

11-September-2018

# Morningnote

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## Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	25857	7:12am 11/09/2018	-59	-0.23
▲ S&P 500	2877	7:12am 11/09/2018	5	0.19
▲ NASDAQ	7924	7:31am 11/09/2018	22	0.27
▲ FTSE 100 Index	7279	1:50am 11/09/2018	2	0.02
▲ DAX 30	11986	2:00am 11/09/2018	27	0.22
▲ CAC 40	5270	2:15am 11/09/2018	17	0.33
▲ Nikkei 225 (Japan)	22373	4:20pm 10/09/2018	66	0.30
▼ HKSE	26613	6:23pm 10/09/2018	-360	-1.33
▼ SSE Composite Index	2669	5:16pm 10/09/2018	-33	-1.21
▼ NZ 50	9049	3:20pm 10/09/2018	-47	-0.51

## International Markets Roundup

NEW YORK [Morningstar with AAP]: US stocks have mostly edged higher, with the S&P 500 and Nasdaq rebounding to snap a four-day losing streak, although a drop in Apple kept gains in check.

The Dow fell on Monday, with Travelers down 1.9 per cent. UnitedHealth shares also weighed on the Dow. The stock fell 3.2 per cent after a Citigroup downgrade.

Apple shares dropped 1.3 per cent, weighing on the three major indexes. But the S&P 500 and Nasdaq rebounded from losses last week.

"People are trying to test the waters after the selling last week," said Robert Pavlik, chief investment strategist, senior portfolio manager at SlateStone Wealth LLC in New York.

US President Donald Trump said on Friday he was ready to levy additional taxes on practically all Chinese imports, threatening duties on \$US267 billion of goods over and above planned tariffs on \$US200 billion of Chinese products.

China said it will respond if Washington takes any new steps on trade. Also, Apple last week said a "wide range" of its products would be hit, although it did not mention the iPhone.

At the same time, investors are optimistic about US economic data and forecasts for earnings.

"Fundamentals appear to be in place to support share prices," said John Carey, portfolio manager at Amundi Pioneer Asset Management in Boston.

"Economic numbers continue to be positive, and the outlook for earnings is positive."

The Dow Jones Industrial Average fell 59.47 points, or 0.23 per cent, to 25,857.07, the S&P 500 gained 5.45 points, or 0.19 per cent, to 2,877.13 and the Nasdaq Composite added 21.62 points, or 0.27 per cent, to 7,924.16.

**CIMIC Group Limited (CIM)** -CIMIC Group Grants \$190m Mining Contract at Leinster Underground Mine to Thiess

**Bega Cheese Limited (BGA)** -Bega Cheese Trading Halted, Pending Company Announcement

**Pact Group Holdings Ltd (PGH)** -Pact Group Holdings Announces the Resignation of CEO and MD

**Investa Office Fund (IOF)** -Investa Office Fund Notes Regarding the Proposal by Entities Affiliated with Blackstone

**Aneka Tambang (Persero) Tbk (Pt) (ATM)** -Aneka Tambang (Persero) Tbk Reinstates to Official Quotation

**Funtastic Limited (FUN)** -Funtastic Trading Halted, Pending Company Announcement

Investors await the release of consumer price index data this week.

Republicans in the US House of Representatives plan to unveil tax cuts this week, intended to augment Trump's 2017 tax overhaul that added \$US1.5 trillion to the federal deficit through permanent tax cuts for US companies.

Shares of United Rentals rose 5 per cent after the company said it was buying privately held equipment rental firm BlueLine Rental.

Among other gainers, Nike rose 2.2 per cent after a report said the footwear maker's Labor Day sales rose, easing concerns about the hit to demand after the Colin Kaepernick advertisement.

Tesla gained 8.5 per cent after brokerages Baird and Bernstein said the electric car maker was on track to be profitable and cash-flow positive in the second half of the year.

Alibaba dropped 3.7 per cent after the company said Jack Ma will step down as chairman in one year, passing on the reins to trusted lieutenant chief executive Daniel Zhang.

Advancing issues outnumbered declining ones on the NYSE by a 1.61-to-1 ratio; on Nasdaq, a 1.11-to-1 ratio favoured advancers.

The S&P 500 posted 45 new 52-week highs and five new lows; the Nasdaq Composite recorded 111 new highs and 68 new lows.

About 5.6 billion shares changed hands on US exchanges. That compares with the 6.1 billion daily average for the past 20 trading days, according to Thomson Reuters data.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2057	3:21am 11/09/2018	26	1.29
▼ Copper	5892	3:21am 11/09/2018	-23	-0.40
▲ Nickel	12324	3:21am 11/09/2018	53	0.43
▼ Gold	1195	8:15am 11/09/2018	-1	-0.12
▲ Silver	14.1	8:13am 11/09/2018	0.0	0.19
▼ Oil - West Texas crude	67.5	8:15am 11/09/2018	-0.2	-0.31
▼ Lead	2007	3:21am 11/09/2018	-51	-2.47
▼ Zinc	2379	3:21am 11/09/2018	-44	-1.84
▲ Ore	68	7:10am 11/09/2018	0	0.15

Currency	Latest Price	Time/Date (AEST)	Change	% Change
\$A vs \$US	0.7112	8:15am 11/09/2018	--	--
▼ \$A vs GBP	0.5460	8:15am 11/09/2018	-0.0040	-0.72
▲ \$A vs YEN	79.03	8:15am 11/09/2018	0.14	0.18
▼ \$A vs EUR	0.6134	8:15am 11/09/2018	-0.0018	-0.28
▲ \$A vs \$NZ	1.0900	8:15am 11/09/2018	0.0022	0.20
▼ \$US vs Euro	0.8625	8:15am 11/09/2018	-0.0025	-0.29
▼ \$US vs UK	0.7676	8:15am 11/09/2018	-0.0057	-0.74
▲ \$US vs CHF	0.9745	8:15am 11/09/2018	0.0063	0.65
▼ \$A vs \$CA	0.9360	8:15am 11/09/2018	-0.0009	-0.10

**Australian Market Report**

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	6250	7:20pm 10/09/2018	-3	-0.04
▼ S&P/ASX 200	6142	7:20pm 10/09/2018	-2	-0.03
▲ 10-year Bond Rate	2.59	5:52am 11/09/2018	--	0.10
▲ 90 Day Bank Accepted Bills SFE-Day	1.95	12:59am 11/09/2018	0.01	0.52
▲ 3-yr Bond Rate	2.04	2:55am 11/09/2018	0.01	0.49

## Local Markets Are Expected to Open Flat

Ahead of the local open SPI futures were 1 point lower at 6,138.

Monday 10 September - close [Morningstar with AAP]: The Australian stock market has closed flat after recovering some of its early losses after better-than-expected economic data from China.

The benchmark S&P/ASX200 index closed down 2.1 points, or 0.03 per cent, at 6,141.7 points on Monday, while the broader All Ordinaries index was down 2.6 points, or 0.04 per cent, at 6,249.7 points.

The ASX200 had been down as much as 0.33 per cent following a poor finish to the week on Wall Street and continued worries over potential US tariffs on Chinese goods.

In futures trading, the SPI200 futures index was down 13 points, or 0.21 per cent, at 6,131 points.

The overall picture improved after positive economic data from China - annual consumer inflation accelerating to a higher-than-expected 2.3 per cent in August - and the market sat flat at noon before drifting lower again by the close.

The heavyweight financial sector remained a drag on the market, with National Australia Bank the worst performing of the big banks after saying it had decided not to hike its mortgage rates despite its rivals doing so - sacrificing margins in the process.

NAB shares were down 0.65 per cent at \$27.69, compared to a slight gain for CBA and declines of about 0.49 and 0.4 per cent for ANZ and Westpac respectively.

The major miners were also weighing on the market, with Rio Tinto and BHP both in the doldrums.

Iron ore shipments to China from Port Hedland rose nearly 10 per cent in August from a month earlier, but Rio was 0.77 per cent lower at \$70.95, and BHP was down 0.32 per cent to \$31.20.

Elsewhere, shares in Explarum jumped 42 per cent to 10.5 cents on news gold miner Ramelius Resources had made a takeover bid for the gold and base metals explorer.

Health stocks showed gains, with Primary Health Care rising 1.78 per cent to \$2.86 after announcing the acquisition of seven clinics that will form the nucleus of a new day hospital division deriving non-Medicare revenue.

The Australian dollar continued its decline and was buying 71.16 US cents, down from 71.52 US cents on Friday.

On the ASX:

The S&P/ASX200 closed down 2.1 points, or 0.03 per cent, at 6,141.7 points.

All Ordinaries index was down 2.6 points, or 0.04 per cent, at 6,249.7 points.

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

- ▶ Brambles Limited
- ▶ CSL Limited
- ▶ Inghams Group Limited
- ▶ News Corporation
- ▶ Regis Healthcare Limited
- ▶ Wisetech Global Limited

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

ASX Code	Company Name	Report
MPL*	Medibank Private Limited	Annual

\* Estimated based on release date of previous report

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**Market Sensitive Announcements**


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08:24 AM

**Brainchip Holdings Ltd (BRN) -Brainchip Holdings Announces to Bring Akida Neuromorphic System-on-Chip to the Market**

Brainchip Holdings announced that it established itself as the first company to bring a production spiking neural network architecture, the Akida Neuromorphic System-on-Chip (NSoC), to the market. This architecture announcement firmly positions the Company as the leader in acceleration for artificial intelligence (AI) at the edge and the enterprise. The Akida NSoC is small, low cost and low power, making it ideal for edge applications such as advanced driver assistance systems (ADAS), autonomous vehicles, drones, vision-guided robotics, surveillance and machine vision systems. The Akida NSoC is designed for use as a stand-alone embedded accelerator or as a co-processor.

08:28 AM

**Ramelius Resources Limited (RMS) -Ramelius Resources Announces Takeover Offer for Explaurum**

Ramelius Resources announced that it intends to make an off-market takeover bid (Offer) to acquire all of the ordinary shares of Explaurum, a gold exploration and development company focussed on the Tampia Hill Project, located near Narembeen, 240km east of Perth in WA. Under the Offer, Explaurum Shareholders will receive one Company share for every four Explaurum shares held (Offer Consideration), valuing Explaurum shares at \$0.123 each, based on the 30-Day Volume Weighted Average Price (VWAP) of the Company shares as at 7 September 2018. The Offer reduces financial and operational risks for Explaurum Shareholders.

08:36 AM

**Ramelius Resources Limited (RMS) -Ramelius Resources Provides Presentation on Takeover Offer for Explaurum**

Ramelius Resources provided presentation on takeover offer for Explaurum. The Off-market takeover offer by the Company is for all the ordinary shares of Explaurum (the Offer). The offer consideration includes one Company share for every four Explaurum shares. It Values Explaurum at A\$0.123 per share or total pro-forma market capitalisation of A\$59.2m. Explaurum shareholders will own up to 19.8% of the pro forma shares of the Company. The offer period will open in late September 2018 and will be closed in late October 2018.

08:41 AM

**CYBG Plc (CYB) -CYBG Publishes Base Prospectus**

CYBG announced the publication of base prospectus. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. The notes will be issued in series (each a Series). Each Series may comprise one or more tranches (each a Tranche) issued on different issue dates. The notes may be issued in bearer form or in registered form. Notes may be issued at any price. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.

08:51 AM

**Dicker Data Limited (DDR) -Dicker Data Provides Investor Presentation**

Dicker Data provided investor presentation. It reported the revenue for the half year at \$717.5m, representing a growth of 13.5%. A total of 18 new vendors were added during FY 2017 and YTD FY 2018 accounting for incremental revenue of \$35.8m for half. The Net profit after tax increased by 24.9%. The Company continued to introduce new vendors to reduce reliance on any single vendor. The EPS for the half year increased to 9.84c, representing a growth of 21.5%.

08:52 AM

**National Veterinary Care Ltd (NVL) -National Veterinary Care Trading Halted, Pending Company Announcement**

The securities of National Veterinary Care will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 12 September 2018 or when the announcement is released to the market.

08:56 AM

**Brickworks Limited (BKW) -Brickworks Receives Notice of Intention to Take Protected Industrial Action**

Brickworks received notice that production employees at the Horsley Park and Bowral manufacturing sites intend to take protected industrial action in respect of ongoing negotiations for a new enterprise agreement. The proposed action involves production employees covered by an enterprise agreement with the Construction, Forestry, Maritime, Mining and Energy Union (CFMMEU). The relevant production employees at the Horsley Park and Bowral manufacturing sites intend to engage in an indefinite strike and an indefinite overtime ban commencing on 13 September 2018. The Company has held ongoing negotiations with the CFMMEU in an effort to resolve the outstanding issues but to date no agreement has been reached.

09:02 AM

**Medical Developments International Limited (MVP) -Medical Developments International Provides CEO's Roadshow Presentation**

Medical Developments International provided CEO's roadshow presentation. It reported that in August 2018, the Company raised \$17m in a placement to institutional investors at \$4.00 per share. The Shareholder Purchase Plan to issue a maximum of 1.25m shares at \$4.00 closes on 11 September 2018. During the year the Company declared two fully franked dividends of \$0.02 cps and issued 0.20m shares as part of the DRP. The sales of Respiratory Devices in the USA grew year on year. The Company generated a majority of its sales revenue from Australia.

09:07 AM

**CIMIC Group Limited (CIM) -CIMIC Group Grants \$190m Mining Contract at Leinster Underground Mine to Thiess**

CIMIC Group announced that its global mining services provider, Thiess, will continue providing mining services at Leinster Underground Mine in WA under a contract with BHP Nickel West, generating revenue estimated at \$190m. The contract, for a minimum of 24 months, includes the provision of a full range of underground mining services and equipment to support the mine's lateral development and associated ore production including load and haul, shotcreting, cable bolting and full fleet maintenance services. Leinster Underground is an underground nickel mine within BHP Nickel West's Leinster Nickel Operation, located in the northern goldfields of WA.

09:08 AM

**Bega Cheese Limited (BGA) -Bega Cheese Trading Halted, Pending Company Announcement**

The securities of Bega Cheese will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 12 September 2018 or when the announcement is released to the market.

09:11 AM

**Pact Group Holdings Ltd (PGH) -Pact Group Holdings Announces the Resignation of CEO and MD**

Pact Group Holdings announced that Mr. Malcolm Bunday, CEO and MD, has tendered his resignation and will be departing the Company following a period of leave. He will remain available to the Company until 8 March 2019 to assist with a smooth transition whilst the Board searches for a new CEO. The Board has appointed Mr. Raphael Geminder as Executive Chairman with immediate effect until such time as a new CEO has been appointed. Mr. Bunday commenced his tenure with the Company on 1 December 2015 and worked to lead the transition of the Company following its public listing.

09:21 AM

**Investa Office Fund (IOF) -Investa Office Fund Notes Regarding the Proposal by Entities Affiliated with Blackstone**

Investa Office Fund noted that Investa Listed Funds Management (ILFML) as responsible entity of the Company referred to the proposal by entities affiliated with The Blackstone Group (Blackstone) to acquire all of the units in the Company, to be implemented by way of trust scheme (Scheme). Blackstone stated that it was prepared to increase the consideration payable per Company unit under the Scheme from \$5.3485 to \$5.52 per Company unit. Blackstone has stated that it will not increase the consideration payable under the Scheme further, and accordingly, the increased consideration is best and final. A break fee equal to 1% of the equity value of the Company is consistent with Takeovers Panel guidance and market practice.

09:24 AM

**Aneka Tambang (Persero) Tbk (Pt) (ATM) -Aneka Tambang (Persero) Tbk Reinstates to Official Quotation**

Aneka Tambang (Persero) Tbk will be reinstated to official quotation as from the commencement of trading, 10 September 2018, following lodgement of its half year financial report for the period ended 30 June 2018.

09:25 AM

**Funtastic Limited (FUN) -Funtastic Trading Halted, Pending Company Announcement**

The securities of Funtastic will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 12 September 2018 or when the announcement is released to the market.

**Research Report Summaries****Morningstar Rating**

★★

**Share Price**

17.290

## Brickworks Limited (BKW) - Strike Action Against Brickworks Provides CSR With Near-Term Upside Potential; FVEs Unchanged

**Analyst Note**-Ongoing negotiations between no-moat Brickworks and the Construction Forestry Maritime Mining and Energy Union, or CFMMEU, have resulted in brick production employees threatening strike action. The strike is scheduled to commence on Sept 13, 2018 for an undefined period and currently involves just two of Brickworks' nine brick plants taking part. The two plants affected are located in New South Wales, or NSW, while the remaining operating plants should allow Brickworks to put in place strategies to minimise the strike's impact on sales. We expect a pragmatic approach from both sides to see the matter resolved without significant disruption to production and therefore retain our AUD 15.30 per share fair value estimate. Further, we continue to expect diluted earnings per share of AUD 1.10 in fiscal 2019 and await additional disclosure likely to eventuate at the fiscal 2018 full year result on September 20, 2018.

FYE Jul	2016A	2017A	2018E	2019E
Reported Npat \$m	147.08	196.43	200.62	163.23
EPS c	98.93	131.79	134.61	109.52
P/E x	15.22	10.41	12.85	15.80
EPS Growth %	21.98	33.22	2.14	-18.64
DPS c	48.00	51.00	51.00	51.00
Yield %	3.19	3.72	2.95	2.95
Franking %	100.0	100.0	100.0	100.0

## Morningstar Rating

★★★

## Share Price

4.180

## CSR Limited (CSR) - Strike Action Against Brickworks Provides CSR With Near-Term Upside Potential; FVEs Unchanged

**Analyst Note**—Ongoing negotiations between no-moat Brickworks and the Construction Forestry Maritime Mining and Energy Union, or CFMMEU, have resulted in brick production employees threatening strike action. The strike is scheduled to commence on Sept 13, 2018 for an undefined period and currently involves just two of Brickworks' nine brick plants taking part. The two plants affected are located in New South Wales, or NSW, while the remaining operating plants should allow Brickworks to put in place strategies to minimise the strike's impact on sales. We expect a pragmatic approach from both sides to see the matter resolved without significant disruption to production and therefore retain our AUD 15.30 per share fair value estimate. Further, we continue to expect diluted earnings per share of AUD 1.10 in fiscal 2019 and await additional disclosure likely to eventuate at the fiscal 2018 full year result on September 20, 2018.

FYE Mar	2017A	2018A	2019E	2020E
Reported Npat \$m	184.10	194.70	205.13	176.19
EPS c	36.36	38.46	40.43	34.72
P/E x	10.65	11.86	10.36	12.07
EPS Growth %	11.28	5.76	5.12	-14.11
DPS c	26.00	27.00	27.00	27.00
Yield %	6.71	5.92	6.44	6.44
Franking %	25.0	62.5	75.0	75.0



## Morningstar Rating

★★

## Share Price

3.840

## Incitec Pivot Limited (IPL) - Incitec Pivot Strengthening Customer Relationships Through Technology

**Analyst Note**-We make retain our AUD 3.00 per share fair value estimate for explosives company Incitec Pivot, despite lowering our fiscal 2018 EPS forecast by 8% to AUD 0.23 from AUD 0.26 following guidance provided at the company's investor day. No-moat Incitec Pivot doesn't provide explicit earnings guidance but revealed enough to prompt some reining-in of our short-term earnings expectations. Fiscal 2018 has been affected by a mechanical turnaround at the Phosphate Hill plant taking longer than expected, and persistent drought conditions in New South Wales and Queensland are taking their toll. We don't think any of these will be sufficiently long-lived to affect our fair value estimate, but trading at around AUD 3.80, Incitec Pivot shares remain materially overvalued, and earnings disappointment could be a key catalyst for a share-price retracement towards fair value.

While we are reducing our fiscal 2018 EPS forecast, AUD 0.23 still represents a 20% improvement on fiscal 2017, anticipating in particular a stronger performance from the Americas, where explosive earnings are expected to be up on the previous corresponding period, and agriculture and industrial chemicals are also anticipating improved urea prices. Global fertiliser prices are kicking up from at or near cyclical lows in 2017, and the emergence of stronger prices is in line with our forecast. The Americas now account for 50% of group EBIT.

Our group midcycle forecasts are little changed, including a 4.6% revenue CAGR to AUD 4.3 billion by fiscal 2022, at a 24.5% midcycle EBITDA margin. Our fair value estimate equates to a fiscal 2022 enterprise value/EBITDA ratio of 6.5 and unfranked dividend yield of 4.1%, both discounted at the weighted average cost of capital. Broadly speaking, our fair value estimate breaks down to 75% from explosives and 25% from fertilisers including Southern Cross. We project a five-year annual EBITDA CAGR of 6.5% in explosives and 8.0% in fertiliser, with the latter from a low base.

FYE Sep	2016A	2017A	2018E	2019E
Reported Npat \$m	295.20	318.70	383.67	473.72
EPS c	17.46	18.83	22.98	28.71
P/E x	18.73	18.40	16.71	13.38
EPS Growth %	-26.47	7.80	22.07	24.93
DPS c	8.70	9.40	12.35	14.36
Yield %	2.66	2.71	3.22	3.74
Franking %	47.13	0.0	0.0	0.0

## Morningstar Rating

★★★★

## Share Price

3.810

## Pact Group Holdings Ltd (PGH) - Surprise CEO Resignation at Narrow-Moat Pact; FVE Unchanged

**Analyst Note**—Narrow-moat Pact Group's CEO Malcolm Bunday surprised the market by resigning after less than three years in the top job. Chairman and Pact founder Raphael Geminder has been appointed executive chairman until such time a new CEO is appointed. We maintain our AUD 4.90 per share fair value estimate and still expect 3.5% EPS growth to AUD 0.27 in fiscal 2019.

While our valuation is intact, we view Bunday's departure as mildly negative, given the completion of the CSI/Graham Packaging acquisition in Asia in fiscal 2018. Bunday had responsibility for these businesses previous to his tenure at Pact, serving as President and CEO of CSI and Graham Packaging prior to their divestment by Reynold Group Holdings. We have previously noted our concern regarding competitive pressures in Asian markets for rigids and beverage closures. Our apprehensions were somewhat moderated, however, by Bunday's knowledge of the assets being acquired. With Bunday now no longer at the helm, we see potential for the integration of the businesses into the broader group to become more challenging, thus risking stated deal synergies, estimated by management at AUD 2.3 million. However, stated synergies account for a mere AUD 0.06 per share of Pact's value, by our estimate. While the realisation of deal synergies is key to assuring that capital allocation under the deal was sound, they are immaterial to our fair value estimate.

However, we view the potential for lost market share in Asia as a larger risk, a possibility should the incoming CEO lack understanding of the CSI/Graham Packaging's Chinese and South East Asian exposures. We therefore advocate for a successor with requisite experience in Asian plastics markets, which we see as key to ensuring success in the region, particularly in light of the potential for the acquisition to be utilised as a platform for further merger and acquisition activity in Asia.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	98.59	84.28	93.24	105.67
EPS c	33.01	26.45	27.38	30.41
P/E x	19.23	20.85	14.50	13.05
EPS Growth %	7.03	-19.86	3.52	11.06
DPS c	0.00	0.00	20.54	22.81
Yield %	0.00	0.00	5.17	5.75
Franking %	65.0	65.0	0.0	0.0

## Morningstar Rating



## Share Price

47.760

## Xero Limited (XRO) - Xero's Annual Customer Conference Dazzles, but So Does Its Share Price

**Analyst Note**—Xero's annual southern-hemisphere customer conference, Xerocon, was held in Brisbane this year and was as spectacular as usual. It's easy to see why investors are so excited about this world-leading software company, which continues to generate strong subscriber growth and has a relatively new and cool brand. The 3,500 accountant attendees were treated to a wide range of presentations and exhibitors in a setting themed around a Miami pool party. The event featured ping pong, basketball, mini-golf, and a DJ, and the excitement and positivity of all involved was tangible.

The company also provided investors with product demonstrations and executive presentations, but no material new announcements were made. Our key takeaway was that Xero's strong momentum appears intact, with no indications of any material issues with the business. The most notable news was that Xero Expenses, which was launched at last year's conference, appears to have missed management's expectations, but Xero Projects, launched at the same time, appears to be progressing to plan. However, both software applications are complementary to the core Xero software, and we still assume that both contribute immaterial revenue for the foreseeable future.

Following the conference, we retain our investment thesis, namely that we expect Xero to continue to quickly increase subscribers and generate strong profit growth over the next decade, underpinned by its switching-cost-based narrow economic moat. However, Xero's story is well known by the market, and we struggle to justify the current share price of around AUD 47.65. We have maintained our DCF-based fair value estimate at AUD 24.00, and we still believe the shares are materially overvalued. The fiscal 2020 price/earnings ratio of 190 means the share price is entirely based on future earnings, with no existing earnings to act as support should subscriber growth disappoint and the buzz around the stock decrease.

FYE Mar	2017A	2018A	2019E	2020E
Reported Npat \$m	-44.11	-17.30	3.08	29.67
EPS c	-32.12	-12.58	2.22	21.35
P/E x	-53.88	-213.95	2,085.94	216.77
EPS Growth %	0.00	0.00	0.00	862.30
DPS c	0.00	0.00	0.00	5.93
Yield %	0.00	0.00	0.00	0.13
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
▲ IFL	IOOF	★★★★	10/09/2018	Upgrade due to price change
▲ SGR	The Star Entertainment Group	★★★	10/09/2018	Upgrade due to price change
▼ APA	APA Group	★★	07/09/2018	CKI's Bid for APA Group Is Unlikely to Succeed
▲ BLD	Boral	★★★	07/09/2018	Upgrade due to price change
▲ ASX	ASX	★★	06/09/2018	Upgrade due to price change
▲ BKL	Blackmores	★★★	06/09/2018	Upgrade due to price change
▲ CGF	Challenger	★★★★	06/09/2018	Upgrade due to price change
▲ FXJ	Fairfax Media	★★★	06/09/2018	Upgrade due to price change
▲ NCM	Newcrest Mining	★★★★	06/09/2018	Upgrade due to price change
▼ CNU-NZ	Chorus	★★	05/09/2018	Downgrade due to price change
▲ LLC	LendLease	★★★	05/09/2018	Upgrade due to price change
▼ ARF	Arena REIT	★★★	04/09/2018	Downgrade due to price change
▼ CNU	Chorus	★★	04/09/2018	Downgrade due to price change
▼ MGR	Mirvac Group	★★	04/09/2018	Downgrade due to price change
▲ GNE	Genesis Energy	★★★	03/09/2018	Upgrade due to price change

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