

15-August-2018

Morningnote

Contents

Overseas Market Report	1
Australian Market Report	4
Market Sensitive Announcements	7
Research Report Summaries	9

Flashnotes

Challenger Limited (CGF) -Challenger Announces Regarding 2018 Market Release

National Australia Bank Limited (NAB)

-National Australia Bank Provides 2018 Third Quarter Trading Update

Challenger Limited (CGF) -Challenger

Provides 2018 Investor Presentation and Outlook

Domino's Pizza Enterprises Limited (DMP)

-Domino's Pizza Enterprises Provides FY 2018 Full-Year Market Presentation

Domino's Pizza Enterprises Limited (DMP)

-Domino's Pizza Enterprises Provides FY 2018 Full-Year Media Release

Senex Energy Limited (SXY) -Senex Energy

Secures EPBC Approval for Western Surat Gas Project

iSelect Limited (ISU) -iSelect Provides FY

2018 Full Year Results

iSelect Limited (ISU) -iSelect Provides FY

2018 Full Year Results Investor Presentation

Propertylink Group (PLG) -Propertylink

Group Provides FY 2018 Investor Presentation Results

Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	25300	7:07am 15/08/2018	112	0.45
▲ S&P 500	2840	7:07am 15/08/2018	18	0.64
▲ NASDAQ	7871	7:31am 15/08/2018	51	0.65
▼ FTSE 100 Index	7612	1:49am 15/08/2018	-31	-0.40
DAX 30	12359	2:00am 15/08/2018	0	--
▼ CAC 40	5403	2:15am 15/08/2018	-9	-0.16
▲ Nikkei 225 (Japan)	22356	4:20pm 14/08/2018	499	2.28
▼ HKSE	27753	6:24pm 14/08/2018	-184	-0.66
▼ SSE Composite Index	2781	5:16pm 14/08/2018	-5	-0.18
▲ NZ 50	8972	3:20pm 14/08/2018	27	0.30

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street's three major indexes have risen with the S&P 500 posting its strongest gain in three weeks as a string of healthy earnings boosted investor optimism and a rebound in the Turkish lira eased fears of a broader financial contagion.

Gains were widespread on Tuesday, and the S&P 500 and the Dow Jones Industrial Average ended four-day losing streaks.

The Turkish lira regained some ground a day after it plunged to an all-time low. The rebound came as the country's central bank took steps to ease pressure on the currency.

Shares of major US banks reversed course on easing Turkey fears, with the S&P financial sector closing the session up 0.9 per cent.

Investors also focused on second-quarter results, as the reporting season draws closer to the finish line. So far, of 458 companies in the S&P 500 that have posted results, 79 per cent have topped Wall Street estimates.

"What we've seen thus far this year, is that rising earnings estimates have really been the driving factor behind (market) performance," said Bill Northey, senior vice president at US Bank Wealth Management in Helena, Montana.

"There's this broad constructive fundamental backdrop, and some of the macro geopolitical factors are just receiving a little bit of relief today," Northey added.

Home Depot Inc beat consensus estimates, reporting stronger-than-expected sales despite signs of a slowdown in the US housing market. However, shares of the home improvement chain - the first of the major brick-and-mortar retailers to post second-quarter earnings - slipped 0.5 per cent.

Propertylink Group (PLG) -Propertylink Group Provides FY 2018 Results

Cochlear Limited (COH) -Cochlear Provides Results For the Year Ended June 2018

Syrah Resources Limited (SYR) -Syrah Resources Announces Regarding the Successful Commissioning of the Attrition Cells

Champion Iron Limited (CIA) -Champion Iron Provides Corporate Update

Whitehaven Coal Limited (WHC) -Whitehaven Coal Provides FY 2018 Results

Shares of rival Lowe's Companies Inc rose 1.3 per cent.

Coach handbag maker Tapestry Inc reported a 31 per cent jump in quarterly revenue. The company's shares jumped 12.0 per cent.

Advance Auto Parts Inc reached a one-year high and ended the session up 7.8 per cent after the company posted profit above estimates and announced a new share buy-back program.

The Dow Jones Industrial Average rose 112.22 points, or 0.45 per cent, to 25,299.92, the S&P 500 gained 18.03 points, or 0.64 per cent, to 2,839.96 and the Nasdaq Composite added 51.19 points, or 0.65 per cent, to 7,870.89.

All 11 of the major sectors in the S&P 500 closed in positive territory.

Tesla Inc's shares dropped 2.5 per cent after the company said a special committee formed to negotiate taking electric car maker private had yet to see a firm offer from CEO Elon Musk.

Shares of Yum China Holdings Inc climbed 4.0 per cent on news of a potential takeover by China Investment Corp and DEP Capital.

Grocer Kroger Co announced it would partner with Alibaba Group Holding Ltd to sell its private label products on the e-commerce giant's Tmall platform in China. The stock closed up 2.4 per cent.

Advancing issues outnumbered declining ones on the NYSE by a 2.55-to-1 ratio; on Nasdaq, a 1.74-to-1 ratio favoured advancers.

The S&P 500 posted 25 new 52-week highs and 3 new lows; the Nasdaq Composite recorded 95 new highs and 83 new lows.

Volume on US exchanges was 5.89 billion shares, compared to the 6.43 billion average over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	2046	3:22am 15/08/2018	-18	-0.87
▼ Copper	6009	3:22am 15/08/2018	-114	-1.87
▼ Nickel	13328	3:22am 15/08/2018	-127	-0.94
▼ Gold	1191	7:30am 15/08/2018	-6	-0.53
▲ Silver	15.0	7:00am 15/08/2018	0.1	0.52
▼ Oil - West Texas crude	67.0	7:10am 15/08/2018	-0.2	-0.24
▼ Lead	2051	3:22am 15/08/2018	-60	-2.84
▼ Zinc	2438	3:22am 15/08/2018	-31	-1.28
▼ Ore	68	7:10am 15/08/2018	-1	-0.86

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ \$A vs \$US	0.7238	7:54am 15/08/2018	-0.0020	-0.28
▼ \$A vs GBP	0.5689	7:54am 15/08/2018	--	-0.01
▲ \$A vs YEN	80.51	7:54am 15/08/2018	0.16	0.20
▲ \$A vs EUR	0.6381	7:54am 15/08/2018	0.0011	0.17
▼ \$A vs \$NZ	1.1008	7:54am 15/08/2018	-0.0030	-0.28
▲ \$US vs Euro	0.8814	7:54am 15/08/2018	0.0043	0.49
▲ \$US vs UK	0.7859	7:54am 15/08/2018	0.0025	0.32
▲ \$US vs CHF	0.9937	7:54am 15/08/2018	0.0007	0.07
▼ \$A vs \$CA	0.9449	7:54am 15/08/2018	-0.0086	-0.90

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	6386	4:31pm 14/08/2018	45	0.71
▲ S&P/ASX 200	6300	4:31pm 14/08/2018	47	0.76
▲ 10-year Bond Rate	2.60	7:09am 15/08/2018	0.01	0.39
90 Day Bank Accepted Bills SFE-Day	1.99	2:27am 15/08/2018	--	--
▲ 3-yr Bond Rate	2.05	7:09am 15/08/2018	0.01	0.74

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 7 points lower at 6,239.

Tuesday 14 August - close [Morningstar with AAP]: Australian shares have risen, with banks leading near across-the-board gains and an easing in investor concerns over the tension between the US and Turkey.

The benchmark S&P/ASX200 closed up 47.4 points, or 0.76 per cent, to 6,299.6 points, while the All Ordinaries was up 44.9 points, or 0.71 per cent, to 6,386.2 points.

Banking stocks led gains, with the financials index at its highest level since March, helped by the low Australian dollar.

While NAB reported a three per cent fall in third-quarter cash earnings to \$1.65 billion and warned of higher impairment provisions in the future, analysts slated the sector gains home to international factors.

Tribeca Investments deputy portfolio manager Jun Bei Liu said there were few surprises in the NAB announcement and the gains for the banks were driven by concerns about the stability of smaller, more volatile markets as trade tensions escalate.

"I really think it's offshore guys moving money out of emerging markets," Ms Liu said.

A recovery in gold prices, coupled with higher Chinese iron ore futures drove up the demand for materials stocks.

Global miner BHP firmed 1.5 per cent to \$33.82, while gold miner Newcrest rose 0.8 per cent to \$21.21.

In companies news, pizza maker Domino's slumped 6.5 per cent to \$49 after delivering an 18 per cent jump in full-year profit but undershooting on its own growth guidance.

Coal miner Whitehaven finished the day 1.3 per cent higher at \$5.33 as it delivered a full-year profit increase of 30 per cent and forecast continuing strong demand for thermal coal out of Asia.

Hearing implants giant Cochlear weighed down the health care sector when it posted a lower-than-expected full-year net profit.

Cochlear shares dropped three per cent to \$192.75.

The Australian dollar remained under pressure as investors continued to flock to the safe-haven US greenback.

The Australian dollar was at 72.66 US cents, down from 72.81 US cents on Monday.

ON THE ASX:

The S&P/ASX200 closed up 47.4 points, or 0.76 per cent, at 6,299.6 points

The All Ordinaries was up 44.9 points, or 0.71 per cent, at 6,386.2 points.

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

- ▶ Commonwealth Bank of Australia
- ▶ Genworth Mortgage Insurance Australia Limited
- ▶ ResMed Inc.
- ▶ Suncorp Group Limited
- ▶ Tabcorp Holdings Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
ARB*	ARB Corporation Limited	Annual
DXS*	Dexus Prop	Annual
FBU*	Fletcher Building Limited	Annual
FXJ*	Fairfax Media Limited	Annual
ISU*	iSelect Limited	Annual
SGP*	Stockland	Annual
SWM*	Seven West Media Limited	Annual
VCX*	Vicinity Centres	Annual
VLW*	Villa World Limited	Annual
ILU*	Iluka Resources Limited	Interim
IVC*	InvoCare Limited	Interim
WPL*	Woodside Petroleum Limited	Interim
AOG*	Aveo Group	Prelim
ARB*	ARB Corporation Limited	Prelim
BWX*	BWX Limited	Prelim
CPU*	Computershare Limited	Prelim
CSL*	CSL Limited	Prelim
DXS*	Dexus Prop	Prelim
FBU*	Fletcher Building Limited	Prelim
FXJ*	Fairfax Media Limited	Prelim
ISU*	iSelect Limited	Prelim
MIN*	Mineral Resources Limited	Prelim
ORG*	Origin Energy Limited	Prelim
PGH*	Pact Group Holdings Ltd	Prelim
SEK*	SEEK Limited	Prelim
SGP*	Stockland	Prelim
SHL*	Sonic Healthcare Limited	Prelim
SLK*	Sealink Travel Group Limited	Prelim
SSM*	Service Stream Limited	Prelim
SWM*	Seven West Media Limited	Prelim
VCX*	Vicinity Centres	Prelim
VLW*	Villa World Limited	Prelim
IAG	Insurance Australia Group Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:09 AM

Challenger Limited (CGF) -Challenger Announces Regarding 2018 Market Release

Challenger announced its results for the FY 2018 with the company delivering excellent growth in assets under management (AUM) and record normalized NPAT. Normalised net profit before tax was up 8% to \$547m. Normalised NPAT increased 6% to \$406m, reflecting a 2% higher normalised tax rate. The Statutory NPAT, which includes investment experience, was down 19% to \$323m.

08:12 AM

National Australia Bank Limited (NAB) -National Australia Bank Provides 2018 Third Quarter Trading Update

National Australia Bank provided 2018 third quarter trading update. The Cash earnings declined by 1% and compared to the pcp were down 3% reflecting higher investment spend and credit impairment charges. The revenue up 1% due to good growth in SME lending within Business & Private Banking and a contribution from NZ Banking. The Credit impairment charges rose 9% to \$203m and included \$25m of additional collective provisions for forward looking adjustments (FLAs), bringing the total balance of FLAs to \$547m.

08:17 AM

Challenger Limited (CGF) -Challenger Provides 2018 Investor Presentation and Outlook

Challenger Provided 2018 investor presentation and outlook. The tax rate up by 2%. The Normalised NPBT growth between 8% and 12%. 21% of Funds Management FUM is eligible for performance fees. The Property allocation expected to be 17% following settlement.

08:21 AM

Domino's Pizza Enterprises Limited (DMP) -Domino's Pizza Enterprises Provides FY 2018 Full-Year Market Presentation

Domino's Pizza Enterprises provided FY 2018 full-year market presentation. The return on Equity has improved to 37.7%, benefiting from the share buy-back, funded by low interest-bearing debt. It continues to look at ways in which it can continue to support both Australian farmers and our local communities, through initiatives such as: Give for Good and Doughraisers, which recently raised over \$170,000 for drought-affected farmers. Franchisees are currently enjoying the benefit of low commodity prices, which will continue into H1 2019. However, because of the Australian drought, there is the potential for some of this benefit to be reversed in H2 2019.

08:24 AM

Domino's Pizza Enterprises Limited (DMP) -Domino's Pizza Enterprises Provides FY 2018 Full-Year Media Release

Domino's Pizza Enterprises provided FY 2018 full-year media release. It has reported a record Full Year NPAT of \$136.2m, +15.0% higher than the previous Financial Year and lifted its full year dividend +15.5% to 107.8 cps, based on growing sales in all markets. The Group cash flow was substantially in FY 2018, with free cash flow before acquisitions increasing +125.8% to \$120.6m, underlying EPS growth of +14.4% for the year 2018, and compound annual EPS growth of 27.2% over the past three years.

08:27 AM

Senex Energy Limited (SXY) -Senex Energy Secures EPBC Approval for Western Surat Gas Project

Senex Energy announced that it has been granted approval to develop the Western Surat Gas Project under the Commonwealth Government Environment Protection and Biodiversity Conservation Act (EPBC). Together with previously granted State environmental approvals and Petroleum Lease, it has received all primary approvals to commence development of the Western Surat Gas Project, initially focusing on the Glenora and Eos blocks. It continues to progress the remaining financial, commercial and contracting requirements prior to taking a Final Investment Decision for the project.

08:30 AM

iSelect Limited (ISU) -iSelect Provides FY 2018 Full Year Results

iSelect provided FY 2018 full year results. The Company announces its results for the full year ended 30 June 2018 (FY 2018), that saw the Company deliver FY 2018 underlying EBIT, within guidance, at \$8.5m. Importantly, the unrelenting focus on operational excellence by its new senior executive team has seen a start to FY 2019, with outperformance against budget putting the Company firmly back on a growth trajectory to its historic profitability over the short to medium term. The revenue for FY 2018 was down 2% to \$181.4m, driven primarily by Health and Energy & Telco segments that were negatively impacted by ineffective marketing that led to lower leads, as well as general market volatility.

08:33 AM

iSelect Limited (ISU) -iSelect Provides FY 2018 Full Year Results Investor Presentation

iSelect provided FY 2018 full year results investor presentation. The revenue has increased at a higher Percentage than cash receipts in FY 2018 due to a higher mix of long term trail commission provider sales in FY 2015 & FY 2016; however, cash receipts are expected to grow at a higher rate in the next 1-2 years with more FY 2018 sales weighted to providers with shorter trail commission terms. The business continues to improve its ability to do more with existing customers, with over 15% of overall revenue coming from cross business referrals.

08:37 AM

Propertylink Group (PLG) -Propertylink Group Provides FY 2018 Investor Presentation Results

Propertylink Group provided FY 2018 investor presentation results. The distributable Earnings per Security is 7.6 - 7.7c. The distribution per Security is 7.3c. It continues to pursue property acquisitions using our top down bottom up approach with a focus on the ability to execute using our active asset management skill-set to realise value.

08:40 AM

Propertylink Group (PLG) -Propertylink Group Provides FY 2018 Results

Propertylink Group provided FY 2018 results. The Company announced financial and operational results for FY 2018, delivering distributable earnings of 9.25c per security, exceeding guidance of 9.0c per security. The distributable earnings of \$55.7m for FY 2018 reflects a 12-month contribution from the wholly owned industrial portfolio, compared to 10.5 months in the prior year 2017. The earnings were further enhanced by performance fees of \$22.3m on divestment of external fund assets. Total comprehensive income of \$142.8m includes \$91.0m of net revaluation gains across the wholly owned industrial portfolio and co-investments during the year 2018.

08:44 AM

Cochlear Limited (COH) -Cochlear Provides Results For the Year Ended June 2018

Cochlear provided results for the year ended June 2018. The Company delivered net profit of \$245.8m, an increase of 10% on FY 2017 (10% in CC), which was within the guidance range of \$240-250m. It expects to deliver reported net profit of \$265-275m, an 8-12% increase on FY 2018.

08:47 AM

Syrah Resources Limited (SYR) -Syrah Resources Announces Regarding the Successful Commissioning of the Attrition Cells

Syrah Resources announced the successful commissioning of the attrition cells for the fines graphite circuit which are fully operational. Initial assessment is showing improvement in fines graphite fixed carbon levels, which enables improvements in both quality and recovery. The Planned production of higher fixed carbon graphite product to 96%-98% will be driven by customer demand. It expects the development of a price premium for higher carbon content products.

09:08 AM

Champion Iron Limited (CIA) -Champion Iron Provides Corporate Update

Champion Iron announced that with the successful production ramp-up of its Bloom Lake Iron Ore Mine (Bloom Lake), it reported operational and financial results for the FY 2019 first quarter ended 30 June 2018. The Undrawn balance is US\$34.7m from its subsidiary's US\$180.0m financing debt facility. The cash position is \$89.0m at quarter-end. The Cash flow from operating activities is \$44.3m.

09:11 AM

Whitehaven Coal Limited (WHC) -Whitehaven Coal Provides FY 2018 Results

Whitehaven Coal provided FY 2018 results. The FY 2019 guidance for saleable coal production is expected to be in the range of 22.0Mt to 23.0Mt. The Costs for the year are likely to increase modestly to \$64/t excluding royalties due to higher fuel costs and longer hauls at Maules Creek. It has reported a record NPAT of \$525.6m for the year ended 30 June 2018. The Cash generated from operations is \$854.0m, up 30%.

Research Report Summaries**Morningstar Rating**

★★★

Share Price

9.900

APA Group (APA) - APA Accepts Unchanged CKI Bid; But FIRB Might Not Be So Willing

Analyst Note-Narrow-moat APA Group agreed to a formal, binding takeover offer from Cheung Kong Infrastructure, in line with its indicative offer from June of AUD 11 per security in cash. APA Group directors unanimously recommend the offer, and the independent expert, Grant Samuel, is bound to recommend it as well. The main risk to the deal falling over, and it is a major risk, remains objection from the Foreign Investment Review Board, or FIRB. We continue to rate this a 50% chance. Should the takeover succeed, upside is around 10% from the current share price. Should it fail, we think APA Group's security price could fall around 20% towards our standalone DCF-based valuation of AUD 8 per share. Our current fair value estimate of AUD 9.50 is set at the midpoint of our standalone valuation and the takeover offer price, reflecting our view that the deal has a 50% chance of succeeding.

Should FIRB block the takeover to stop APA Group's strategically important gas transmission grid falling into foreign hands, there's still a reasonable chance of APA Group being taken over as Australian pension funds could come out of the woodwork. Nonetheless, conservative investors might want to sell on market to lock in gains. There are plenty of other solid income stocks trading around fair value, including AusNet Services, Spark Infrastructure, AGL Energy, and Transurban.

APA Group security holders will vote on the takeover at a scheme meeting in late November 2018, if all goes to plan. We'll provide a recommendation on how to vote closer to the meeting, though we're highly likely to recommend the generous offer. Break fees of up to AUD 130 million apply in certain circumstances.

In addition to the AUD 11 per security offer, APA Group investors are entitled to a AUD 24 cent per security, or cps, final fiscal 2018 distribution and, if the takeover is delayed, AUD 4 cps for every month past Dec. 31, 2018 it drags on. The end date for approval of the schemes is March 31, 2019.

FYE Jun	2016A	2017A	2018E	2019E
Reported Npat \$m	179.47	236.85	243.62	285.44
EPS c	16.11	21.26	21.24	24.21
P/E x	53.90	41.48	46.47	40.77
EPS Growth %	-13.00	31.97	-0.05	13.94
DPS c	41.50	43.50	45.00	46.50
Yield %	4.78	4.93	4.56	4.71
Franking %	0.0	9.0	15.0	20.0

Morningstar Rating

★★★

Share Price

11.590

Challenger Limited (CGF) - Challenger's Disappointing Fiscal 2018 Results Prompt a Modest FVE Reduction to AUD 12.60

Analyst Note—We decrease our fair value estimate for no-moat Challenger to AUD 12.60 per share from AUD 13.10 following disappointing fiscal 2018 results. Normalised net profit after tax, or NPAT, of AUD 406 million was 5% below our forecast and at the lower end of guided net profit before tax, or NPBT, growth of 8%-12%. Lower investment yields on policyholder funds in its core annuities business and a higher effective tax rate were the primary drivers of the lower-than-expected normalised NPAT results. Nevertheless, the company's final dividend of AUD 18 cents per share was in line with our forecast and results in a fully franked total dividend of AUD 35.5 cents per share for the year. At current prices, the stock screens as moderately undervalued.

While we expected normalised cash operating earnings, or COE, margins to continue contracting in fiscal 2018, the size of the fall was somewhat concerning, particularly in the second half. COE margins fell 36 basis points in fiscal 2018, higher than our forecast contraction of 27 basis points. Margin compression was due to lower interest rates and asset returns and lower other income, primarily due to a one-off life risk fee and income from its insurance linked securities being lower than expected. Margin pressure is also due to continued product diversification, including a higher proportion of lower-margin institutional Guaranteed Index Return and Index Plus products, as well as Japanese annuities. The normalised NPAT was also affected by a higher effective tax rate, increasing 2% to 25.8% in fiscal 2018. The higher tax rate was primarily driven by interest payments on Challenger Notes not being tax-deductible, a lower proportion of offshore earnings, and a reduction in the level of franked dividends received.

Following the results, our forecast normalised NPAT in fiscal 2019 falls to AUD 432.6 million from AUD 453.3 million. Our forecast is at the lower end of the company's guidance of normalised NPBT growth of 8%-12%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	384.90	406.10	432.62	465.58
EPS c	65.68	65.93	70.24	75.59
P/E x	16.86	19.39	16.50	15.33
EPS Growth %	4.77	0.39	6.53	7.62
DPS c	35.00	35.00	35.47	37.04
Yield %	3.16	2.74	3.06	3.20
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

192.750

Cochlear Limited (COH) - Cochlear Delivers Efficiency Gains and Amplifies Gross Margin; Raising FVE

Analyst Note-Wide-moat Cochlear delivered another sound full-year result that met our bottom-line expectations. Reported net profit after tax of AUD 245.8 million was in the middle range of guidance, and just short of our forecast of AUD 250 million. Nonetheless, we were impressed by the improvements in cost of goods, reflecting manufacturing efficiencies, lower warranty cost, and lower repair expenses resulting from the centralisation of repairs globally in Malaysia. This culminated in a gross margin for the year of 73%, up 2% compared with the prior period. We now think these efficiencies are sustainable. As such, we have increased our fair value estimate for Cochlear by 9% to AUD 173 from AUD 159 per share after increasing our medium-term gross margin assumption to 73%, from 71% previously. We forecast this metric trending towards 73.5% over five years, given assumed additional efficiency gains.

We also remain positive on the growth prospects for Cochlear, given the adult opportunity in developed markets and paediatric market in emerging markets, and we remain comfortable with an 11% five-year CAGR for group revenue. However, with forward P/E of around 40 times, we think the market's growth expectations are overly aggressive, suggesting annual gains of about 13.5% at current levels, and we consider shares in Cochlear to be overvalued.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	223.62	245.85	274.96	347.51
EPS c	389.12	426.80	478.80	605.13
P/E x	34.28	40.79	40.26	31.85
EPS Growth %	17.70	9.68	12.18	26.38
DPS c	270.00	300.00	335.16	423.59
Yield %	2.02	1.72	1.74	2.20
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

49.000

Domino's Pizza Enterprises Limited (DMP) - Domino's Pizza Underdelivers Like-For-Like Sales Growth; Off to a Weak Start in Fiscal 2019

Analyst Note-Domino's Pizza certainly underwhelmed with weaker same-store sales growth and underlying net profit after tax than it had guided to, but sales and profit figures were broadly in line with our more cautious estimates. The miss against some investors' near-term expectations detracts from the long-term outlook, with the growth trajectory still intact, and leaves shares in narrow-moat Domino's undervalued at current prices. The firm reiterated its store count goal for fiscal 2025, and we expect management to provide further guidance on store growth beyond 2025 in the coming months. We maintain our fair value estimate of AUD 53 per share, underpinned by the solid runway of new organic stores and continuing, albeit moderating, same-store sales growth for the group on a par with the global Domino's business.

Underlying net profit after tax of AUD 133 million was slightly ahead of our AUD 131 million estimate, but far from reaching the guided number of about AUD 142 million. Sales growth in both Europe and Australia missed guidance and came in slightly below our estimates, but Japan surprised on the upside.

Management upgraded same-store sales growth guidance for Europe by 100 basis points in November 2017, only to miss the lower end of the range by 30 basis points. This reflected the significant impact of the unexpected spell of scorching hot weather across Europe in May and June on consumers' appetite for pizzas. EBITDA margins in Europe were steady in fiscal 2018, but we expect these to gradually widen in the medium term, as synergy benefits following the German Hallo Pizza acquisition are realised, the new French leadership team establishes itself, and the business scales up significantly. In the first 34 days of fiscal 2019, European same-store sales grew by only 1.6%. We forecast European like-for-like sales growth of 4% for the full fiscal year, in line with guidance of 3%-6% growth, and total sales further boosted by 140 new stores opening.

FYE Jul	2017A	2018A	2019E	2020E
Reported Npat \$m	118.46	133.17	154.99	183.95
EPS c	132.06	152.42	181.06	214.89
P/E x	48.98	30.37	27.06	22.80
EPS Growth %	27.98	15.42	18.79	18.69
DPS c	93.30	107.80	130.40	161.20
Yield %	1.44	2.33	2.66	3.29
Franking %	50.0	59.0	40.0	40.0

Morningstar Rating

★★

Share Price

5.330

Whitehaven Coal Limited (WHC) - Record Whitehaven Profit Reflects Buoyant Coal Price That Is Unlikely to Last

Analyst Note-No-moat-rated Whitehaven Coal saw record profit in fiscal 2018, benefiting from the buoyant prevailing coal price. Net profit after tax increased 43% to AUD 526 million, in line with our forecast. The 27% rise in revenue to AUD 2.3 billion was primarily due to price. Whitehaven's average received price rose 16% to AUD 121 per tonne, while the company's share of coal sales volumes, net of traded coal, rose 3% to 16.0 million tonnes. Unit cash costs excluding royalties were up 6% to AUD 62 per tonne, reflecting industry cost inflation, longer hauls at Maules Creek as the pit deepens, and weaker-than-expected production from Narrabri, Whitehaven's lowest-cost mine. Including royalties, cash costs rose 8% to AUD 72 per tonne.

We've lowered our near-term earnings forecasts as a result of lower-than-expected production guidance and higher unit costs. We now forecast earnings of AUD 0.61 and AUD 0.38 per share in fiscal 2019 and fiscal 2020, respectively, down from AUD 0.66 and AUD 0.45 previously. We maintain our AUD 3.40 per share fair value estimate, though after factoring in a 50% chance of the Vickery mine's approval. Based on our new price forecasts, as explained in our last note, we think Vickery's development is likely to be modestly value-accretive. The 50% probability weighting reflects uncertainty in gaining regulatory approvals. Incorporating Vickery sees increased capital expenditure in fiscal 2020 and 2021 but higher earnings thereafter.

Whitehaven shares remain overvalued. The current spot thermal coal price of about USD 115 per tonne is well above the marginal cost, and thermal coal miners are highly profitable. Consistent with that, Whitehaven earned a return on invested capital, or ROIC, of about 22% in fiscal 2018. We think this is unsustainable in the longer term and forecast the firm to earn an average ROIC of 9.3% for the next five years, close to the company's cost of capital.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	368.25	525.58	621.62	386.66
EPS c	37.34	52.25	60.58	37.68
P/E x	6.91	7.95	8.80	14.15
EPS Growth %	1,705.40	39.90	15.96	-37.80
DPS c	20.00	40.00	45.00	28.00
Yield %	7.75	9.63	8.44	5.25
Franking %	0.0	0.0	0.0	100.0

Morningstar Rating

★★★

Share Price

5.080

Investa Office Fund (IOF) - Platform Deal with Macquarie Could Lift Voting Restrictions and Scupper Blackstone Takeover of IOF

Analyst Note-Macquarie Real Estate's last minute purchase of a 50% interest in the Investa management platform (the platform transaction) makes it far less likely the Blackstone Group will gain the 75% of votes to effect its proposed takeover of Investa Office Fund. We continue to recommend IOF security holders vote in favour of the proposal, noting the latest events increases the likelihood of any takeover becoming a drawn-out affair given the relevant legislation is complex and the outcome could ultimately be decided by the courts. The board of Investa Listed Funds Management Limited, or ILFML, is seeking further detail in relation to the platform transaction and the impact this has on voting restrictions.

Under the Australian Corporations Act, section 253E, ILFML as the responsible entity of Investa Office Fund and its associates are not entitled to vote their interests on the takeover proposal on Aug. 21. Prior to the platform transaction with Macquarie Real Estate, ILFML and its associate Investa Wholesale Funds Management Limited, or IWFML, were precluded from voting their collective 19.9% stake in Investa Office Fund. Following the platform transaction, it appears the section 253E restriction no longer applies and IWFML can now vote on the proposal.

IWFML, which has a 17.5% ownership interest in Investa Office Fund, has stated it has not yet decided on how it and its subsidiaries will vote on the resolutions on Aug. 21.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	182.60	184.00	174.82	179.79
EPS c	29.74	29.97	29.21	30.04
P/E x	15.28	15.14	17.22	16.74
EPS Growth %	3.99	0.77	-2.51	2.84
DPS c	20.20	20.30	20.30	20.43
Yield %	4.45	4.47	4.04	4.06
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

29.640

Australia & New Zealand Banking Group Ltd (ANZ) - ANZ's 3Q18 Update Boosted by Strong Asset Quality, But Loan Growth Slowing. FVE AUD 30 Unchanged

Analyst Note-Wide-moat Australian and New Zealand Banking Group's third-quarter fiscal 2018 update focused on capital, funding, asset growth and asset quality, with no news on earnings. The four operating drivers of loan growth, net interest margins, expense growth and bad debts are broadly in line with our expectations, underpinning our AUD 30 per share valuation. At current prices, the stock is fairly valued, after increasing 13% since mid-June. We like the strong capital position, stable risk-weighted assets and sound asset quality. ANZ Bank also has quite a low level of lending to higher risk residential investors and interest-only borrowers. A key takeaway from the update is the bank's credit growth continues to slow. Factors are tighter credit conditions, higher regulatory mortgage risk weights and very competitive operating conditions particularly for high-quality owner-occupier home loans.

Despite softer loan growth in the quarter, ANZ Bank is steadily progressing corporate initiatives. These include disposing of noncore assets, growing capital levels, building the profitable Australian and New Zealand businesses, and most importantly, continuing to benefit from improved asset quality. The on-market share buyback program was recently doubled to AUD 3 billion and to date approximately AUD 1.5 billion has been completed.

The lower-than-expected bad debt expense for the quarter and ongoing pressure on NIMs results in minor changes to our fiscal 2018 cash profit forecasts. We reduce our bad debt expense forecast to AUD 800 million from the prior AUD 1.0 billion and partially offset a minor decrease in second-half NIMs to 1.91% from 1.93% previously. The net effect increases our fiscal 2018 cash profit forecast modestly to AUD 6.88 billion. Our fully franked dividend forecast of AUD 1.60 per share is unchanged with our fiscal 2018 dividend payout of 67% trending towards the bank's medium-term target of 60%-65% of cash earnings by end fiscal 2022.

FYE Sep	2016A	2017A	2018E	2019E
Reported Npat \$m	6,966.00	6,938.00	6,877.65	6,802.44
EPS c	239.69	237.08	239.52	242.48
P/E x	10.63	12.48	12.18	12.03
EPS Growth %	-7.91	-1.09	1.03	1.24
DPS c	160.00	160.00	160.00	162.00
Yield %	6.28	5.41	5.49	5.55
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

28.360

National Australia Bank Limited (NAB) - No Major Surprises in NAB's 3Q18 Trading Update. AUD 32 FVE Unchanged

Analyst Note—Wide-moat-rated National Australia Bank's unaudited cash profit of AUD 1.65 billion for third-quarter fiscal 2018 was broadly in line with our expectations, coming in 1% lower than the average of the two previous quarters and 3% lower than a year ago. Profits fell due to higher operating expenses, softer net interest margins, or NIMs, and modestly higher bad debts. There was nothing in the update that would change our long-term positive and our AUD 32 fair value estimate is unchanged. Our fiscal 2018 cash profit forecast of AUD 6.45 billion and total fully franked dividend of AUD 1.98 per share is intact. At current levels, the stock is undervalued trading 12% below our valuation.

We exclude the previously announced AUD 755 million pretax restructuring charge from our cash NPAT forecast, but if included, our forecast declines to approximately AUD 5.9 billion, broadly in line with consensus estimates. Dividend consensus is AUD 1.98 per share. We cannot ignore the serious consequences and fallout from the Royal Commission, but fundamentally National Australia Bank, and major bank peers, remain in good shape and in the long term will produce solid profit growth broadly in line with growth in the economy. Earnings are expected to decline in fiscal 2018. The bank has moved ahead of likely Royal Commission recommendations with previously announced plans to dispose of the MLC wealth business before December 2019.

Our fiscal 2018 forecast dividend payout ratio is a high 85%, but strong asset quality, modest loan growth and a benign outlook support the high payout. We forecast the payout ratio to trend lower but remain above the bank's medium-term target of 70-75% of cash earnings. The stock is currently trading at an attractive dividend yield of 7%, or 10% on a grossed-up basis. Loan growth and NIMs were unspecified, but revenue increased 1% on the average of the two previous quarters on the back of good growth in SME lending within business and private banking.

FYE Sep	2016A	2017A	2018E	2019E
Reported Npat \$m	6,482.96	6,642.00	6,450.40	6,836.82
EPS c	235.29	239.52	231.75	244.72
P/E x	11.69	12.72	12.06	11.42
EPS Growth %	3.37	1.80	-3.24	5.60
DPS c	198.00	198.00	198.00	198.00
Yield %	7.20	6.50	7.09	7.09
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

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