

19-September-2018

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	26247	7:03am 19/09/2018	185	0.71
▲ S&P 500	2904	7:03am 19/09/2018	16	0.54
▲ NASDAQ	7956	7:31am 19/09/2018	60	0.76
▼ FTSE 100 Index	7300	1:50am 19/09/2018	-2	-0.03
▲ DAX 30	12158	2:00am 19/09/2018	61	0.51
▲ CAC 40	5364	2:15am 19/09/2018	15	0.28
▲ Nikkei 225 (Japan)	23421	4:20pm 18/09/2018	326	1.41
▲ HKSE	27085	6:24pm 18/09/2018	152	0.56
▲ SSE Composite Index	2700	5:16pm 18/09/2018	48	1.82
▲ NZ 50	9316	3:20pm 18/09/2018	44	0.48

International Markets Roundup

NEW YORK [Morningstar with AAP]: Wall Street has rebounded in a broad-based rally as investors brushed aside intensifying trade rhetoric between the United States and China.

All three major US indexes closed higher on Tuesday following Monday's sell-off.

Late on Monday, US President Donald Trump announced that 10 per cent tariffs on \$US200 billion (\$A277 billion) in imports from China would go into effect next week, escalating the tit-for-tat trade spat between the world's two largest economies.

China responded on Tuesday by unveiling 10 per cent tariffs on about \$US60 billion of US goods also effective September 24.

"Initially they were talking about tariffs in the 20 to 25 per cent range, and that's actually been lowered to 10 per cent," said Stephen Massocca, senior vice president at Wedbush Securities in San Francisco. "Maybe these numbers aren't going to be as bad as initially thought.

"There's much more pressure on the Chinese to reach a deal than there is on (the United States), at this point," Massocca added.

Tech stocks were bolstered by news that Apple and fitness gadget-maker Fitbit would escape the tariffs. Apple shares closed up 0.2 per cent while Fitbit shares rose 6.4 per cent.

Trade-sensitive industrials gained ground, with Boeing Co ending 2.1 per cent higher. The plane-maker, the biggest US exporter to China, led the Dow Jones Industrial Average's advance.

Nike also boosted the blue-chip index as Telsey Advisory Group hiked its price target. The stock was reached an all-time closing high, up 2.4 per cent.

Garda Diversified Property Fund (GDF)

-Garda Diversified Property Fund Announces Dividend of 2.25c

Atlas Arteria (ALX) -Atlas Arteria

Announces Dividend for the Period Ending on 31 December 2018

Capitol Health Limited (CAJ) -Capitol

Health Completes Acquisition of Radiology Network in Perth And Additional Melbourne Clinics

Gascoyne Resources Limited (GCY)

-Gascoyne Resources Trading Halted, Pending Company Announcement

Magnis Resources Limited (MNS) -Magnis

Resources Signed a Four Party JDA Along With Dendrobium Automotive

Beadell Resources Limited (BDR) -Beadell

Resources Provides Exploration Strategy Update

The Dow Jones Industrial Average on Tuesday rose 184.84 points, or 0.71 per cent, to 26,246.96, the S&P 500 gained 15.51 points, or 0.54 per cent, to 2,904.31 and the Nasdaq Composite added 60.32 points, or 0.76 per cent, to 7,956.11.

Consumer discretionary was the best performing of the 11 major S&P 500 sectors, rising 1.3 per cent.

The energy sector advanced 0.7 per cent as crude prices rose on signs that OPEC is not prepared to boost output to address shrinking supplies from Iran.

Among losers, Tesla sank 3.4 per cent after disclosing that it had received a request for documents from the US Department of Justice regarding chief executive Elon Musk's public statements about taking the company private.

Insurer Marsh & McLennan slid by 4.0 per cent on news that it will buy British insurance and reinsurance broker Jardine Lloyd Thompson for \$US5.7 billion.

Defensive groups lagged, with consumer staples ending down 0.4 per cent. General Mills dropped 7.6 per cent after missing analysts' quarterly sales estimates, extending the packaged food company stock's near 26 per cent year-to-date decline.

Advancing issues outnumbered declining ones on the NYSE by a 1.35-to-1 ratio; on Nasdaq, a 1.42-to-1 ratio favoured advancers.

The S&P 500 posted 39 new 52-week highs and three new lows; the Nasdaq Composite recorded 58 new highs and 83 new lows.

Volume on US exchanges was 6.39 billion shares, compared with the 6.20 billion average for the full session over the last 20 trading days.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	2001	3:21am 19/09/2018	2	0.08
▲ Copper	6064	3:21am 19/09/2018	144	2.43
▲ Nickel	12313	3:21am 19/09/2018	155	1.27
▼ Gold	1198	8:09am 19/09/2018	-4	-0.31
▲ Silver	14.1	8:09am 19/09/2018	0.1	0.57
▲ Oil - West Texas crude	69.6	8:10am 19/09/2018	0.9	1.33
▲ Lead	2066	3:21am 19/09/2018	1	0.02
▲ Zinc	2326	3:21am 19/09/2018	27	1.15
▲ Ore	69	7:10am 19/09/2018	0	0.03

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7226	8:09am 19/09/2018	0.0082	1.15
▲ \$A vs GBP	0.5492	8:09am 19/09/2018	0.0059	1.08
▲ \$A vs YEN	81.18	8:09am 19/09/2018	1.40	1.75
▲ \$A vs EUR	0.6189	8:09am 19/09/2018	0.0068	1.11
▲ \$A vs \$NZ	1.0965	8:09am 19/09/2018	0.0090	0.82
▼ \$US vs Euro	0.8565	8:09am 19/09/2018	-0.0002	-0.02
▼ \$US vs UK	0.7600	8:09am 19/09/2018	-0.0006	-0.07
▲ \$US vs CHF	0.9642	8:09am 19/09/2018	0.0017	0.17
▲ \$A vs \$CA	0.9376	8:09am 19/09/2018	0.0043	0.46

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	6270	7:20pm 18/09/2018	-24	-0.39
▼ S&P/ASX 200	6162	7:20pm 18/09/2018	-23	-0.38
▲ 10-year Bond Rate	2.71	7:09am 19/09/2018	0.04	1.31
90 Day Bank Accepted Bills	1.97	12:16am 19/09/2018	--	--
SFE-Day				
▲ 3-yr Bond Rate	2.13	7:09am 19/09/2018	0.03	1.43

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 28 points higher at 6,195.

Tuesday 18 September - close [Morningstar with AAP]: The Australian share market is on course for its second worst month of 2018 after the Trump administration announced additional trade tariffs on China.

The benchmark S&P/ASX200 index closed down 23.5 points, or 0.38 per cent, per cent, at 6,161.5 points at market close on Tuesday, while the broader All Ordinaries index was 24.4 points, or 0.39 per cent, lower at 6,269.5 points.

CommSec chief market analyst Steven Daghlion said investors showed a general lack of enthusiasm due to the escalation of trade tensions.

"The tariff shows trade relations are worsening between the US and China, and that they aren't seeing eye-to-eye," Mr Daghlion told AAP.

The S&P/ASX200 index is down 2.6 per cent from the start of the month, second only to March's decline of 4.27 per cent.

Confidence in the market continued to plummet following the announcement, with most indices performing poorly.

Resource stocks were some of the hardest hit, with BHP dropping 0.41 per cent to \$31.48, while Rio Tinto was up slightly at 21 per cent to \$73.16.

Origin Energy fell 24 per cent to \$8.11 while Santos extended its losses for the day, sitting 13 per cent lower at \$6.95.

Aged care stocks bounced back after a dramatic drop on Monday following Prime Minister Scott Morrison announcing a royal commission into the sector.

Regis Healthcare were up seven per cent to \$3.07, Japara Healthcare was up 3.0 per cent to \$1.42 and AVEO Group closed three per cent higher at \$2.09.

Estia Health finished at 7.0 per cent at \$2.47.

Kathmandu shares surged more than 10 per cent after strong profit results released thanks to a jump in the retailer's Australian sales.

The Australian dollar had already taken hits in anticipation of the trade tensions between the US and China and was only fleetingly impacted on Tuesday.

The Reserve Bank of Australia (RBA) used minutes of its September policy meeting to warn that protectionism was

a "material risk" to an otherwise upbeat outlook for the global and local economies.

The bank also welcomed the "modest" decline in the Aussie, saying it would help support economic growth.

The Australian dollar was buying 72.13 US cents at 1630 AEST, compared to 71.60 on Monday.

ON THE ASX:

The S&P/ASX200 closed down 23.5 points, or 0.38 per cent, at 6,161.5 points

The All Ordinaries was 24.4 points, or 0.39 per cent, lower at 6,269.5 points

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

- Webjet Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
BHP*	BHP Billiton Limited	Annual
CPU*	Computershare Limited	Annual
SKT*	Sky Network Television Limited	Annual
WES*	Wesfarmers Limited	Annual
BHP*	BHP Billiton Limited	Annual

* Estimated based on release date of previous report

Market Sensitive Announcements

08:19 AM

Trek Metals Limited (TKM) -Trek Metals Trading Halted, Pending Company Announcement

The securities of Trek Metals will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 20 September 2018 or when the announcement is released to the market.

08:20 AM

Kalium Lakes Limited (KLL) -Kalium Lakes Trading Halted, Pending Company Announcement

The securities of Kalium Lakes will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 20 September 2018 or when the announcement is released to the market.

08:30 AM

Freedom Oil and Gas Ltd (FDM) -Freedom Oil and Gas Provides September 2018 EGM Presentation

Freedom Oil and Gas provided September 2018 EGM presentation. It commenced six month drilling program in August 2018 with fit for purpose rig. Plans are to drill continuously for the next six months to increase production, reserves and operating cash flow. Over 200 drilling targets have been identified in three intervals. The wells produce 80% oil and natural gas liquids and 20% gas. The Company Expect to drill 12 to 15 wells over the six month contract.

08:38 AM

TPG Telecom Limited (TPM) -TPG Telecom Announces Results for Year Ended 31 July 2018

TPG Telecom provided FY 2018 results commentary. It announced results for year ended 31 July 2018, which include Earnings before interest, tax, depreciation and amortisation (EBITDA) for the period of \$841.1m, Net Profit After Tax attributable to shareholders (NPAT) for the period of \$396.9m; and EPS of 42.8 cps. The Consumer Segment's EBITDA for FY 2018 was \$513.1m compared to \$530.4m for FY 2017. The Group delivered another favourable cashflow result in FY 2018 with \$868.3m cash generated from operations (pre-tax).

08:42 AM

TPG Telecom Limited (TPM) -TPG Telecom Provides FY 2018 Results Presentation

TPG Telecom provided FY 2018 results presentation. The Company reported the revenue of \$2495.2m for the period, EBITDA OF \$841.1m and EPS of 42.8 cps. The Group delivered favourable cashflow result in FY 2018 with \$868.3m cash generated from operations (pre-tax). The net debt as at 31 July 2018 is \$1266.4m. The Consumer Segment's EBITDA for FY 2018 was \$513.

08:46 AM

CIMIC Group Limited (CIM) -CIMIC Group Announces Winning of NZ\$750m Waikeria Corrections and Treatment Facility PPP

CIMIC Group announced that the companies Pacific Partnerships and CPB Contractors, with their consortium partners, have reached contractual close with the NZ Government to deliver the Waikeria Corrections and Treatment Facility Public Private Partnership (PPP) project. The Company has led the development of the project, with Pacific Partnerships leading the consortium formation and providing equity financing for 25 years, and CPB Contractors undertaking design and construction of the facility. Revenue to the Company is NZ\$750m, with construction having commenced through an early works agreement and the new Waikeria facility set to open in 2022.

08:50 AM

West African Resources Limited (WAF) -West African Resources Receives Positive Interest from International Debt Financiers for Sanbrado Gold Project

West African Resources provided an update regarding the project debt finance process as it moves into the development phase for its 90%-owned Sanbrado Gold Project (Sanbrado) in Burkina Faso. The Company requested debt funding proposals from a selection of international resource financiers for the construction of Sanbrado. The Company received positive interest from 14 tier one financiers, with competitive non-binding offers ranging from US\$160m to US\$215m. It is in the process of selecting a short list of preferred financiers and moving to the second stage of the debt financing process, which will involve site visits, completion of legal and technical due diligence and facility documentation.

08:58 AM

New Hope Corporation Limited (NHC) -New Hope Announces Formal Assessment of Petroleum Reserves and Contingent Resources Held Through BEL

New Hope announced its formal assessment of its petroleum reserves and contingent resources held through its wholly-owned subsidiary Bridgeport Energy (BEL) in accordance with ASX listing rule 5. Bridgeport's net 2P reserves and 2C resources as at 1 August 2018 were, 2P reserves of 5.6m mbbbls of oil; and 2C resources of 11.4m mbbbls of oil. BEL acquired its oil producing tenements as existing primary recovery assets comprising the following principal fields; Utopia (PL 214), Inland (PL 98), Moonie (PL 1), Cuisinier (PL 303) and Bodalla South-Kenmore-Black Stump (PLs 31, 32 and 47).

09:04 AM

Garda Diversified Property Fund (GDF) -Garda Diversified Property Fund Announces Dividend of 2.25c

Garda Diversified Property Fund announced unfranked dividend of 2.25c for the period ending on 30 September 2018. The dividend relates to a period of one quarter. The record date is 28 September 2018, Ex date is 27 September 2018 and the payment date is 23 October 2018.

09:07 AM

Atlas Arteria (ALX) -Atlas Arteria Announces Dividend for the Period Ending on 31 December 2018

Atlas Arteria announced unfranked dividend of 12 cps for the period ending on 31 December 2018. The dividend relates to a period of six months. The record date is 24 September 2018, Ex date is 21 September 2018 and the payment date is 5 October 2018.

09:16 AM

Capitol Health Limited (CAJ) -Capitol Health Completes Acquisition of Radiology Network in Perth And Additional Melbourne Clinics

Capitol Health continued to deliver on its growth strategy with the acquisition of 9 independent clinics from 4 different vendors in WA and the Mornington Peninsula region in the Vic network complete. It has acquired 6 clinics in Perth and 3 clinics in Melbourne. The 3 Vic clinics acquired will extend the Company network in metropolitan Melbourne, 2 of which are in high value growth corridors. The new clinics are expected to contribute \$16.5m in revenue and \$3.1m in EBITDA on an annual basis.

09:27 AM

Gascoyne Resources Limited (GCY) -Gascoyne Resources Trading Halted, Pending Company Announcement

The securities of Gascoyne 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 20 September 2018 or when the announcement is released to the market.

09:36 AM

Magnis Resources Limited (MNS) -Magnis Resources Signed a Four Party JDA Along With Dendrobium Automotive

Magnis Resources signed a four party Joint Development Agreement (JDA) along with Dendrobium Automotive (DAL), Dendrobium Advanced Technologies (DATL) and Charge CCCV (C4V) to produce the next generation high performing batteries including semi-solid state batteries. Under the JDA, a working group has been created to develop and produce the next generation high performance batteries using technology developed by C4V and the Company. DAL is an electric vehicle (EV) and plug-in hybrid vehicle (PHEV) development and production company with an all-electric hypercar (D-1).

09:51 AM

Beadell Resources Limited (BDR) -Beadell Resources Provides Exploration Strategy Update

Beadell Resources refocused exploration strategy and will be driven by systematic and disciplined capital allocation decisions aimed at reserve replacement, extending the life of mine (LOM), expanding near-term cash flow, and increasing the net present value (NPV) of Tucano. Exploration drilling along the 7 km-long Tucano mine trend demonstrates that the deposit remains open along strike and at depth. In addition, the scope for in-mine exploration has increased with the discovery of high-grade gold mineralisation. The multiple in-mine and near-mine drill discoveries and untested prospects provide the Company exploration team with a compelling opportunity to grow the gold resource at Tucano through low cost and relatively low risk work programs.

Research Report Summaries

Morningstar Rating



Share Price

51.200

CIMIC Group Limited (CIM) - Cimic Reports a Run of New Contracts, but This Is Needed in Support of Our Unchanged Thesis

Analyst Note—We retain our fair value estimate for no-moat Cimic at AUD 29 per share, despite a recent uptick in awarding of new contracts, which we view as supportive of our thesis, rather than additive. Cimic has announced just over AUD 3.0 billion in new contracts since our previous note in mid-July, including NZD 750 million for Waikeria prison in New Zealand, and several mining contract extensions for Thiess, including AUD 420 million Centinela in Chile, AUD 480 million QCoal in Queensland, and AUD 225 million BHP Nickel West, among others. For now, we exclude AUD 1.0 billion in Metro Tunnel Works, for which Cimic is the preferred contractor, which would take new contracts awarded to over AUD 4.0 billion since mid-July. The market has been buoyed by these awards, with shares jumping 20% since mid-July, including a very favourable reaction to the release of the first-half 2018 earnings results, which we have previously discussed. But at the current share price of AUD 51, we think Cimic shares remain materially overvalued.

Our fair value estimate equates to an unchanged 2022 enterprise value/EBITDA multiple of 6.8, assuming a five-year EBITDA CAGR of 1.6% to AUD 1.6 billion by fiscal 2022. At our 11.8% midcycle EBITDA margin assumption, Cimic needs to add approximately AUD 3.5 billion in new contracts per quarter just to stand still in revenue terms. We estimate the AUD 51 share price implies the market anticipates an 11.1% five-year EBITDA CAGR to AUD 2.6 billion by 2022. That would require approximately AUD 5.5 billion in new contracts per quarter, to support the revenue required if EBITDA margins are unchanged at approximately 12%. Cimic has individually reported an average of AUD 2.0 billion in new contracts per quarter this year, and on average, individually reported contracts generally account for about two thirds of the total actually achieved. We still see little reason to become aggressively more bullish in our outlook at this stage.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	580.30	702.10	759.08	792.83
EPS c	171.43	216.53	234.10	244.51
P/E x	18.32	19.19	21.87	20.94
EPS Growth %	11.49	26.31	8.11	4.45
DPS c	110.00	135.00	143.29	146.71
Yield %	3.50	3.25	2.80	2.87
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

8.720

TPG Telecom Limited (TPM) - TPG Telecom's Stand-Alone Fundamentals Unchanged; Market Assuming TPG Won't Stand Alone

Analyst Note—The 1% lift in TPG Telecom's fiscal 2018 normalised EBITDA to AUD 841 million was in line with management's guidance provided less than three weeks ago, with key performance indicators broadly in line with our expectations. Management's operating prowess was again evident, as the AUD 61 million fall in aggregate NBN-inflicted earnings and AUD 5 million in higher electricity costs were more than offset by continuing efficiency gains and a 6% rise in the corporate division's EBITDA to AUD 330 million.

The underlying fundamentals are such that our AUD 6.10 fair value estimate for TPG as a stand-alone entity is intact. However, shares in the narrow-moat group are trading at a material premium to our intrinsic assessment. The market is not only assuming that the proposed TPG-Vodafone merger will complete, but is baking in significant synergies. If the combined TPG-Vodafone EBITDA of AUD 1.9 billion is capitalised at the current global telecom average EBITDA multiple of 7.6 times, less AUD 4.0 billion in aggregate net debt, we calculate that the current TPG stock price incorporates around AUD 790 million in synergies from the merger. This is not impossible but is easier done on a spreadsheet than in real life, especially as it represents over 30% of Vodafone's current cost base. Furthermore, there are still hurdles to clear for the deal, not the least of which is approval from the competition watchdog.

The strategic rationale for pursuing the Vodafone merger cannot be faulted. TPG is facing its first year of EBITDA decline in fiscal 2019, after a decade of consecutive earnings growth. Its key consumer broadband unit is beginning to bear the full brunt of NBN's margin-crunching economics and there is a limit to extracting operating efficiencies within TPG. This is why management decided to secure its future by becoming the fourth mobile network operator--an audacious strategy so high on execution risks that it appears to have led TPG into the arms of Vodafone.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	417.28	432.60	346.44	238.03
EPS c	48.28	46.71	37.34	25.66
P/E x	16.34	12.20	23.35	33.98
EPS Growth %	12.09	-3.26	-20.05	-31.29
DPS c	10.00	4.00	5.00	5.00
Yield %	1.27	0.70	0.57	0.57
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

3.670

New Hope Corporation Limited (NHC) - New Hope's Fiscal 2018 Profit Benefits From High Coal Price; Shares Overvalued

Analyst Note-New Hope's fiscal 2018 adjusted net profit after tax nearly doubled to AUD 253 million, in line with last week's profit guidance and our forecast. The higher coal price was the key driver, averaging AUD 119 per tonne in fiscal 2018, up 23% from AUD 89 per tonne in fiscal 2017. Full-year coal sales volumes of 8.9 million tonnes came in just 3.8% ahead of last year, thanks to incremental improvement at Bengalla. Adjusted EBITDA rose 60% to AUD 447 million, with higher prices adding AUD 165 million and volumes AUD 27 million. Higher costs due to an increase in waste mining at Bengalla detracted from EBITDA by AUD 21 million.

Adjusted earnings per share nearly doubled AUD 0.30. We expect a further 37% rise to AUD 0.41 per share in fiscal 2019, primarily with the expected acquisition of an additional 40% of Bengalla. This drives a forecast 25% uplift in coal sales volumes to 11.0 million tonnes in fiscal 2019, with Bengalla contributing just over 6.0 million tonnes and Acland the remainder. Bengalla is a lower-cost mine. We also expect a further but moderating tailwind from the coal price, and forecast a 6% rise to USD 97 per tonne. The spot price averaged USD 117 per tonne in August. If this persists in fiscal 2019, our earnings forecast would rise 56% to AUD 0.64 per share and our fair value estimate would increase 7% to AUD 2.90, assuming no cost inflation.

We maintain our AUD 2.70 fair value estimate for no-moat-rated New Hope. With the shares trading around AUD 3.70, the firm is overvalued. The share price has risen strongly since early 2018, nearly doubling from around AUD 2.00. This is a function of the buoyant coal price, thanks to strong global economic growth and production restrictions in China, along with the agreed acquisition of a further 40% of Bengalla. The near-term earnings outlook is strong, but we think the market is overestimating New Hope's longer-term earnings power in a normalised coal price environment.

FYE Jul	2017A	2018A	2019E	2020E
Reported Npat \$m	128.71	252.60	345.69	140.62
EPS c	15.47	30.35	41.52	16.89
P/E x	10.81	7.42	8.84	21.73
EPS Growth %	2,457.97	96.15	36.79	-59.32
DPS c	10.00	14.00	25.00	10.00
Yield %	5.98	6.22	6.81	2.72
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
▼ ACR	Acrux Limited	★★	18/09/2018	Downgrade due to price change
▲ TWE	Treasury Wine Estates	★★	18/09/2018	Upgrade due to price change
▲ 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

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