19-December-2018

Morningnote

Contents

Flashnotes

Overseas Market Report

	Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲	Dow Jones (US)	23676	8:35am 19/12/2018	83	0.35
▲	S&P 500	2546	8:35am 19/12/2018	0	0.01
▲	NASDAQ	6784	9:05am 19/12/2018	30	0.45
▼	FTSE 100 Index	6702	3:50am 19/12/2018	-72	-1.06
▼	DAX 30	10741	4:00am 19/12/2018	-31	-0.29
▼	CAC 40	4754	4:15am 19/12/2018	-46	-0.95
▼	Nikkei 225 (Japan)	21115	5:20pm 18/12/2018	-391	-1.82
▼	HKSE	25814	7:24pm 18/12/2018	-274	-1.05
▼	SSE Composite Index	2577	6:15pm 18/12/2018	-21	-0.82
▼	NZ 50	8688	4:50pm 18/12/2018	-57	-0.65

International Markets Roundup

[Morningstar with AAP]: Chinese President Xi Jinping offered no fresh policies to stimulate the world's second-biggest economy in a keynote speech to mark the 40th anniversary of Deng Xiaoping's "Reform and Opening Up".

Asia

Chinese President Xi Jinping offered no fresh policies to stimulate the world's second-biggest economy in a keynote speech to mark the 40th anniversary of Deng Xiaoping's "Reform and Opening Up".

Xi told a Beijing crowd including some of China's most influential political, military and business figures the country's growing wealth and power had validated the Communist Party's leadership.

"No one is in the position to dictate to the Chinese people what should and should not be done," Xi said.

Hong Kong stocks fell amid the anti-climactic policy speech and depressed share prices across the region.

The Hang Seng index fell 1.1 per cent to 25,814.25, while the Hang Seng China Enterprises index lost 1.2 per cent.

The sub-index of the Hang Seng tracking energy shares fell 2.3 per cent, the IT sector lost 2.4 per cent, while the more defensive financial sector edged down 0.7 per cent and the property sector shed close to 1 per cent.

MSCI's Asia ex-Japan stock index was down 0.7 per cent, while Japan's Nikkei index fell 1.8 per cent.

Europe

In Europe, the pan-continental Stoxx Europe 600 index was 0.8 per cent lower, weighed down by a fall in its oil-and-gas sector.

Germany's DAX rose 0.3 per cent, while France's CAC 40 lost 0.4 per cent and the FTSE 100 in London fell 0.6 per

Fiducian Group Limited (FID) -Fiducian Group Acquires Further $160m in Funds Under Advice

Westgold Resources Limited (WGX) -Westgold Resources Announces Big Hit Excites at Starlight Mine

Kidman Resources Limited (KDR) -Kidman Resources Announces Integrated Pre-Feasibility Study Completed on Schedule and Maiden Ore Reserve Declared for Mt Holland Lithium Project

Aurelia Metals Limited (AMI) -Aurelia Metals Provides Hera And Dominion Exploration Update

Dacian Gold Limited (DCN) -Dacian Gold Announces Mt Morgan Ore Reserve Increases 16% to 1.4Moz

cent.

The benchmark FTSE 100 Index this month erased its 21st-century advance as the global equities sell-off was compounded by concerns that Prime Minister Theresa May will struggle to get her Brexit deal through parliament.

The gauge is down 12 per cent this year, set for the worst annual decline since 2008.

Meanwhile, Germany's 10-year yield dipped one basis point to 0.24 per cent. Britain's 10-year yield rose two basis points to 1.28 per cent.

North America

The benchmark S&P 500 stock index has ended little changed in a choppy trading session on Tuesday as the possibility of a partial US government shutdown raised investor jitters ahead of a highly anticipated meeting of the Federal Reserve.

The Dow Industrials and the Nasdaq posted slight gains, however, as shares of Boeing Co and the group of internet-focused momentum stocks known as FAANG rose.

The S&P 500 had risen as much as 1.1 per cent earlier in the session but gave up most of its gains after US Senate Majority Leader Mitch McConnell said Democrats had rejected his spending bill proposal. Without the passage of a spending bill, several government agencies are at risk of a shutdown.

The benchmark index briefly turned negative in intraday trading to fall below Monday's levels. On Monday, the S&P 500 ended at a 14-month low.

S&P 500 energy stocks led the declines, falling 2.4 per cent. US crude prices tumbled more than 7 per cent on concerns of oversupply.

In addition to the looming government shutdown threat, investors prepared for the outcome of the two-day meeting of the Federal Open Market Committee, which began on Tuesday.

Market participants widely expect the Fed to raise benchmark US rates this month, but some investors anticipate that the US central bank will indicate fewer rate hikes for 2019 than previously expected.

Traders in the options market continued to expect increased stock market volatility in coming days. The Cboe Volatility Index, the most widely followed gauge of expected near-term gyrations for the S&P 500, finished up 1.06 points at 25.58, its highest close in 10 months.

Yet shares of Boeing Co rose 3.8 per cent after three days of losses as the aerospace company said it was raising its dividend and increasing share buybacks to $US20 billion ($28 billion) from $US18 billion ($25 billion).

Shares of Facebook, Apple, Amazon.com, Netflix and Google parent Alphabet, collectively known as FAANG, gained between 1.3 per cent and 3.1 per cent.

Goldman Sachs Group Inc shares rose 2.1 per cent to snap a nine-day losing streak related to the 1MDB scandal.

Johnson & Johnson shares rose 1.0 per cent after a nearly 13 per cent drop over two days on a Reuters report that the company knew for decades that its Baby Powder contained asbestos.

Commodities		Latest Price	Time/Date (AEST)	Change	% Change
▼	Aluminium	1921	5:23am 19/12/2018	-22	-1.16
▼	Copper	5945	5:23am 19/12/2018	-151	-2.47
▼	Nickel	10753	5:23am 19/12/2018	-155	-1.42
▲	Gold	1249	9:00am 19/12/2018	3	0.22
	Silver	14.6	9:01am 19/12/2018	--	--
▼	Oil - West Texas crude	46.6	9:05am 19/12/2018	-3.6	-7.17
▲	Lead	1966	5:23am 19/12/2018	42	2.18
▼	Zinc	2579	5:23am 19/12/2018	-10	-0.41
	Ore	68	9:10am 18/12/2018	0	--

Currency		Latest Price	Time/Date (AEST)	Change	% Change
▲	$A vs $US	0.7176	9:05am 19/12/2018	0.0004	0.05
▼	$A vs GBP	0.5675	9:05am 19/12/2018	-0.0009	-0.16
▼	$A vs YEN	80.72	9:05am 19/12/2018	-0.21	-0.26
▼	$A vs EUR	0.6314	9:05am 19/12/2018	-0.0006	-0.09
▼	$A vs $NZ	1.0478	9:05am 19/12/2018	-0.0053	-0.50
▼	$US vs Euro	0.8799	9:05am 19/12/2018	-0.0011	-0.12
▼	$US vs UK	0.7910	9:05am 19/12/2018	-0.0016	-0.20
▼	$US vs CHF	0.9923	9:05am 19/12/2018	-0.0002	-0.02
▲	$A vs $CA	0.9660	9:05am 19/12/2018	0.0045	0.46

Australian Market Report

Australian Equities		Latest Price	Time/Date (AEST)	Change	% Change
▼	All Ordinaries	5662	7:20pm 18/12/2018	-71	-1.24
▼	S&P/ASX 200	5590	7:20pm 18/12/2018	-69	-1.22
▼	10-year Bond Rate	2.38	9:05am 19/12/2018	-0.04	-1.65
▼	90 Day Bank Accepted Bills SFE-Day	1.95	9:01am 19/12/2018	-0.01	-0.51
▼	3-yr Bond Rate	1.87	9:05am 19/12/2018	-0.04	-1.84

Local Markets Are Expected To Open Flat

Ahead of the local open SPI futures were flat at 5,580.

Tuesday 18 December - close [Morningstar with AAP]: Losses across the board dragged the Australian share market lower, with energy stocks weighing the heaviest amid looming interest rate hikes in the US and tumbling oil prices.

The benchmark S&P/ASX200 index was down 68.8 points, or 1.22 per cent, at 5589.5 at 1615 AEDT on Tuesday, while the broader All Ordinaries lost 1.24 per cent at 5661.80.

The US Federal Reserve is expected to raise interest rates this week and CommSec market analyst James Tao said investors will be keenly listening to Fed chair Jerome Powell for any indication for how many hikes are in-store for 2019.

"That will certainly impact on the potential growth story that has been weighing on global markets now for a while," he told AAP.

Buyers are also nervously keeping an eye on the Congress, with President Donald Trump threatening a partial shutdown of the government if funding for the proposed US-Mexico border wall is not approved.

Energy stocks lost nearly three per cent after oil prices fell on US supply concerns and fears over global economic growth.

Caltex recorded the heaviest loss among the major players, down 5.5 per cent to $25.57, after its Lytton refinery performance weighed heavily on its earnings outlook.

Meanwhile, Origin, Woodside, Oil Search, and Santos were down between 1.3 and 2.6 per cent.

ANZ suffered the heaviest losses of the big four lenders, down three per cent to $23.69, NAB and Westpac were 1.8 and 1.4 per cent lower respectively, while Commonwealth Bank lost one per cent to $68.60.

Macquarie Group fell 2.3 per cent to $110.

The gold miners provided rare lustre to the benchmark as the precious metal firmed more than $7 an ounce overnight against a softer US dollar, and limited the sector's losses to 0.2 per cent.

Northern Star was up 3.3 per cent to $8.56 and Newcrest climbed 1.5 per cent to $21.16.

Major miner BHP was flat at $33.50, while Bluescope fell 4.9 per cent.

Telecommunications was the only sector on the market consistently in the black through the day but Telstra pared its gains to 0.3 per cent and the index fell slightly into negative.

REA Group lost nearly two per cent after it appointed the former head of ANZ's Asian retail banking business as its new chief executive.

Auto classified site Carsales.com dropped two per cent to $11.52 following the announcement of a likely $48 million impairment on its share in Stratton Finance.

The Australian dollar strengthened against its US counterpart awaiting news from the US Federal Reserve.

The Aussie was buying 71.90 US cents at 1630 AEDT from 71.73 on Monday.

ON THE ASX:

The benchmark S&P/ASX200 index was down 68.8 points, or 1.22 per cent, at 5589.5

The All Ordinaries was down 71.1 points, or 1.24 per cent, at 5661.8

Companies Holding Annual General Meeting (ASX 300):

- Australia & New Zealand Banking Group Ltd
- National Australia Bank Limited
- Orica Limited

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report

* Estimated based on release date of previous report

Market Sensitive Announcements

07:36 AM

Fletcher Building Limited (FBU) -Fletcher Building Announces Sales of Formica

Fletcher Building announced that it has entered into an agreement to sell the Formica Group (Formica) to Broadview Holding BV (Broadview) for a sale price of US$840m (NZ$1,226m). The sale is subject to conditions which are customary for a transaction of this nature, including regulatory approvals. The Company confirms its intention to reinstate dividends in FY 2019, commencing with an interim dividend to be declared upon finalisation of the Company's half-year results on 20 February 2019.

08:33 AM

Titanium Sands Limited (TSL) -Titanium Sands Reinstates to Official Quotation

The suspension of trading in the securities of Titanium Sands will be lifted from 18 December 2018 following re-compliance with chapters 1 and 2.

08:35 AM

Praemium Limited (PPS) -Praemium Announces Regarding Extension of Contract

Praemium advised that it has renewed a major contractual arrangement with Asgard Capital Management to provide portfolio administration services. It has been providing portfolio administration to this major financial institution for the last 11 years and its current contract was to expire in November 2019. A contract renewal has been agreed that will extend the arrangement for up to a further 6 years, with a minimum 3-year period. The extended agreement retains a minimum contract value of $3m per year.

08:38 AM

Resolute Mining Limited (RSG) -Resolute Mining Announces Regarding Further Exceptional Drilling Results at Tabakoroni

Resolute Mining announced further exceptional drilling results from the ongoing exploration program at the Tabakoroni Project (Tabakoroni) located 35 km south of the Syama Gold Mine (Syama) in southern Mali. An active exploration is ongoing at Tabakoroni with two diamond drill rigs focusing on evaluating the high-grade sulphide potential in the Tabakoroni Main Zone. Diamond drilling commenced early in 2018 at Tabakoroni to define the potential for sulphide mineralisation at modest depths that would support an underground operation. High grade gold mineralisation has been intersected at Tabakoroni over a strike length of 1.5 kms.

08:43 AM

AGL Energy Limited (AGL) -AGL Energy Confirms Brett Redman as CEO and MD

AGL Energy announced that the Board has appointed Brett Redman as CEO & MD on a permanent basis. Mr. Redman has been its interim CEO since 24 August 2018 and was previously Chief Financial Officer. The appointment is effective 1 January 2019. Mr. Redman was its CFO from 2012, having joined the Company in 2007 and has more than 25 years' experience in senior roles in blue-chip industrial companies in Australia and North America.

08:46 AM

Carsales.com Limited (CAR) -Carsales.com Announces Anticipated Impairment of Stratton Finance Group Cash Generating Unit

Carsales.com announced that the Company anticipates that it will recognise a non-cash impairment charge against the carrying value of its 50.1% investment in Stratton of A$48m. The anticipated non-cash impairment charge is expected to be disclosed as an adjusting item to net profit and will have no impact on its funding covenants or the assessment of its interim or final dividend for FY 2019. It anticipates its share of net profit from Stratton will be $1.0m in FY 2019 ($2.0m in FY 2018).

08:52 AM

REA Group Ltd (REA) -REA Group Appoints Owen Wilson as CEO

REA Group announced Owen Wilson will replace Tracey Fellows as CEO. Ms Fellows is stepping down from her role as CEO in January 2019 to become President, Global Digital Real Estate, News Corp, based in New York. Mr. Wilson joined the Company in 2014 as Chief Financial Officer and has been responsible for all aspects of the Group's finance portfolio including strategy, M&A, and operations. Mr. Wilson will commence in the new role on 7 January 2019.

09:05 AM

Caltex Australia Limited (CTX) -Caltex Australia Provides Unaudited Profit Guidance for the Year Ended 31 December 2018

Caltex Australia provided unaudited profit guidance for the year ended 31 December 2018. 2018 Fuels & Infrastructure EBIT (excluding Lytton) is forecast to increase by 21% compared with 2017. Including Lytton, 2018 Fuels & Infrastructure EBIT outlook of $560m to $580m has reduced by 14% compared with 2017, due to the impact of lower regional refining margins more than offsetting the underlying business performance. Corporate costs are forecast to be $55m for 2018, an increase on the $41m of corporate costs in 2017 given increased levels of M&A and project work. Interest expense in 2018 is forecast to be $50m, broadly in line with 2017 ($54m). Net debt is forecast to be $1,000m at 31 December 2018, compared with $1,041m at 30 June 2018 and $814m at 31 December 2017.

09:26 AM

Oilex Ltd (OEX) -Oilex Trading Halted, Pending Company Announcement

The securities of Oilex 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 December 2018 or when the announcement is released to the market.

09:36 AM

Fiducian Group Limited (FID) -Fiducian Group Acquires Further $160m in Funds Under Advice

Fiducian Group announced that it has executed an agreement with a high-quality financial planning business in Geelong, Vic that brings in $160m in Funds under Advice. This recent acquisition follows closely on the $73m acquisition and amalgamation of a financial planning business in Perth announced on 3 December 2018 and is expected to add to the Funds under Management, Administration & Advice of $6.4bn (as of 31 October 2018). The anticipated capital outlay for the acquisition component of the project is up to $2.4m over time and funded from internal cash holdings.

09:42 AM

Westgold Resources Limited (WGX) -Westgold Resources Announces Big Hit Excites at Starlight Mine

Westgold Resources advised that it has fully refurbished the Starlight underground mine at Fortnum and commenced development of its first virgin lodes. Coincident with that outcome drill access sites allowing targeted drilling of the ore system down-plunge have been established. The Company advise that the northernmost down-plunge hole from its ongoing drilling program beneath the current ore reserves has returned a highly positive result. The aggregated Starlight ore system has returned an intercept of 78.26m at 5.23 g/t Au from 110.2 metres in diamond hole WGU 0089.

09:49 AM

Kidman Resources Limited (KDR) -Kidman Resources Announces Integrated Pre-Feasibility Study Completed on Schedule and Maiden Ore Reserve Declared for Mt Holland Lithium Project

Kidman Resources announced that Covalent Lithium has completed an integrated pre-feasibility study (IPFS) for the Mt Holland Lithium Project. The IPFS has confirmed the compelling business case for an integrated mine-to-refinery project producing refined, battery grade lithium hydroxide (LiOH). The Company announced the results of a pre-feasibility study on the proposed Kwinana Lithium Refinery (the Refinery) and an updated scoping study on the proposed Mt Holland lithium mine and concentrator (Mine & Concentrator). Total integrated capex of US$737m including contingencies, in line with the previous estimate. It has also announced its maiden Ore Reserve for the Earl Grey deposit at Mt Holland of 94.2Mt at 1.5% Li_2O.

09:57 AM

Aurelia Metals Limited (AMI) -Aurelia Metals Provides Hera And Dominion Exploration Update

Aurelia Metals provided an update on recent exploration and infill drilling at the Hera Mine and at several nearby prospects. In October 2018 underground drilling recommenced at the Hera Mine, targeting the upper levels of the North Pod. This part of the North Pod lode had until recently been defined by a limited number of surface drill holes. A total of 23 holes have been completed, with results received for the first 12 holes. The Company has recently commenced exploration at the Hebe prospect, located on ML1686 1 km southeast of the Hera Mine. The prospect is defined by lead-in-soil anomalism with a co-incident aeromagnetic response. The Company announced the discovery of a new polymetallic mineral system at the Dominion prospect.

10:13 AM

Dacian Gold Limited (DCN) -Dacian Gold Announces Mt Morgan Ore Reserve Increases 16% to 1.4Moz

Dacian Gold announced that Ore Reserves at its Mt Morgans Gold Operation (MMGO) near Laverton in WA have increased by 16% to 1.39Moz. The increase marks another important step in its strategy to establish Mt Morgans as a 200,000oz-a-year operation with a +10-year mine life and comes as the Company remains on track to achieve commercial production at Mt Morgans. Total Ore Reserves for the MMGO stand at 1.39Moz (net of mining depletion), an increase of 16% from the previous Ore Reserve estimate completed for the MMGO Feasibility Study. Jupiter Ore Reserve of 611,000oz, maintaining Jupiter's current Ore Reserve life to FY 2025. At Westralia, the updated Ore Reserve estimate includes geological documentation of the Westralia orebody from 64,000m of surface diamond drilling.

Research Report Summaries

Morningstar Rating

★★★

Share Price

15.980

ARB Corporation Limited (ARB) - ARB Share Price Comes Back to Earth Following Substantial De-Rating

Analyst Note-After falling by 35% during the past few months, shares in narrow-moat rated ARB are only slightly overvalued relative to our AUD 15.00 per share fair value estimate. The share price de-rating follows the declining housing market and weakening consumer spending.

Despite some near-term softness, we believe the company can sustain mid-single-digit revenue growth in Australia for the next five years, supported by ongoing expansion into new product categories, market share gains, and modest price increases. We forecast Australian operating margins to remain steady at around 20%, in line with historic averages, as price increases and strict cost control help to offset rising electricity and gas costs, rising steel prices, and the weaker Australian dollar. The company's brand power underpins its ability to justify a price premium over competitors and continue passing through rising input costs.

Whilst new vehicle sales have been extremely disappointing in recent times, falling by between 5% and 10% each month, the impact on ARB has been relatively minor. The company's main target categories are medium and large sport utility vehicles (SUVs) and four-wheel-drive utilities, and these categories have continued to grow, despite deterioration in the new vehicle sales market. Four-wheel drive utilities and SUVs (excluding compact SUVs) now represent around 44% of new vehicles sold in Australia, compared with 35% in fiscal 2014. In any case, we expect this dip in new vehicles, which is reflective of a softening housing market, to be temporary and over the long term should resume growing at 1%-2% per year. The firm will add another four Australian stores during fiscal 2019, up from the current 63 stores, and Australian aftermarket will remain the largest category and the main valuation driver for the foreseeable future.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	49.15	54.01	60.79	66.81
EPS c	62.07	68.17	76.62	84.20
P/E x	26.72	27.39	20.86	18.98
EPS Growth %	6.29	9.83	12.39	9.89
DPS c	34.00	37.00	45.00	50.00
Yield %	2.05	1.98	2.82	3.13
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

11.200

Breville Group Limited (BRG) - Ongoing European Expansion to Drive Strong Earnings Growth for Breville

Analyst Note-Shares in narrow-moat rated Breville are now only 15% overvalued relative to our unchanged AUD 10.00 per share fair value estimate, after having fallen over 20% during the past three months. Our fair value estimate implies a forward P/E of around 20 times, which we believe is reasonable given Breville's strong earnings growth outlook. Our earnings estimates are unchanged, and we continue to project EPS growth of 12% per year on average during the next five years. Our estimates incorporate around 10% annual growth in North America, underpinned by new product launches and expansion into new categories, along with a continuation of the current low- to mid-teens growth in ROW, which assumes a successful launch of the Sage brand in Germany, Austria, Benelux, Switzerland, and neighbouring countries.

During 2018 the company launched the Sage brand in Germany and Austria, and whilst still in early stages of the launch, the initial feedback has been broadly positive. The Christmas holiday season will allow for a much clearer performance assessment in these regions. The products are on the shelves of approximately 700 retail outlets, with marketing efforts in full swing, including in-store installations, digital campaigns, and promotion events. During fiscal 2019 the firm will expand into Netherlands, Belgium, and Switzerland, and beyond fiscal 2019, Italy, Spain, and France will be the main targets.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	53.83	58.52	65.92	74.22
EPS c	41.38	44.98	50.67	57.05
P/E x	22.03	25.87	22.10	19.63
EPS Growth %	7.30	8.70	12.64	12.60
DPS c	30.50	33.00	38.00	42.79
Yield %	3.35	2.84	3.39	3.82
Franking %	60.0	60.0	70.0	70.0

Morningstar Rating

★★★★

Share Price

4.690

Fletcher Building Limited (FBU) - No-Moat Fletcher Sells Formica Business & Confirms Dividend in Fiscal 2019; FVE Increased 3%

Analyst Note-We're positive on no-moat Fletcher's sale of its Formica business, with the deal adding approximately 5% to our fair value estimate. The sale represents a central component of Fletcher's strategy to refocus on its core markets of New Zealand and Australia. Struck at a price of USD 840 million, the deal remains subject to regulatory approvals but Fletcher expects completion by year-end fiscal 2019. Fletcher also confirmed it would pay a first-half dividend but that in resuming dividends in fiscal 2019, they would be weighted towards the second half when we believe a sizable return of capital will be announced. Taking today's announced sale together with the previously announced sale of the Roof Tile Group, which has a marginal negative valuation impact, we increase our fair value estimate by 3% to NZD 6.70 per share (AUD 6.30 per share). Despite the positive stock price movement following today's announcement, Fletcher shares continue to screen as cheap, trading at 0.78 times our fair value estimate.

The two divestments will net Fletcher NZD 1.28 billion and provides for significant balance sheet flexibility. With the company targeting net debt/EBITDA in the range of 1.5–2.0 times, the return of substantial capital to shareholders is imminent in our view, either in the form of a special dividend or share buyback. However, we await guidance from Fletcher on timing and the mode of capital return before factoring into dividend or gearing estimates, noting that either form of capital return is pretax valuation neutral. We now forecast a five-year sales CAGR of negative 4.0%, down from a prior negative 0.4%, reflecting lost Formica sales in combination with our unchanged expectations for softening residential construction markets in New Zealand and Australia. We expect EBIT margins of 7.3% over the same period, largely unchanged from our prior forecast.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	303.06	-74.30	380.92	308.36
EPS c	43.67	-9.98	44.64	36.13
P/E x	19.74	-64.55	10.51	12.98
EPS Growth %	-16.10	-122.85	0.00	-19.06
DPS c	36.82	0.00	26.79	27.10
Yield %	4.27	0.00	5.71	5.78
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

3.530

Mercury NZ Limited (MCY) - Mercury Sells Smart Metering Company Metrix

Analyst Note-Narrow moat Mercury NZ agreed to sell Metrix, its smart metering company, to intelliHUB for NZD 270 million. The deal makes sense. Metrix lacks scale and is noncore for Mercury. This allows the firm to focus on more scalable parts of its business. Mercury has no immediate plans to spend the proceeds from the sale--other than to pay down debt in the short term. The sale is too small to impact our unchanged NZD 3.60 fair value estimate, and at current prices, shares in Mercury screen as fairly valued.

Unsuccessful in purchasing AGL's Active Stream metering business in Australia, which instead was sold to Ausgrid in fiscal 2018, Mercury has struggled to grow the metering business. While Mercury lacked the focus and scale on metering, intelliHUB, a metering service company, already has a footprint in both Australia and New Zealand.

With fiscal 2018 net debt/EBITDA of 2.3 times, Mercury has similar financial leverage to its "gentailer" peers. The sale of Metrix will result in a NZD 270 million cash windfall, but a NZD 28 million hit to EBITDA. Adjusting for this, we estimate a pro forma fiscal 2018 net debt to EBITDA of 1.9 times, more conservative than most peers. While payments will initially repay net debt, the sale positions Mercury with the financial firepower for further investment in core generation and retail assets.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	166.19	183.42	161.49	165.23
EPS c	11.87	13.34	11.86	12.14
P/E x	24.57	23.21	29.76	29.09
EPS Growth %	18.13	12.43	-11.10	2.32
DPS c	18.49	13.98	14.35	15.62
Yield %	6.34	4.51	4.07	4.42
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

3.240

Meridian Energy Limited (MEZ) - Meridian on Track for Double-Digit EBITDA Growth in FY19

Analyst Note-We retain our NZD 3.20 fair value estimate for narrow moat-rated Meridian Energy following the release of monthly operating statistics for November. After dry conditions last year, fiscal year-to-date rainfall into Meridian's catchments is back to nearly average levels, and Meridian's catchments boast better-than-average levels of storage. Generation volumes are up, year to date, and on track to grow at our forecast of 6% over fiscal 2019. We expect this momentum to continue, and good levels of lake storage should support generation volumes if rainfall falls below average.

Despite November's generation volumes ending 7% lower than the same month last year, Meridian's fiscal 2019 year to date still boasts generation volumes nearly 11% higher than the same period last year. This remains in line with our forecast of 6% growth for the full year as the firm cycles a dry spell in early fiscal 2018.

With wind generation only slightly up, hydro generation is doing the heavy lifting. Improved rainfall compared with the dry start to fiscal 2018 has led to strong hydroelectric generation volumes. This should support an increase in energy margin, which we estimate is up nearly 13% year to date. While this outpaces our full fiscal 2019 forecast of 10%, we expect this to come off as the company cycles the comparatively stronger second half of fiscal 2018.

Our longer-term forecasts remain intact. While temporary weather issues create fluctuations in earnings over the short term, these are mostly immaterial to our fair value estimate. Meridian generates strong cash flows, and we expect the company's balance sheet to remain conservative. We forecast net debt/EBITDA to be around 1.6 times in fiscal 2019, below most peers.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	208.49	194.34	243.19	226.74
EPS c	8.13	7.58	9.49	8.85
P/E x	32.01	35.62	34.14	36.63
EPS Growth %	-1.59	-6.73	25.13	-6.80
DPS c	17.84	18.11	18.13	17.56
Yield %	6.85	6.70	5.60	5.42
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

1.115

Mortgage Choice Limited (MOC) - Tighter Credit and a Softening Housing Market Hurting Mortgage Choice. FVE Cut 12% to AUD 1.50

Analyst Note-As reported in our Dec. 13 note, Mortgage Choice reduced fiscal 2019 cash profit guidance by approximately 12% to AUD 14-15 million from previous guidance of about AUD 16.5 million. The mortgage broker blamed tighter lending standards and a slowing housing market for an approximate 10% decline in new home loan settlements compared with fiscal 2018.

We reduce our fiscal 2019 forecast loan settlement volumes by 12% to AUD 10.2 billion, reducing origination commission revenue by AUD 3 million to AUD 62 million. The changes result in a AUD 2.3 million, or 14% cut in our forecast cash profit to AUD 14.3 million from our previous forecast of AUD 16.6 million. We now forecast a 39% decrease in cash EPS for fiscal 2019, with average EPS for fiscal 2022-2023 declining to 1% per year from our previous forecast of 2% per year.

Our fair value estimate declines 12% to AUD 1.50 per share, and at a current price around AUD 1.10, the stock screens as undervalued, trading 27% below our valuation. If achieved, our fiscal 2019 cash profit forecast will be 39% lower than the AUD 23.4 million reported for fiscal 2018. Mortgage Choice releases first-half fiscal 2019 accounts on Feb. 21, 2019 and we expect a first-half cash profit around AUD 7 million, which is down 43% on the previous corresponding period, and a fully franked interim dividend around AUD 5.0 cents per share, down 42% on a year ago.

The lower forecast profit and a reduction in the payout ratio results in a lower forecast dividend for fiscal 2019 of AUD 10.50 cents per share from our previous forecast of AUD 13.0 cents per share. Our expected payout declines to 92% from 98%. The earnings downgrade disappointed, and the risk of further downgrades in fiscal 2020 remain as new home loan settlements could deteriorate further from the estimated 10% decline for fiscal 2019. One positive to emerge from tougher lender imposed underwriting standards is lengthening of average loan life.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	22.63	23.38	14.25	14.03
EPS c	18.14	18.70	11.35	11.10
P/E x	12.29	11.58	9.82	10.05
EPS Growth %	9.84	3.09	-39.31	-2.18
DPS c	17.50	18.00	10.50	10.50
Yield %	7.85	8.31	9.42	9.42
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★

Share Price

3.960

Spark New Zealand Limited (SPK) - Solid Progress Toward 5G Spark

Analyst Note-The recent 5G spectrum auction in Australia has prompted us to assess Spark New Zealand's plans for the next-generation wireless upgrade.

5G spectrum allocation in New Zealand is not expected to occur until late 2020. However, using the Australian experience as a broad guide (AUD 853 million at AUD 0.29/MHz/pop), our preliminary view is that narrow-moat rated Spark will need to outlay less than NZD 100 million for its share of the 5G spectrum allocation. This is an amount that can be easily accommodated by the group's balance sheet, with equity base of NZD 1.5 billion and net debt/EBITDA of just 1.2 (versus 1.4 to 1.5 to maintain A-minus credit rating, implying headroom of around NZD 250 million).

Excluding the spectrum cost, the 5G-related network spend is likely to be within Spark's current capital expenditure range of 11% to 12% of operating revenue, or just over NZD 400 million per year. This is because current spending on 4G capacity increase will be redirected to 5G upgrade, with any significant incremental expenditure only dictated by needs to build new cell sites in certain frequency bands.

In the meantime, Spark appears to be making good progress on the 5G rollout, with due diligence on the number and locations of required new cell sites ongoing, augmented by existing cell densification efforts that are also serving to meet increasing current capacity demand.

Shares in Spark are trading at a 15% premium to our unchanged NZD 3.70 fair value estimate (or AUD 3.50 at the current exchange rate). Rather than the solid 5G upgrade progress, we believe the premium is more a reflection of the relatively benign regulatory and competitive environment in New Zealand, at least compared with the bun-fight going on in the Australian telecom industry. However, we urge against investor complacency, particularly as Spark shares are now trading at enterprise value/EBITDA of 8.5, notably higher than the global telecom industry average of around 7.5.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	375.93	386.95	380.66	377.98
EPS c	20.50	21.10	20.74	20.59
P/E x	16.68	15.89	19.09	19.23
EPS Growth %	10.85	2.93	-1.68	-0.72
DPS c	20.78	23.03	22.69	22.67
Yield %	6.08	6.87	5.73	5.73
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

25.570

Caltex Australia Limited (CTX) - Caltex Checks any Remaining Market Enthusiasm with Another Guidance Downgrade. No Change to FVE.

Analyst Note-We retain our AUD 33.50 fair value estimate for no-moat Caltex. That's despite an 8% reduction in our 2018 EPS forecast to AUD 2.08 from AUD 2.26. The new forecast is at the midpoint of updated company guidance for replacement cost NPAT of AUD 533-553 million, and reflects the impact of lower regional refiner margins, and high crude and product prices during the second half. Further, an unplanned outage at Lytton refinery in October reduced EBIT by an additional AUD 15-20 million. We don't expect these drivers to be long-lasting with falling crude and product prices in the fourth quarter testament.

Caltex anticipates an improved 2019 with continued growth from the fuels and infrastructure business to more than offset contract repricing for Woolworths' fuel supply. Our 2019 EPS forecast is little changed at AUD 2.47. Total capital expenditure is expected to be around AUD 350 million, a reduction of 30% on 2018. That's despite continuation of the convenience retail store rollout including the joint Metro store rollout with Woolworths, and Caltex's own Foodary rollout.

Caltex shares have continued to weaken from August AUD 33.60 highs and at AUD 25.25 are firmly in 4-star territory, meaningfully undervalued. Our fair value estimate equates to a 2022 EV/EBITDA of 7.1, P/E of 13.1, and dividend yield of 4.0%, all discounted at WACC. In nominal terms, the P/E and yield would be 8.6 and 6.0%, respectively. Despite reinvigoration of the retail strategy, we continue to assume group EBITDA growth will slow to just over 4.0% CAGR, in contrast to hectic double-digit growth rates to 2015 enjoyed from Caltex's first mover advantage into premium diesel fuel. However, Caltex will from 2019 increase its dividend payout to 50%-70% from 40%-60% currently. At the current share price, our AUD 1.48 DPS forecast for 2019 equates to a handy 5.9% fully franked yield.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	523.46	619.33	543.44	645.23
EPS c	195.35	237.46	208.37	247.39
P/E x	16.94	13.32	12.27	10.34
EPS Growth %	-14.91	21.56	-12.25	18.73
DPS c	102.00	121.00	104.56	148.44
Yield %	3.08	3.83	4.09	5.81
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

15.730

Mineral Resources Limited (MIN) - Mineral Resources' Wodgina Deal With Albemarle Now Binding, Though Regulatory Approvals Remain

Analyst Note-We make no change to our AUD 20 per share fair value estimate for no-moat Mineral Resources. The company has now entered into a binding agreement with Albemarle Corp in relation to the sale of a 50% interest in the Wodgina lithium project, previously limited to an exclusivity agreement. The purchase price remains USD 1.15 billion in cash but remains subject to regulatory, Foreign Investment Review Board, and Chinese anti-trust approvals. The parties will jointly manage Wodgina, with Mineral Resources solely responsible for completion of construction of a first-stage 750 ktpa 6% spodumene plant, while the joint venture parties will later be dually responsible for two 50 ktpa battery-grade lithium hydroxide plants. That would sate more than one third of current global lithium demand but in a fast-growing market. Morningstar anticipates demand to continue to grow at near 20% per year, taking total demand equivalent to more than six Wodginas by 2028.

Wodgina is the largest known hard rock lithium deposit in the world, and spodumene plant construction began in March 2018. Trains one and two are to be operational by fourth quarter fiscal 2019 and train three in first quarter fiscal 2020. These are expected to operate in the lowest cost quartile for spodumene globally, though not sufficient to support a moat for Mineral Resources business overall. Mineral Resources' iron ore business is high cost, and contracting work can be canceled.

Narrow-moat Albemarle will sensibly manage the marketing and sales of spodumene concentrate and later lithium hydroxide. Mineral Resources will provide life-of-mine crushing, maintenance, accommodation, airport and mine to port haulage, and ship loading services to the joint venture. The key terms for this servicing agreement are yet to be bedded down, though we foresee no issues on a mutually beneficial arrangement being struck.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	205.81	277.37	107.42	287.69
EPS c	109.76	147.84	57.23	153.27
P/E x	10.03	11.64	27.49	10.26
EPS Growth %	96.89	34.70	-61.29	167.82
DPS c	46.00	65.00	32.00	77.00
Yield %	4.18	3.78	2.03	4.90
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

3.450

Abacus Property Group (ABP) - Softening Residential to Impact Abacus in Multiple Ways. FVE Falls to AUD 3.55

Analyst Note-The Australian residential market has deteriorated much faster than expected with prices down 10% in Sydney over the past year. Residential turnover is also down materially as the sales cycle elongates. The lower volumes appear to be predominantly due to a significant tightening in bank lending criteria, a result of the Banking Royal Commission. Other negatives for volumes are tightened macro prudential controls, increased stamp duties for overseas investors, and tightened capital controls, particularly in China. Further, as prices have started to fall, prospective buyers--especially first home buyers--are likely to defer buying until they gain comfort house prices have stabilised. Lower dwelling prices crimp developers' profit margins. The lower volumes have a similar effect as the longer sales cycle means the holding costs on each site increase, weighing on margins. Following revisions to our forecasts, our fair value estimate declines 5.5% to AUD 3.55, with no-moat Abacus broadly fairly valued, currently trading at AUD 3.40.

Reflecting the faster than expected slow-down in the Australian market, and Sydney in particular, we've trimmed expected net proceeds from Abacus's divestment of its land and apartment sites. We also see the storage business being impacted by the sharp reduction in the housing turnover as the housing market is a major driver of storage demands. Residents store furniture when they put their dwelling on the market for inspections and also store their possessions when moving between residences. We see the lower transaction volumes as reducing occupancy and also the rate at which landlords can raise rates. Self-storage rents are algorithmically determined, and dynamically adjust to demand. This means they are likely to be sensitive to small changes in occupancy and demand. Accordingly, we've trimmed the self-storage projected annual rent growth from 4% to 2% for the four years to June 2022; thereafter we forecast annual rent growth of 2.5%.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	186.80	126.80	114.36	160.32
EPS c	32.70	21.95	19.74	27.67
P/E x	9.41	16.70	17.48	12.47
EPS Growth %	46.29	-32.90	-10.05	40.18
DPS c	17.50	18.00	18.50	18.87
Yield %	5.69	4.91	5.36	5.47
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

2.480

Arena REIT (ARF) - Arena REIT Through the Eye of the Storm

Analyst Note-No-moat Arena REIT securities have performed well over the past couple of months following comments from childcare operators that childcare center occupancy rates are starting to improve. However, at the market price of AUD 2.45, Arena is now fairly valued. This means we expect the stock to generate a total return equal to the cost of equity of 7.5% over the next year, a fair return considering the risk of investment. Alternatively, Charter Hall Education Trust, which has very similar attributes, including a 4% stake in Arena, trades 10% below fair value and is our preferred pick of the childcare REITs.

We weren't particularly surprised to see Think Childcare and G8 Education announce improving occupancy rates in November as we've long thought the Childcare Subsidy, or CCS, would provide a boost to the industry. Before the news, we believed the market was unjustifiably extrapolating weak occupancy rates, an oversupply of child care centers, and potential consequences for the leveraged business models of some players. Aside from CCS benefits, we're also of the view that G8 Education, which composes 8% of Arena's portfolio, has improved its corporate culture significantly over the past couple of years, which is helping drive more rational behavior in the industry.

We continue to believe that the industry has favorable long-term attributes, such as a growing population of children between newborn and 5, and a long-term commitment from the federal government to support the sector financially. We also consider the new CCS to be more favorable than the previous subsidy regime and we expect this to drive higher childcare center occupancy rates and support fee growth which should underpin occupancy rates for the REITs.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	28.73	34.69	36.80	38.16
EPS c	12.30	13.10	13.89	14.41
P/E x	16.69	17.09	17.85	17.21
EPS Growth %	10.70	6.49	6.08	3.70
DPS c	12.00	12.80	13.60	14.10
Yield %	5.84	5.72	5.48	5.69
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

2.280

Spark Infrastructure Group (SKI) - Spark's Distributions Growing for now, but Tough Regulation Is a Longer-Term Headwind

Analyst Note-On Dec. 17, 2018, the Australian Energy Regulator, or AER, released its 2018 Final Report on the Review of Regulatory Tax Approach, where it outlined a list of recommended changes to its approach when setting tax allowances for regulatory energy networks. This initiative represents yet another regulatory attack to limit profitability of regulated utilities, after the cost of equity allowance was slashed in recent resets and limits were imposed on operating cost allowances. The systematic heavy-handed approach by the regulator reinforces our no-moat rating for Spark Infrastructure, with its potential for excess returns being constrained by tough regulation. We maintain our AUD 2.40 fair value estimate for Spark. The company's shares looks reasonably priced, offering an attractive dividend yield of around 7%, but with headwinds to longer-term growth. We forecast distributions increase to AUD 17.0 cents per share in fiscal 2020 from AUD 15.2 cents in fiscal 2017. However, there could be some downside to distributions, following the next round of regulatory resets.

Each of Spark's assets are on track to grow their earnings. The medium-term earnings outlook for Victoria Power Networks, or VPN, remains relatively good, with regulated tariffs recently increasing 4% on Jan. 1, 2019 and set to increase close to 5% on Jan. 1, 2020. Similarly, earnings momentum for SA Power Networks, or SAPN, is steady, with tariffs set to increase by 3.4% in July 2019. Last but not least, TransGrid is also well-poised to emerge from a trough in returns (after having its returns substantially cut by the regulator over the past few years), with its regulated tariffs set to increase 4.5% in each of the next four years.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat $m	245.78	290.74	292.21	285.67
EPS c	14.61	17.29	17.37	16.98
P/E x	15.23	14.56	13.13	13.43
EPS Growth %	-22.38	18.29	0.51	-2.24
DPS c	14.50	15.25	16.00	16.48
Yield %	6.52	6.06	7.02	7.23
Franking %	0.0	0.0	0.0	5.0

Recommendation Updates Over the Last Week

	ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▼	ABP	Abacus	★★★	18/12/2018	Softening Residential to Impact Abacus in Multiple Ways. FVE Falls to AUD 3.55
▼	CQE	Charter Hall Education Trust	★★★	18/12/2018	Downgrade due to price change
▲	DLX	DuluxGroup	★★★	18/12/2018	Upgrade due to price change
▲	FLT	Flight Centre Travel Group	★★★	18/12/2018	Upgrade due to price change
▲	HLS	Healius	★★★★★	18/12/2018	Upgrade due to price change
▲	MFG	Magellan Financial Group	★★★★	18/12/2018	Upgrade due to price change
▲	MSB	Mesoblast	★★★★★	18/12/2018	Upgrade due to price change
▲	NWS	News Corporation	★★★★	18/12/2018	Upgrade due to price change
▲	SKC-NZ	SkyCity	★★★★	18/12/2018	Upgrade due to price change
▼	VOC	Vocus Group	★★	18/12/2018	Downgrade due to price change
▲	API	Australian Pharmaceutical Industries	★★★★	17/12/2018	Upgrade due to price change
▼	S32	South32	★★	17/12/2018	Downgrade due to price change
▲	SKT	Sky Network TV	★★★★	17/12/2018	Upgrade due to price change
▼	MCY	Mercury NZ	★★	14/12/2018	Downgrade due to price change
▲	OML	Oohmedia	★★★★	14/12/2018	Upgrade due to price change
▼	SHL	Sonic Healthcare	★★★	14/12/2018	Downgrade due to price change
▲	SKT-NZ	Sky Network Television	★★★★	14/12/2018	Upgrade due to price change
▲	VOC	Vocus Group	★★★	14/12/2018	Upgrade due to price change
▲	TPM	TPG Telecom	★★★	13/12/2018	Upgrade due to price change
▼	WHC	Whitehaven Coal	★★	13/12/2018	Downgrade due to price change
▼	BWP	BWP Trust	★★	12/12/2018	Downgrade due to price change
▼	DXS	Dexus	★★	12/12/2018	Downgrade due to price change
▲	NUF	Nufarm	★★★★	12/12/2018	Upgrade due to price change
▲	BPT	Beach Energy	★★★★	11/12/2018	Upgrade due to price change
▲	LLC	LendLease	★★★★★	11/12/2018	Upgrade due to price change
▲	PMV	Premier Investments	★★★	11/12/2018	Upgrade due to price change
▲	QBE	QBE	★★★★	11/12/2018	Upgrade due to price change

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