

07-January-2019

Morningnote

Contents

Overseas Market Report	1
Australian Market Report	4
Market Sensitive Announcements	6
Research Report Summaries	9

Flashnotes

Ocean Grown Abalone Limited (OGA)

-Ocean Grown Abalone Announces Regarding Increase in Flinders Bay Lease Capacity to 300t p.a. and Research Collaboration

Growthpoint Properties Australia (GOZ)

-Growthpoint Properties Australia Announces Regarding Expansion of Woolworths Distribution Centre

Brainchip Holdings Ltd (BRN) -Brainchip

Holdings Provides Market Update - SN Tech

Brainchip Holdings Ltd (BRN) -Brainchip

Holdings Provides Market Update - Gaming Partners International

Vector Resources Limited (VEC) -Vector

Resources Suspends from Official Quotation

Cape Lambert Resources Limited (CFE)

-Cape Lambert Resources Announces Pause in Trading

Bionomics Limited (BNO) -Bionomics

Announces Regarding Commencement of BNC105 Clinical Trial in Combination with Nivolumab

Cape Lambert Resources Limited (CFE)

-Cape Lambert Resources Trading Halted, Pending Company Announcement

Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	23433	9:17am 05/01/2019	747	3.29
▲ S&P 500	2532	9:17am 05/01/2019	84	3.43
▲ NASDAQ	6739	9:31am 05/01/2019	275	4.26
▲ FTSE 100 Index	6837	4:00am 05/01/2019	145	2.16
▲ DAX 30	10768	4:00am 05/01/2019	351	3.37
▲ CAC 40	4737	4:15am 05/01/2019	126	2.72
▼ Nikkei 225 (Japan)	19562	5:20pm 04/01/2019	-453	-2.26
▲ HKSE	25626	7:23pm 04/01/2019	562	2.24
▲ SSE Composite Index	2515	6:15pm 04/01/2019	51	2.05
▲ NZ 50	8744	4:50pm 04/01/2019	11	0.13

International Markets Roundup

[Morningstar with AAP]: European shares posted their biggest daily gain since June 2016. Europe's STOXX 600 rose 2.8 per cent, with strong gains across the region's bourses.

Asia

Asian markets finished mixed as of their recent closing prices. The Hang Seng gained 2.24 per cent while the Shanghai Composite was higher by 2.05 per cent. The Nikkei 225 was even.

Among the gainers in Hong Kong were CSPC Pharmaceutical, which rose 10.14 per cent, and CK Asset Holdings, which rose 5.6 per cent.

In China, the central bank is cutting the amount of cash banks have to hold as reserves for the fifth time in a year, freeing up \$163 billion for new lending.

A US delegation heads to China today for trade talks. The talks will be the first since Donald Trump and Xi Jinping agreed to a 90-day truce in their trade war last month, and any progress would boost markets and economies, which have suffered during the months-long tensions.

Europe

European shares posted their biggest daily gain since June 2016. Europe's STOXX 600 rose 2.8 per cent, with strong gains across the region's bourses.

The FTSE 100 is up more than 2 per cent, Germany's DAX is up 3.37 per cent, and France's CAC 40 is up 2.72 per cent.

Mining companies jumped 5.4 per cent, the top gainer as copper prices recovered on news of new trade talks between China and the US.

Caravel Minerals Limited (CVV) -Caravel Minerals Announces Thick Copper Zones Intersected at Bindi Hinge Zone

(AXL) -Axesstoday Provides Notice of Circulating Resolution Update - Simple Corporate Bond

(BPG) -Byte Power Group Responds to ASX Query Letter

Elementos Limited (ELT) -Elementos Announces Interim Completion of Acquisition of the Oropesa Tin Project

Volt Power Group Limited (VPR) -Volt Power Group Announces to File Wescone Acquisition Claim

Shine Corporate Ltd (SHJ) -Shine Corporate Announces Acquisition of Majority Interest in Carr Co

Autos, which suffered in 2018 from the trade dispute, rose 4.5 per cent.

N America

Wall Street has surged to close at its highest level in two weeks after a strong jobs report and assurances from US Federal Reserve chairman Jerome Powell that the central bank would be patient and flexible in steering the course of interest rates.

Based on the latest available data, the Dow Jones Industrial Average rose 746.94 points, or 3.29 per cent, to 23,433.16, the S&P 500 gained 84.05 points, or 3.43 per cent, to 2531.94 and the Nasdaq Composite added 275.35 points, or 4.26 per cent, to 6738.86.

Technology stocks led the charge, jumping 4.3 per cent, bouncing back from the prior session's worst day for the sector in over seven years.

The Labor Department's employment report showed the US economy added 312,000 new jobs in December, far more than the 177,000 analysts expected.

Powell, in remarks to the American Economic Association, soothed market nerves with assurances that the central bank is sensitive to risks that worry investors and is not on a preset path of interest rate hikes.

News that China and the US would hold trade talks in Beijing next week helped tariff-vulnerable industrials lead the Dow's rally, headed by Caterpillar, United Technologies, 3M and Boeing.

Keeping with Friday's risk-on theme, oil prices rose in tandem with equities.

Brent crude futures rose \$US1.11 to settle at \$US57.06 a barrel, a 1.98 per cent gain. US crude futures settled 87 cents higher at \$US47.96 a barrel, a 1.85 per cent gain.

Safe-haven assets retreated. Treasury yields rose sharply, and the dollar gained 0.8 per cent against the yen. Spot gold prices, which reached a six-month peak on Thursday, dropped 0.7 per cent.

Powell's dovish comments pushed down the US dollar index, which gave up earlier gains and last traded down 0.1 per cent. The euro was little changed.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	1870	10:30am 05/01/2019	25	1.37
▲ Copper	5897	10:31am 05/01/2019	184	3.21
▲ Nickel	11043	10:31am 05/01/2019	247	2.28
▼ Gold	1285	7:00am 07/01/2019	-6	-0.50
▲ Silver	15.7	7:01am 07/01/2019	0.0	0.25
▲ Oil - West Texas crude	48.0	9:09am 05/01/2019	0.9	1.85
▲ Lead	1938	10:31am 05/01/2019	17	0.88
▲ Zinc	2510	10:32am 05/01/2019	56	2.28
▲ Ore	73	9:10am 05/01/2019	1	1.19

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ \$A vs \$US	0.7111	9:10am 07/01/2019	-0.0007	-0.10
▼ \$A vs GBP	0.5589	9:10am 07/01/2019	-0.0003	-0.05
▼ \$A vs YEN	77.18	9:10am 07/01/2019	-0.03	-0.04
▼ \$A vs EUR	0.6240	9:10am 07/01/2019	-0.0004	-0.06
▼ \$A vs \$NZ	1.0549	9:10am 07/01/2019	-0.0013	-0.12
▼ \$US vs Euro	0.8772	9:10am 07/01/2019	-0.0001	-0.01
▲ \$US vs UK	0.7855	9:09am 07/01/2019	0.0004	0.04
▼ \$US vs CHF	0.9856	9:10am 07/01/2019	-0.0005	-0.05
▲ \$A vs \$CA	0.9514	9:10am 07/01/2019	0.0001	0.01

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	5677	7:20pm 04/01/2019	-18	-0.31
▼ S&P/ASX 200	5619	7:20pm 04/01/2019	-14	-0.25
▲ 10-year Bond Rate	2.31	9:10am 07/01/2019	0.07	3.13
▲ 90 Day Bank Accepted Bills SFE-Day	1.94	9:04am 07/01/2019	0.01	0.52
▲ 3-yr Bond Rate	1.79	9:10am 07/01/2019	0.05	2.87

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 69 points higher at 5,631.

Friday 4 January - close [Morningstar with AAP]: The Australian share market has shrugged off some of its earlier losses but fears of a slowdown in China have continued to drag on the local bourse.

The benchmark S&P/ASX200 index was down 14 points, or 0.25 per cent, to 5619.4 at 1615 AEDT on Friday, following a morning that saw it lower by more than one per cent.

The broader All Ordinaries was down 17.6 points, or 0.31 per cent, to 5677.

With Thursday's profit warning by Apple dominating market sentiment, "it's very much a trading risk-off day," said Julia Lee, a market analyst with Bell Direct.

Traders moved into higher-yielding defensive stocks such as utilities - up 1.9 per cent - and telecoms - up 0.38 per cent - and away from riskier plays, Lee said.

Information technology stocks slumped more than two per cent, with cloud logistics software company Wisetech Global down 4.24 per cent, to \$16.47, and circuit board software company Altium Limited off 3.93 per cent, to \$20.79.

Among telecoms, Telstra gained 1.4 per cents, to \$2.89, and in the utility sector natural gas and electricity company APA Group was up 3.12 per cent, to \$8.93.

A2 Milk Company, which has strong exposure to China through infant formula sales, fell 3.81 per cent, to \$10.10.

Healius had another strong day, up 12 cents, or 4.56 per cent, to \$2.75, after Thursday's takeover news.

China's Jangho Group has made a highly conditional offer of \$3.25 a share for the medical centre and pathology group.

Discretionary consumer stocks were also again lower following Kathmandu's warning on Thursday that its holiday sales had been lacklustre.

The dual-listed outdoor retailer was down 2.22 per cent to \$2.20; while luxury bedding company Adairs was off 4 per cent, to \$1.68; and furniture importer Nick Scali was off 2.81 per cent, to \$4.85.

There were fears more profit warnings for the discretionary consumer sector were still to come, Lee said.

Wesfarmers had a better day, up 33 cents, or 1.04 per cent, to \$23.08.

The gold miners were a bright spot with the precious metal price near a six-month high. Newcrest gaining 3.89 per

cent to \$23.53, Northern Star up 1.46 per cent to \$9.71 and Evolution up 2.09 per cent to \$3.90.

OceanaGold was down, however, off 14 cents, or 2.66 per cent, to \$5.12.

It was a mixed day for the big banks. Westpac and Commonwealth were flat while NAB was up 0.21 per cent, to \$23.98, and ANZ was down 0.37 per cent, to \$24.25.

Among the airlines, Qantas shares were down 0.87 per cent to \$5.69 and Virgin Australia flat at 19 cents.

Trading volume was still light, at around \$3 billion, and probably won't return to normal until the school holidays are over at the end of the month, Lee said.

The Australian dollar edged higher at 70.23 US cents, up 0.25 per cent after Thursday's flash-crash.

ON THE ASX:

The benchmark S&P/ASX200 index was down 14 points, or 0.25 per cent to 5619.4

The All Ordinaries was down 17 points, or 0.31 per cent, to 5677.

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
* Estimated based on release date of previous report		

Market Sensitive Announcements

08:29 AM

Ocean Grown Abalone Limited (OGA) -Ocean Grown Abalone Announces Regarding Increase in Flinders Bay Lease Capacity to 300t p.a. and Research Collaboration

Ocean Grown Abalone announced that Flinders Bay licence has been increased to 15,000 Abitats, estimated to have the potential to produce 300t p.a. of greenlip abalone once developed. DPIRD and the Company will work in collaboration to undertake scientific research focused on growth optimisation of greenlip abalone. It is excited about the opportunities presented by the approval and the opportunity to work in collaboration with DPIRD.

08:41 AM

Growthpoint Properties Australia (GOZ) -Growthpoint Properties Australia Announces Regarding Expansion of Woolworths Distribution Centre

Growthpoint Properties Australia announced that it has entered into contracts with Woolworths to fund the expansion of its SA head office and primary Distribution Centre servicing SA and the NT at 599 Main North Road, Gepps Cross, SA, for \$57m. The expansion, which is expected to achieve practical completion by mid-CY 2020, will include an extension of the existing temperature controlled and ambient warehouses, construction of a new recycling facility and other ancillary improvements. It is funding the development and will receive a coupon for the project costs as they are incurred at a yield of 6.75%.

08:51 AM

Brainchip Holdings Ltd (BRN) -Brainchip Holdings Provides Market Update - SN Tech

BrainChip Holdings provided a market update on the business relationship with SN Tech. In September 2018, the Company invoiced SN Tech US\$609,251 for a deployment at the Lockport School District in New York state in accordance with a June 2018 License Agreement. SN Tech subsequently disputed the invoice and the Company pursued a preliminary audit of SN Tech's books and records as proscribed in the License Agreement.

09:19 AM

Brainchip Holdings Ltd (BRN) -Brainchip Holdings Provides Market Update - Gaming Partners International

BrainChip Holdings provided a market update on the development and commercialization of the Company's video analytic technology with Gaming Partners International (GPI). The Company and GPI announced a global licensing and development agreement to develop technology in support of GPI's advanced ATS, an automated table solution built to collect and analyze data in real-time. The system combines GPI's exclusive and innovative SMART RFID technology with an advanced visual identification system based on its technology. A license fee of US\$500,000 was paid in full in September 2018. An engineering fee of US\$100,000 has also been paid in full and the companies have agreed to further engineering fees associated with ongoing enhancements and additional scope of work.

09:37 AM

Vector Resources Limited (VEC) -Vector Resources Suspends from Official Quotation

The securities of Vector Resources will be suspended from quotation immediately under Listing Rule 17.2, at the request of the Company, pending the release of an announcement regarding the acquisition of the Adidi-Kanga Gold Project in the Democratic Republic of Congo.

09:55 AM

Cape Lambert Resources Limited (CFE) -Cape Lambert Resources Announces Pause in Trading

Trading in the securities of the Cape Lambert Resources will be temporarily paused pending a further announcement.

10:08 AM	<p>Bionomics Limited (BNO) -Bionomics Announces Regarding Commencement of BNC105 Clinical Trial in Combination with Nivolumab</p> <p>Bionomics announced that an experimental phase II clinical trial of its cancer drug candidate, BNC105, in combination with Bristol-Myers Squibb's nivolumab, has commenced in patients with metastatic colorectal cancer, in an Australasian Gastro-Intestinal Trials Group (AGITG) sponsored trial supported by Bristol-Myers Squibb. The MODULATE trial will investigate whether BNC105, a vascular disrupting agent, combined with an immune oncology drug, nivolumab, can be used to treat advanced colorectal cancer patients who have exhausted other treatment options. This will be the first clinical assessment of BNC105 in combination with an immunotherapy agent.</p>
10:30 AM	<p>Cape Lambert Resources Limited (CFE) -Cape Lambert Resources Trading Halted, Pending Company Announcement</p> <p>The securities of Cape Lambert 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 8 January 2019 or when the announcement is released to the market.</p>
10:56 AM	<p>Caravel Minerals Limited (CVV) -Caravel Minerals Announces Thick Copper Zones Intersected at Bindi Hinge Zone</p> <p>Caravel Minerals announced further assay results from the recently completed 6-hole diamond drilling program at the Caravel Copper Project. The drill holes targeted high grade domains and are part of a work program commenced by the Company in July 2018 to test and update the previous resource model. Core from the program is also being used for geotechnical and metallurgical test work/studies. Diamond hole 18CADD005 intersected two higher grade zones interpreted to be the upper and lower limbs of an overturned fold. The diamond drilling program continues to deliver improved understanding of the structural controls on mineralisation and geological domains.</p>
11:30 AM	<p>(AXL) -Axesstoday Provides Notice of Circulating Resolution Update - Simple Corporate Bond</p> <p>Axesstoday announced that it refers to its announcement 4 December 2018, pursuant to which the Company sought approval for a second Circulating Resolution from Simple Corporate Bondholders. The Circulating Resolution included a waiver of compliance with the maximum Covenant Debt to Receivables Ratio of 85% at 31 December 2018 under the terms of the Simple Corporate Bond. Testing of this is based on the Company's statutory financial accounts for the relevant period.</p>
11:41 AM	<p>(BPG) -Byte Power Group Responds to ASX Query Letter</p> <p>Byte Power Group responded to an ASX query letter stating that the Company through its 83.4% owned subsidiary Byte Power (HK) (BPHK), sold a Wimobilize Big Data solution to Chinese registered Shanghai Huahu Information technology. BPHK has delivered the working prototype of the Wimobilize Big Data solution. It does not expect to continue to have negative operating cash flows as it expects it will be able to raise funds to meet its operational cash flow needs by generating operating revenues and raising funds. The Board will continue to monitor the capital requirements of the business operations and may undertake future capital raising initiatives if required.</p>
11:51 AM	<p>Elementos Limited (ELT) -Elementos Announces Interim Completion of Acquisition of the Oropesa Tin Project</p> <p>Elementos announced that, further to prior announcements by the Company concerning the Arrangement signed with Eurotin (TIN) for the acquisition of the Oropesa Project, Interim Completion of the Arrangement Agreement has occurred. The Company has issued 1,000,000,000 convertible redeemable preference shares (CRPS) to Eurotin to be distributed to its shareholders. On receipt of the Spanish Regional Mining Authority approval and satisfaction of all remaining conditions precedent the acquisition of the Oropesa Project will be completed and the CRPS will convert to ordinary shares in the Company.</p>

12:52 PM

Volt Power Group Limited (VPR) -Volt Power Group Announces to File Wescone Acquisition Claim

Volt Power Group announced that it has filed a Writ against the vendor of Wescone Distribution Pty in the Supreme Court of WA (Wescone Writ). The Company updated that the Wescone Writ seeks a Court Order for damages including interest and costs for Breach of Contract and/or that agreements relevant to the Wescone Acquisition are void for misleading and deceptive conduct and all purchase monies be refunded. As reported, the Wescone Writ has been filed on the basis that material information in relation to the BHP relationship with Wescone was not disclosed to the Company prior to Wescone Acquisition Completion. The Company further updated that BHP had advised Wescone that its crusher repair services were no longer required.

02:01 PM

Shine Corporate Ltd (SHJ) -Shine Corporate Announces Acquisition of Majority Interest in Carr Co

Shine Corporate announced the expansion of its family law practice through the acquisition of a majority interest in Carr & Co Divorce & Family Lawyers Pty (Carr & Co), which has practised in all areas of family law in Perth since being established by William Carr in 1995. The Company updated that the acquisition will take effect from 1 January 2019. As reported, the purchase price for 80% of the shares in Carr & Co is \$3.6m, the majority of which will be debt funded. The acquisition is expected to be earnings accretive in FY19. Also, the Company stated that Carr & Co is a highly respected family law practice in the Perth market and its highly experienced and well-regarded directors and key employees will remain with the business.

Research Report Summaries

Morningstar Rating

★★★★

Share Price

2.750

CSR Limited (CSR) - Aluminium Earnings to Turn Marginal for No-Moat CSR; 20% Cut to FVE on Analyst Transfer

Analyst Note—We reduce our fair value estimate on no-moat-rated CSR by 20% to AUD 3.30 per share following a transfer of analyst. Revenue expectations are unchanged. We expect a five-year top-line compound annual growth rate of negative 2.1%. We expect building products volume will weaken over the coming five years with Australian residential construction activity declining from its 2018 cyclical peak. Lower aluminium prices and lost revenue from the sale of Viridian Glass also contribute to declining forecast revenue.

However, we've revised our EBIT margin expectations lower, the key driver of the fair value estimate cut. We now forecast a more pronounced retreat in margins to an average of 8.9% over the coming five years, down from our prior forecast of 10.6%. While margin expectations for building products are unchanged, aluminium margins will be more affected by soaring Australian electricity prices than we'd previously anticipated, leading to our lowered EBIT margin outlook.

We reiterate our high uncertainty rating. Cyclical building products markets and volatile aluminium prices introduce significant variability in earnings. Further, the high-fixed-cost base of the bricks business introduces significant operating leverage, which will damp building product margins as volume now falls. Australian dwelling completions have registered a sizeable five-year historical CAGR of 7.6%. We see a reversal now occurring with a prospective five-year CAGR of negative 4.7% expected.

Global aluminium prices and domestic electricity costs are expected to move in opposing directions in the coming five years. We forecast an aluminium price of around USD 1,700 per metric tonne by fiscal 2023, down from an elevated USD 2,044 per metric tonne in fiscal 2018. Aluminium earnings are anticipated to turn marginal as a result.

FYE Mar	2017A	2018A	2019E	2020E
Reported Npat \$m	184.10	194.70	192.38	145.03
EPS c	36.36	38.46	40.29	33.49
P/E x	10.65	11.86	6.83	8.21
EPS Growth %	11.28	5.76	4.76	-16.87
DPS c	26.00	27.00	28.20	28.20
Yield %	6.71	5.92	10.25	10.25
Franking %	25.0	62.5	100.0	100.0

Morningstar Rating

★★

Share Price

2.440

Genesis Energy Limited (GNE) - Genesis Remains Overvalued

Analyst Note—Genesis' high-quality renewable generation assets, which underpin the firm's narrow economic moat, have enjoyed strong North Island rainfall in recent times. We expect EBITDA in 2019 of NZD 361 million--in line with management's guidance for NZD 350 million to NZD 370 million. But we expect normalising hydrology conditions to weigh on longer-term earnings. We also have concerns about the firm's exposure to oil and gas prices, as well as higher financial leverage than peers. Our fair value estimate of NZD 2.20 remains intact, and last trading at NZD 2.59, shares in Genesis are overvalued.

Genesis should continue to benefit from its low-cost hydroelectric generation assets over the longer term. However, we expect generation levels to fall to more typical levels as North Island rainfall reverts to the long-term mean. Further, we expect the Kupe oil and gas field to be largely depleted in a decade, leaving a significant hole of about a quarter of the firm's earnings. Management has targeted fiscal 2021 EBITDA of NZD 400 million to NZD 430 million. We think they can achieve this, with our forecast of NZD 406 million in EBITDA by fiscal 2021.

Despite shares currently trading above our fair value estimate, Genesis still offers an attractive dividend yield of 6.7%, but the firm's balance sheet is stretched. Forecast fiscal 2019 net debt/EBITDA of close to 3 times is well above peers. However, we expect credit metrics to improve relatively quickly on earnings growth and the dividend reinvestment plan. We forecast net debt/EBITDA to be at more comfortable levels below 2.5 times within a couple of years.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	69.81	54.25	56.24	66.00
EPS c	6.98	5.42	5.57	6.43
P/E x	29.13	41.05	43.77	37.96
EPS Growth %	-34.09	-22.30	2.76	15.31
DPS c	15.66	15.94	15.96	15.98
Yield %	7.70	7.16	6.54	6.55
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

2.750

Healius Limited (HLS) - Jangho Looks to Acquire Healius, But Indicative Offer Below our FVE

Analyst Note—Given shares in no-moat-rated Healius have been depressed over recent months, Jangho's proposal to acquire the healthcare company for AUD 3.25 per share is convenient timing. The bid falls short of our fair value estimate of AUD 3.50, and could be a shrewd bit of business for the Chinese company if they manage to pull it off. While the bid of AUD 3.25 represents a 46% premium to the stock price on Dec. 31, 2018, the last trading day before the proposal was announced, it is still more than 7% short of our unchanged fair value estimate. Through its subsidiaries, the Jangho Group already holds 15.93% of Healius. However, the bid is highly conditional, not least of all requiring approval from the Foreign Investment Review Board. The Healius board is yet to complete an assessment of the proposal.

We make no change to our fair value estimate, and continue to believe Healius offers more value as a standalone business. Last trading at AUD 2.75, shares in Healius remain undervalued. The firm's large-scale medical centres generate dependable earnings, and its pathology division in particular enjoys competitive advantages. Healius is leveraged to growing demand from Australia's ageing population, and increased government focus on preventative health should help drive demand in the pathology and radiography divisions. We believe the firm can grow operating income at a CAGR of more than 16% over the five years to fiscal 2023.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	92.10	92.30	103.25	124.44
EPS c	17.66	17.68	18.06	20.01
P/E x	21.34	20.33	15.23	13.74
EPS Growth %	-11.65	0.12	2.11	10.83
DPS c	10.60	10.60	10.60	11.75
Yield %	2.81	2.95	3.85	4.27
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

3.340

MYOB Group Limited (MYO) - MYOB FVE Cut to KKR's AUD 3.40 Bid Price Following Board Support for Takeover

Analyst Note—We expect KKR's takeover offer for narrow-moat-rated MYOB to succeed following the board's decision to recommend the offer to shareholders. We have reduced our fair value estimate to the AUD 3.40 per share offer price as shareholders are now unlikely to be able to realise the stand-alone AUD 3.94 fair value. Although the KKR offer permits MYOB to seek superior offers until Feb. 22, 2019, we think it's unlikely an alternative offer will emerge as KKR's 19.9% shareholding complicates matters and no other offers have been made since the initial KKR bid last October. An alternative bid from a trade buyer is possible but unlikely as MYOB's main competitors are focused on organic customer growth via the cloud. Alternative bids from financial buyers are also possible but likely to be deterred by KKR's intention to sell into alternative bids above AUD 3.57 per share. Although KKR's willingness to sell presents an opportunity for an unrestricted acquisition, we expect most potential financial bidders will be reluctant to buy from such a sophisticated investor which has just conducted due diligence on the company. MYOB plans to release its Scheme Booklet in mid-March 2019 with the Scheme meeting scheduled for April 16, 2019. We will provide our recommendation on the offer following the release of the Scheme booklet.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	96.76	107.77	101.13	101.66
EPS c	16.45	17.98	16.87	16.96
P/E x	20.82	19.66	19.80	19.69
EPS Growth %	-4.42	9.28	-6.16	0.52
DPS c	5.00	11.50	11.81	11.87
Yield %	1.46	3.25	3.54	3.55
Franking %	0.0	0.0	0.0	50.0

Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▼ MYO	MYOB Group	★★★	04/01/2019	MYOB FVE Cut to KKR's AUD 3.40 Bid Price Following Board Support for Takeover
▼ ORG	Origin Energy	★★★	04/01/2019	Downgrade due to price change
▼ HLS	Healius	★★★★	03/01/2019	Downgrade due to price change
▲ ING	Inghams Group	★★★	03/01/2019	Upgrade due to price change
▲ SUL	Super Retail Group	★★★★	03/01/2019	Upgrade due to price change
▲ AOG	Aveo	★★★★★	02/01/2019	Upgrade due to price change
▼ MSB	Mesoblast	★★★★	02/01/2019	Downgrade due to price change
▲ BWP	BWP Trust	★★★	31/12/2018	Upgrade due to price change
▼ DOW	Downer EDI	★★	31/12/2018	Downgrade due to price change

This Research report has been prepared by Morningstar Australasia Pty Ltd (ABN 95 090 665 544) ("Morningstar"). Morningstar is the holder of an Australian Financial Services License (AFSL 240892).

ilvest Securities Pty Ltd (ABN 44 246 838 283) ("ilvest") does not guarantee or take responsibility for the accuracy, completeness, estimates or appropriateness of any information or statement of opinion (any of which may change without notice) set out in this Research report.

This document has been provided to you for your general information and does not take into account your objectives, financial situation and needs and must not be relied upon by you as personal financial product advice that has been provided to you by ilvest. If you require advice regarding any aspect of the information and statements of opinion set out in this document, particularly as to whether you should base an investment decision upon the information or statements of opinion set out in this document, please contact your financial adviser.

Distribution

The material contained in this communication is prepared for the exclusive use of clients of ilvest. ilvest is an Authorised Representative (#431611) of Zodiac Securities Pty Ltd (AFSL #398350, ABN 76 142 982 554).

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient, confidentiality is not lost nor privilege waived by your receipt of it. Please delete and destroy all copies. You should not use, copy, disclose or distribute this information without the express written authority of ilvest.

Disclaimer & Disclosure

ilvest, its related companies, officers, employees and agents may have a relevant interest in some of the securities mentioned but those holdings are not material unless disclosed in this communication. These holdings (or absence of holdings) may change at any time after publication of this communication, without notice.

ilvest, its related companies, officers, employees and agents may earn income, fees, brokerage or commissions or other benefits as a result of recommendations, dealing or transactions in the securities mentioned in this communication. These interests do not influence ilvest in giving the general advice contained in this communication. ilvest, its related companies, officers, employees and agents may trade in financial products which is contrary to the recommendations given in this communication.

You should not act on any recommendation made in this document without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this communication shall be construed as a solicitation to buy or sell a financial product, or to engage in or refrain from engaging in any transaction.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, omissions, misstatements, virus interception or interference.