fairly valued trading 6% above our valuation, at around 22 times forecast fiscal 2019 earnings.

Group underlying operating profit, or UOP, increased an impressive 20% to AUD 184.8 million in line with recently upgraded guidance. The final fully franked dividend of AUD 11 cents per share, or cps, took total dividends to AUD 20 cps, up 5% on fiscal 2017. We were forecasting total dividends of AUD 21 cps but the slightly lower payout of 68.5% was a minor surprise. Capital is becoming more important with a dividend reinvestment plan introduced for the first time. Despite the AUD 25.5 million of surplus capital at June 30, 2018, proposed changes to APRA regulatory capital rules could increase future capital requirements for private health insurers. It is too early to assess any impact on NIB Holdings and potential changes may take several years to implement. The June 2018 surplus excludes the final dividend, approximately AUD 11 million earmarked for the China JV and up to AUD 36 million to fund the QBE Travel Insurance acquisition, including transactions costs.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	120.20	133.50	134.90	148.62
EPS c	27.18	29.43	29.30	32.04
P/E x	18.44	20.95	22.49	20.57
EPS Growth %	27.49	8.28	-0.44	9.35
DPS c	19.00	18.51	20.00	22.00
Yield %	3.79	3.00	3.03	3.34
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

1.780

Beach Energy Limited (BPT) - Fiscal 2018 Costs Impress for No-Moat Beach and We Increase our FVE to AUD 1.60.

Analyst Note-We increase our fair value estimate to AUD 1.60 from AUD 1.35 per share. Beach reported underlying fiscal 2018 EPS of AUD 0.13, in line with expectations. But that result included lower-than-expected operating costs of USD 17.70 per barrel of oil equivalent, down 3% on a like-for-like USD 18.20 for fiscal 2017, and beating our USD 19.70 forecast. It was only higher than expected tax which contained the result to target. And the lower operating costs have now persisted for long enough to satisfy they reflect a structural shift, rather than a transient effect. Beach has reported underlying EBITDA margins at or in excess of 60% for the past three halves, well ahead of the prior 10-year average of 47%, and we increase our midcycle EBITDA margin assumption to 60% from 55% prior. There is considerable fair value leverage around even modest percentage moves in margin.

Much of the improvement on the cost front was anticipated as the Lattice Energy acquisition was bedded-down. But the integration is now almost complete, and we anticipate some lagged cost creep in sympathy with energy prices, to cap substantial margin gains from here in. The market appeared disappointed with the result, the shares down as much as 9% immediately post release. Whether this reflects too much anticipation built-in, the shares having risen 60% since March AUD 1.20 lows, or disappointment at substantially upgraded capital expenditure plans and the unchanged AUD 1.0 cent final dividend, is not precisely clear. Beach expects fiscal 2019 to be its biggest ever investment year, with capital expenditure guidance in the range AUD 460-540 million. That contrasts with around AUD 315 million in fiscal 2018 and just AUD 160 million in fiscal 2017. Perhaps the market smells excess risk and would have preferred a second-half dividend payout considerably better than just 11% of underlying earnings. We certainly were, but the improved price/fair value is welcome regardless.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	161.73	300.49	274.77	295.47
EPS c	8.63	13.16	12.03	12.93
P/E x	8.01	8.67	15.50	14.42
EPS Growth %	247.37	52.55	-8.60	7.48
DPS c	1.99	1.97	2.00	2.00
Yield %	2.88	1.72	1.07	1.07
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

4.260

Fortescue Metals Group Ltd (FMG) - Fortescue's Fiscal 2018 Adjusted Net Profit Halves on Increased Product Discounts

Analyst Note-No-moat-rated Fortescue's fiscal 2018 net profit fell 58% to USD 879 million compared with fiscal 2017. The result was weaker than we had forecast, a function of lower sales revenue and higher costs, including USD 289 million of costs associated with the early repayment of debt. The fall almost entirely reflects the lower realised iron ore price of USD 44 per tonne, down 17% on the average of USD 53 per tonne in fiscal 2017. Fortescue's lower realised price was due to the widening discount for lower-grade iron ore. The average price for the benchmark index 62% grade iron ore was almost flat at USD 69 per tonne versus USD 70 in fiscal 2017. Underlying net profit almost halved to USD 1.08 billion after excluding the USD 202 million of aftertax expenses from early debt repayment.

We reiterate our AUD 3.70 per share fair value estimate and the shares remain somewhat overvalued. This reflects our expectation for China's demand for iron ore to decline as steel consumption growth stalls and more is satisfied from scrap as China's stock of steel matures. In addition, we expect the prevailing favourable iron ore price to incentivise new supply. This is evidenced by Hancock Prospecting's acquisition of Atlas Iron and Mineral Resources' plan to build a railway with annual capacity of 50 million tonnes.

We agree with Fortescue the current elevated price discounts for lower-grade iron ore reflects high steel maker margins which are unlikely to persist. Our expectation for a narrowing price discount provides a partial offset to our forecast for a lower midcycle iron ore price of USD 40 per tonne from 2023. By fiscal 2023, we expect Fortescue to realise a price of USD 33 per tonne. This represents a more than halving of the discount relative to the 62% benchmark to 17% per wet metric tonne versus an estimated 40% in fiscal 2018. Our expectation for discounts to normalise means Fortescue is trading at a smaller premium to our fair value estimate than BHP and Rio Tinto.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	2,774.02	1,395.38	1,689.29	924.70
EPS c	88.84	44.68	54.00	29.56
P/E x	6.14	11.20	7.80	14.24
EPS Growth %	137.40	-49.71	20.88	-45.26
DPS c	46.48	22.33	31.99	21.00
Yield %	8.53	4.46	7.60	4.99
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

3.660

Abacus Property Group (ABP) - Abacus to Shed Higher-Risk Activities. FVE Unchanged at AUD 3.75

Analyst Note-No-moat-rated Abacus Property Group's fiscal 2018 earnings had been pre-released, so there were no surprises in the underlying earnings of AUD 183 million or AUD 31.7 cents per security, or cps. Under the stewardship of new CEO, Steven Sewell, Abacus will shed its higher-risk activities in its property ventures division over the next two to three years, thereafter resembling a more traditional REIT. The key focus areas will be self-storage and office, with minor exposures to retail. Funds management activities will become a more prominent part of the business, but this is a crowded area and we don't see Abacus having a competitive edge over peers. Our fair value estimate is unchanged at AUD 3.75, with Abacus screening as fairly valued at current levels.

A prospective share price catalyst could potentially come from market evidence of rent growth in the recently acquired city fringe office sites. A second possible catalyst is evidence that the solid rental growth in the self-storage portfolio can be sustained over the medium to longer term.

Earnings guidance is traditionally not provided, but our fiscal 2019 earnings forecast drop to AUD 21 cps as we push back the expected profit from the sale of the Camellia site. We've also factored in modest gains from recently sold stakes in three shopping centres. Abacus continues to pay dividends in line with what it expects to generate from recurring earnings, guiding for a 2.8% increase in distributions to AUD 18.5 cps for fiscal 2019.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	186.80	126.80	121.86	189.78
EPS c	32.70	21.95	21.03	32.76
P/E x	9.41	16.70	17.40	11.17
EPS Growth %	46.29	-32.90	-4.15	55.73
DPS c	17.50	18.00	18.50	18.87
Yield %	5.69	4.91	5.05	5.16
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

10.570

Goodman Group (GMG) - Putting Customer First Provides Goodman With Long Growth Runway. FVE Increases 14% to AUD 10.20

Analyst Note-Goodman Group's fiscal 2018 operating earnings rose 8% to AUD 46.7 cents per security, or cps, marginally above guidance and our forecast. Compositionally, this was a strong result, with Goodman beating our expectations for growth in assets under management, or AUM, and margins on development completions. Upgrades to our forecasts for management fees, development margins and rents, results in a 6% and 12% upgrade, respectively, to our fiscal 2020 and 2021 EBIT forecasts. Our fair value estimate for narrow-moat-rated Goodman increases 14% to AUD 10.20. Goodman screens as fairly valued, currently trading at AUD 10.60. Guided fiscal 2019 earnings (adjusted for forthcoming dilution of staff options) is AUD 50.0 cps, implying growth of 7% and a forward P/E of 21.

We've raised our fiscal 2019 earnings forecast by 2% to align with the guided 7% growth and we've also raised outer year growth assumption for AUM on the surprisingly large 11.4% jump in external AUM in the six months to June to AUD 35.1 billion. Rent growth across the portfolio accelerated to 3.2% over the year. This is a strong growth rate for logistics, reflecting the surging demand from online retailers and Goodman's strategy to focus on sites in strategically important locations. We don't see this level of rent growth being sustained for long. Our long-term annual rental growth assumption is 2.0% to 2.5% for fiscal 2023 and beyond. EPS has grown at a six-year CAGR of 7.4% and our forward forecasts imply a 10-year forward CAGR of 5.3%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	776.00	845.90	913.02	979.42
EPS c	42.08	45.55	48.95	52.17
P/E x	17.67	18.65	21.62	20.29
EPS Growth %	6.59	8.24	7.47	6.57
DPS c	25.90	28.00	30.00	32.00
Yield %	3.48	3.30	2.83	3.02
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
▲	BPT	Beach Energy	★★★	20/08/2018	Fiscal 2018 Costs Impress for No-Moat Beach and We Increase our FVE to AUD 1.60.
▲	GMG	Goodman Gp	★★★	20/08/2018	Putting Customer First Provides Goodman With Long Growth Runway. FVE Increases 14% to AUD 10.20
▼	REA	REA Group	★	20/08/2018	Downgrade due to price change
▲	AWC	Alumina	★★	17/08/2018	Upgrade due to price change
▼	MTS	Metcash	★★	17/08/2018	Downgrade due to price change
▲	ORG	Origin Energy	★★★	17/08/2018	Upgrade due to price change
▼	QBE	QBE	★★★	17/08/2018	Downgrade due to price change
▼	SWM	Seven West Media	★	17/08/2018	Downgrade due to price change
▲	RIO	Rio Tinto	★★	16/08/2018	Upgrade due to price change
▼	VRL	Village Roadshow	★★★	16/08/2018	Downgrade due to price change
▼	API	Australian Pharmaceutical Industries	★★★	15/08/2018	Downgrade due to price change
▲	DXS	Dexus	★★★	15/08/2018	Sturdy East Coast Office Demand Prompts Dexus Upgrade; FVE Increases to AUD 9.80
▼	GMG	Goodman Gp	★★	15/08/2018	Downgrade due to price change
▲	PGH	Pact Group Holdings	★★★★	15/08/2018	Upgrade due to price change
▼	SEK	SEEK	★★	15/08/2018	Downgrade due to price change
▲	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

You should not act on any recommendation made in this document without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a financial product, or to engage in or refrain from engaging in any transaction.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, omissions, misstatements, virus interception or interference.