

18-September-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	26062	8:09am 18/09/2018	-93	-0.35
▼ S&P 500	2889	8:09am 18/09/2018	-16	-0.56
▼ NASDAQ	7896	7:31am 18/09/2018	-114	-1.43
▼ FTSE 100 Index	7302	1:50am 18/09/2018	-2	-0.03
▼ DAX 30	12096	2:00am 18/09/2018	-28	-0.23
▼ CAC 40	5349	2:15am 18/09/2018	-4	-0.07
▲ Nikkei 225 (Japan)	23095	4:20pm 14/09/2018	273	1.20
▼ HKSE	26933	6:23pm 17/09/2018	-354	-1.30
▼ SSE Composite Index	2652	5:16pm 17/09/2018	-30	-1.11
▲ NZ 50	9272	3:20pm 17/09/2018	1	0.01

International Markets Roundup

NEW YORK [Morningstar with AAP]: US stocks have fallen, led by declines in technology and consumer discretionary stocks as investors looked to President Donald Trump's announcement regarding tariffs on \$US200 billion of Chinese imports.

All three major US indexes were lower, with the tech-heavy Nasdaq posting its biggest percentage loss since late-July.

Wall Street extended its losses ahead of the tariff announcement after Trump asserted his belief that the United States' trade deficit with China was too big, stating "we can't do that anymore."

Earlier, China vowed that it will not play defence in the escalating trade dispute, adding further fuel to tensions as a new list of items subject to tariffs, including technology and consumer goods, was anticipated from Washington.

"This is the sixth or seventh time we talked about this particular round of tariffs," said Paul Nolte, portfolio manager at Kingsview Asset Management in Chicago.

"As long as Trump is comfortable raising tariffs, he believes he's winning."

Consumer discretionary and technology were the biggest percentage losers on the S&P 500, falling 1.3 per cent and 1.4 per cent, respectively.

Amazon.com led consumer discretionary stocks lower, falling 3.2 per cent.

Apple has said the moves could hit a "wide range" of its products. The iPhone maker's shares were down 2.7 per cent, providing the biggest drag on the Dow, despite earlier reports that the US would spare some of its products in the latest round of tariff actions.

All of the so-called FAANG group of momentum stocks closed down between 1.0 per cent and 3.9 per cent. Other

Regis Resources Limited (RRL) -Regis Resources Announces Board Succession and Appointment Of MD

Paragon Care Limited (PGC) -Paragon Care Completes First Tranche Placement to China Pioneer

Kidman Resources Limited (KDR) -Kidman Resources Provides Update on Mt Holland Exemption Applications

Mesoblast Limited (MSB) -Mesoblast Announces Tasly Pharmaceutical Group Receives Approvals for Closing Investment Agreement and Development and Collaboration Agreement

The Agency Group Australia Ltd (AU1) -The Agency Group Australia Trading Halted, Pending Company Announcement

FAANG stocks include Netflix, Facebook and Google-parent Alphabet.

"(The FAANG stocks have) had great runs; the fact that they'd come off a little bit really doesn't detract from the fact that they've put in some very good performance numbers this year," Nolte said.

But he noted "investors might be slowly looking outside of tech for the next opportunity."

The Dow Jones Industrial Average fell 92.55 points, or 0.35 per cent, to 26,062.12, the S&P 500 lost 16.18 points, or 0.56 per cent, to 2,888.8 and the Nasdaq Composite dropped 114.25 points, or 1.43 per cent, to 7,895.79.

The S&P 500's slide was concentrated. Of the 11 major sectors in the index, only four ended the session in negative territory.

The CBOE Volatility index, a gauge of investor anxiety, rose 1.54 points, its first increase in six sessions.

Twitter fell 4.2 per cent, the biggest percentage loser in the S&P 500 technology index, after brokerage MoffettNathanson flagged concerns over rising expenses.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	1999	3:20am 18/09/2018	-7	-0.37
▼ Copper	5920	3:20am 18/09/2018	-31	-0.52
▼ Nickel	12158	3:20am 18/09/2018	-415	-3.30
▲ Gold	1201	8:14am 18/09/2018	1	0.05
▲ Silver	14.2	8:14am 18/09/2018	0.1	1.00
▼ Oil - West Texas crude	68.7	8:15am 18/09/2018	-0.3	-0.45
▲ Lead	2065	3:20am 18/09/2018	36	1.75
▼ Zinc	2300	3:20am 18/09/2018	-17	-0.72
▲ Ore	69	7:10am 18/09/2018	0	0.20

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7181	8:14am 18/09/2018	0.0037	0.52
▼ \$A vs GBP	0.5456	8:14am 18/09/2018	-0.0008	-0.15
▲ \$A vs YEN	80.31	8:14am 18/09/2018	0.33	0.42
\$A vs EUR	0.6144	8:14am 18/09/2018	--	--
▼ \$A vs \$NZ	1.0898	8:14am 18/09/2018	-0.0021	-0.19
▼ \$US vs Euro	0.8557	8:14am 18/09/2018	-0.0043	-0.50
▼ \$US vs UK	0.7598	8:14am 18/09/2018	-0.0051	-0.66
▼ \$US vs CHF	0.9622	8:14am 18/09/2018	-0.0046	-0.47
▲ \$A vs \$CA	0.9360	8:14am 18/09/2018	0.0039	0.41

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	6294	7:20pm 17/09/2018	18	0.28
▲ S&P/ASX 200	6185	7:20pm 17/09/2018	20	0.32
▲ 10-year Bond Rate	2.65	7:06am 18/09/2018	0.01	0.47
90 Day Bank Accepted Bills SFE-Day	1.95	6:10am 18/09/2018	--	--
▲ 3-yr Bond Rate	2.07	7:09am 18/09/2018	0.01	0.49

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 4 points lower at 6,179.

Monday 17 September - close [Morningstar with AAP]: Australian shares have closed higher, lifted by the banks despite heavy losses to aged care stocks in reaction to the pending royal commission.

The benchmark S&P/ASX200 index was up 19.7 points, or 0.32 per cent, at 6,185.0 points on Monday, while the broader All Ordinaries index was up 17.6 points, or 0.28 per cent, higher at 6,293.9 points.

CommSec market analyst Tom Piotrowski said until the terms of reference for the inquiry are announced, the damage will be limited to shares of aged care providers.

"And whether or not it's going to be extended more broadly to organisations that provide services to that retired cohort," he said.

Shares in listed aged care provider Regis Healthcare were down 17.1 per cent to \$3.00, Japara Healthcare down 17 per cent to \$1.39, and Aveo Group down 7.2 per cent to \$2.06.

While Estia Health Ltd was the hardest hit, plummeting 18.6 per cent to \$2.40.

Estia was among the companies supporting Prime Minister Scott Morrison's announcement of a commission into the sector and was looking forward to engaging in the consultation on the terms of reference for the inquiry.

Audits at some aged care facilities have revealed a dramatic increase in non-compliance and abuses in the aged care sector.

The heavyweight financial sector closed 0.6 per cent higher after early losses, with NAB posting the biggest gain, jumping 0.77 per cent to \$27.56 after it announced former NSW Premier Mike Baird would be leading its retail unit following the departure of consumer boss Andrew Hagger.

Commonwealth Bank shares were up 0.35 per cent at \$71.75 and ANZ was up 0.89 per cent to \$28.40.

News over the weekend US President Donald Trump instructed aides to proceed with tariffs on about \$US200 billion of Chinese products pulled back oil prices.

This led to materials being the only sector to join health care in the red, with BHP leading the losses, down 0.6 per cent to \$31.61.

The Australian dollar was also impacted by the escalation of trade tensions between the US and China.

The Aussie was buying 71.60 US cents at 1630 AEST, from 72.06 US cents on Friday.

ON THE ASX:

The S&P/ASX200 closed up 19.7 points, or 0.32 per cent, at 6,185.0 points

The All Ordinaries was up 17.6 points, or 0.28 per cent, higher at 6,293.9 points

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

- Qube Holdings Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
TPM*	TPG Telecom Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:30 AM

Energy World Corporation Ltd (EWC) -Energy World Completes Documentation for the Transaction with SCPE

Energy World completed documentation for the transaction with Standard Chartered Private Equity (Singapore) (SCPE). SCPE will reinvest the entire proceeds of their existing US\$50m exchangeable convertible note previously issued by the Company's wholly owned subsidiary, Energy World Philippines Holdings, into a new instrument structured as a US\$50m loan to the Company and an issue of warrants by it. The loan has a final maturity 3 years from the date of Closing, with principal and interest payments to be made at various times during the loan term. SCPE will be issued 101,122,429 warrants convertible into ordinary shares in the capital of the Company at A\$0.50 at anytime within 5 years of the Closing. Closing of the transaction is expected by 14 October 2018.

08:34 AM

Gascoyne Resources Limited (GCY) -Gascoyne Resources Provides Operations and Exploration Update

Gascoyne Resources provided an operational update on the Dalgaranga Gold Project as well as reporting new assay results returned to date from exploration drilling at both the Dalgaranga and Glenburgh Gold Projects highlighting favourable intersections. Mining has continued to ramp up, with daily movement of 55,000 bulk cubic metres (BCM). RC drilling has continued to intersect favorable mineralisation at the Greencock prospect. High grade RC intersections indicate the discovery of a new prospect - the Cobra Prospect, which is located between the Mustang and Shelby deposits in an area which has not been tested by any drilling.

08:39 AM

Collection House Limited (CLH) -Collection House Announces Chairman and MD Reaffirm Their Commitment to Business and Announces New Non-Executive Directors

Collection House announced the appointment of two new Non-Executive Directors to the Board. The new independent Non-Executive Directors are Sandra Birkenleigh and Catherine McDowell. It also reported that, MD, Mr. Anthony Rivas, and Chairman, Mr. Leigh Berkley, have re-affirmed their commitment to the business. Although the achievement of performance targets has entitled Mr. Rivas to receive a total of 3m performance rights, he has advised the Board that he wishes to forego 2m performance rights currently valued at \$2.6m.

08:46 AM

Artemis Resources Limited (ARV) -Artemis Resources Announces 225 OZ of Gold Nuggets Recovered from Conglomerates

Artemis Resources advised that total conglomerate gold nuggets recovered and owned 100% by the Company from exploration activities sits at 7Kg (225 OZ). These nuggets have been recovered by the Company from its 47K Patch and Purdy's Reward gold discoveries just south of Karratha in the Western Pilbara region of WA. These nuggets are from conglomerate style gold deposits. The Company has been methodically working at 47K Patch and has decided to defer bulk sampling until all data is consolidated, integrated and processed.

08:58 AM

Midway Limited (MWY) -Midway Trading Halted, Pending Company Announcement

The securities of Midway will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 19 September 2018 or when the announcement is released to the market.

09:01 AM

Midway Limited (MWY) -Midway Requests for Trading Halt

Midway requested the securities of the Company be placed in trading halt with effect from the commencement of trading on 17 September 2018. The Company advised that the trading halt is requested pending an announcement by the Company in relation to a proposed capital raising; it requests that the trading halt remain in place until the earlier of the time it makes an announcement to the market about the results of the capital raising and the commencement of normal trading on 19 September 2018; and it is not aware of any reason why the trading halt should not be granted or any other information necessary to inform the market about the trading halt.

09:14 AM

BWX Limited (BWX) -BWX Concludes to Remain Independent After the Strategic Review

BWX announced that it would undertake a thorough evaluation of all of the Company's options (Strategic Review). The Strategic Review was initiated following the receipt of an unsolicited preliminary, nonbinding, indicative and conditional proposal (Indicative Proposal) from John Humble and Aaron Finlay in partnership with Bain Capital Private Equity and its affiliates (Bain Consortium) on 21 May 2018. The discussions have concluded with the Bain Consortium not being able to submit a binding proposal and withdrawing its Indicative Proposal. It announced that Interim CEO Mr. Myles Anceschi has been appointed the permanent CEO. In addition, Mr. Anceschi, who was instrumental in leading the Company throughout the Strategic Review, will join the Company Board of Directors as the MD.

09:20 AM

Metminco Limited (MNC) -Metminco Suspends from Official Quotation

The securities of Metminco will be suspended from quotation immediately under Listing Rule 17.2, at the request of the Company, pending the release of an announcement regarding an acquisition and funding proposal.

09:21 AM

Liontown Resources Limited (LTR) -Liontown Resources Trading Halted, Pending Company Announcement

The securities of Liontown Resources will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 19 September 2018 or when the announcement is released to the market.

09:31 AM

Regis Resources Limited (RRL) -Regis Resources Announces Board Succession and Appointment Of MD

Regis Resources advised that it has made two key appointments as a result of a considered process of board and management succession planning. The Company's long serving MD and Executive Chairman, Mr. Mark Clark will retire from the role of MD on 15 October 2018 but will continue as Non-Executive Chairman until the Company's AGM in late November 2018 at which time he intends to retire as a director. Experienced mining executive Mr. Jim Beyer has been appointed as CEO and MD, effective 15 October 2018. The Company announced that Mr. James Mactier has accepted the role of Non Executive Chairman.

09:35 AM

Paragon Care Limited (PGC) -Paragon Care Completes First Tranche Placement to China Pioneer

Paragon Care advised that it has issued 16.48m FPO shares to Pioneer Pharma Australia, as a wholly owned subsidiary of Stock Exchange of HK-listed China Pioneer Pharma Holdings. Shares will be issued at a price of AU\$0.91 per share. Following completion of tranche 1 of the Placement, the Company will have 302.19m shares on issue and China Pioneer will hold 5.45% of those shares. The Settlement and allotment of Tranche 2 Placement shares of 33.93m will take place on or before 20 November 2018. The Company also announced the resignation of Mr. Leonard Kocovic as Joint Company Secretary. Ms. Melanie Leydin will continue in her capacity as Company Secretary.

09:40 AM

Kidman Resources Limited (KDR) -Kidman Resources Provides Update on Mt Holland Exemption Applications

Kidman Resources provided Update on Mt Holland exemption applications. The Company has been waiting for a recommendation from the Perth Mining Warden (Warden) to the Minister for Mines and Petroleum (WA) (Minister) in relation to its applications for exemption from minimum expenditure obligations for tenements held by the Company subsidiaries. The exemption applications and objections were heard by the Warden in November 2017. The Warden's recommendation is not binding on the Minister, and the Minister has the discretion to grant certificates of exemption to the Company and its subsidiaries, notwithstanding the Warden's recommendation. The Company disagrees with the Warden's recommendation in a number of respects.

09:44 AM

Mesoblast Limited (MSB) -Mesoblast Announces Tasly Pharmaceutical Group Receives Approvals for Closing Investment Agreement and Development and Collaboration Agreement

Mesoblast announced that Tasly Pharmaceutical Group has successfully obtained all necessary approvals, including the Safe Administration of Foreign Exchange, required for closing the investment agreement and the development and collaboration agreement with the Company to commercialize cell therapies for cardiovascular diseases in China.

09:47 AM

The Agency Group Australia Ltd (AU1) -The Agency Group Australia Trading Halted, Pending Company Announcement

The securities of The Agency Group Australia will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 19 September 2018 or when the announcement is released to the market.

Research Report Summaries

Morningstar Rating

★★★

Share Price

4.790

Mystate Limited (MYS) - We Reaffirm Our Earnings Outlook and AUD 5 FVE for MyState

Analyst Note—Our neutral view on Tasmania-based no-moat-rated MyState is unchanged following our post-result management update. We reaffirm our AUD 5 fair value estimate and fiscal 2019 cash earnings forecast of AUD 33 million. Our fair value estimate implies a fiscal 2019 price/earnings ratio of 14 times and an attractive fully franked dividend yield of 5.8%, or 8.3% on a grossed-up basis. Our earnings outlook is intact, with average annual EPS growth forecast to be 4% over the five-year forecast period. At current levels, MyState is trading marginally below our valuation.

We like the bank's lower earnings risk profile but acknowledge strong loan growth is unlikely to resurface due to intense competition, particularly for owner-occupied principal and interest home loans with lower loan/value ratios, which represent the majority of MyState's loan portfolio. Future earnings growth is leveraged to how successful the bank manages cost growth, improves productivity, and boosts operational efficiency. Positively, previous investment in product platforms and systems have started to deliver improved cost efficiency as expected. Increased profit contribution from the small wealth and trustee business provides further upside to the investment case.

Similar to peers, MyState is facing intense price competition and funding pressure, which leads to a subdued net interest margin outlook. The bank bill swap rate, which influences short-term wholesale funding costs, has trended down to 1.92% from the peak of 2.12% three months ago but remains well above the level of around 1.7% at the same time in 2017. Over our forecast period, we expect MyState's net interest margin to stabilise around 1.85%, close to the 1.86% exit net interest margin at the end of the second half of fiscal 2018.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	30.08	31.48	33.09	35.50
EPS c	34.04	34.99	35.99	37.78
P/E x	12.76	13.85	13.31	12.68
EPS Growth %	5.06	2.79	2.86	4.97
DPS c	28.50	28.80	29.00	29.50
Yield %	6.56	5.94	6.05	6.16
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★★

Share Price

27.560

National Australia Bank Limited (NAB) - NAB Shuffles Senior Executive Ranks Again; FVE Unchanged at AUD 32

Analyst Note—Wide-moat National Australia Bank's most recent senior executive reshuffle was no real surprise, with the news that head of consumer banking and wealth Andrew Hagger is departing. Hagger was National Australia Bank's most senior and high-profile executive to front the Royal Commission and received considerable heat and reputational damage from the Commission's blowtorch focus on shortcomings in the wealth and superannuation industries. We retain our AUD 32 fair value estimate, and currently the shares are undervalued, trading 13% below our valuation. We retain our fiscal 2018 forecast cash net profit after tax of AUD 6.45 billion and total fully franked dividend of AUD 1.98 per share. We still exclude the previously announced AUD 755 million restructuring charge from our cash NPAT forecast.

The most interesting development in the reshuffle is the move of star recruit and former NSW premier Mike Baird to head of retail banking from head of corporate and institutional banking. We see Baird as the logical successor for CEO Andrew Thorburn when Thorburn eventually steps down. Despite widespread criticism of the bank's actions and/or inaction, revealed during the Royal Commission hearings, we do not believe Thorburn is under any pressure to resign any time soon. Hagger has taken responsibility for the bank's poor showing in front of the Commission. Baird will be responsible for the rebuild of the bank's reputation. Consumer banking is a key business, with fiscal 2017 cash earnings of AUD 804 million representing 24% of fiscal 2017 group profits. Baird will be responsible for more than 700 branches, 7,000 bankers, broker partnerships, direct banking, and the digital bank, UBank. In our view, Thorburn will be judged on the success or otherwise of the multiyear major transformation project currently under way and the expected uplift in earnings the project is targeted to deliver. Thorburn was promoted to CEO in August 2014 and could possibly exit the bank sometime in 2020.

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	11.89	11.26
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	7.18	7.18
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
▲ HSO	Healthscope	★★★★	17/09/2018	Upgrade due to price change
▲ SKT	Sky Network TV	★★★★	17/09/2018	Upgrade due to price change
▼ MYR	Myer Holdings	★★★	13/09/2018	Downgrade due to price change
▲ NWL	Netwealth Group	★★	12/09/2018	Upgrade due to price change
▲ IFL	IIOF	★★★★	10/09/2018	Upgrade due to price change
▲ SGR	The Star Entertainment Group	★★★	10/09/2018	Upgrade due to price change

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