

24-January-2019

# Morningnote

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## Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	24576	8:25am 24/01/2019	171	0.70
▲ S&P 500	2639	8:25am 24/01/2019	6	0.22
▲ NASDAQ	7026	8:25am 24/01/2019	5	0.08
▼ FTSE 100 Index	6843	3:50am 24/01/2019	-59	-0.85
▼ DAX 30	11072	4:00am 24/01/2019	-19	-0.17
▼ CAC 40	4840	4:15am 24/01/2019	-7	-0.15
▼ Nikkei 225 (Japan)	20594	5:20pm 23/01/2019	-29	-0.14
▲ HKSE	27008	7:24pm 23/01/2019	3	0.01
▲ SSE Composite Index	2581	6:15pm 23/01/2019	1	0.05
▼ NZ 50	9106	8:21am 24/01/2019	-9	-0.09

## International Markets Roundup

[Morningstar with AAP]: The MSCI global stock index ended Wednesday's choppy trading session with a small gain as worries over US politics

### Asia

Asian markets finished mixed as of the most recent closing prices. The Shanghai Composite gained 0.05 per cent and the Hang Seng rose 0.01 per cent. The Nikkei 225 lost 0.14 per cent.

The broader Topix underperformed and ended 0.6 per cent lower at 1547.03. Declining issues outweighed advancing ones 1586 to 469.

The Bank of Japan left has held rates steady but trimmed the inflation outlook.

### Europe

European shares were sluggish on Wednesday as a batch of poor corporate updates added to worries about a global growth slowdown and China-US trade negotiations.

The FTSE 100 is down 0.85 per cent while Germany's DAX is off 0.17 per cent and France's CAC 40 is lower by 0.15 per cent.

The Stoxx Europe 600 Index fell 0.1 per cent.

Top faller on the STOXX 600 on Wednesday was Metro Bank, which fell nearly 39 per cent to an all-time low.

The British lender announced a sharp rise in exposure to higher-risk mortgages and said profits would be hit by slowing growth, raising fears of a shareholder cash call.

A profit warning by Ingenico sent the French payment group down more than 13 per cent to six-year lows.

**Cardinal Resources Limited (CDV)**

-Cardinal Resources Hits More High-Grade Shallow Gold at Ndongo East

**St Barbara Limited (SBM)** -St Barbara

Provides Quarterly Report

**Base Resources Limited (BSE)** -Base

Resources Announces an Update to the Ranobe Deposit Mineral Resources Estimate at its Toliara Project

**Challenger Limited (CGF)** -Challenger

Provides Earnings and Guidance Update

**Regis Resources Limited (RRL)** -Regis

Resources Provides Quarterly Activities Report

## N America

The MSCI global stock index ended Wednesday's choppy trading session with a small gain as worries over US politics, global economic growth and trade tensions were countered by a boost from quarterly earnings reports.

However, the US dollar and oil prices declined.

US Treasury yields climbed but analysts expect the \$15.6 trillion market to be confined within a tight trading range due to a dearth of fresh economic data amid the longest-ever US government shutdown.

The US dollar edged lower against a basket of currencies as uncertainty over trade and the global economy clouded the greenback's near-term outlook and restricted it to tight trading ranges against other major currencies.

After falling more than 1 per cent in the previous day's session, Wall Street indexes zig-zagged.

Strong quarterly reports from Procter & Gamble, Comcast Corp and International Business Machines helped the Dow show the biggest gains of the day.

But US political uncertainty weighed heavily on investors. White House economic adviser Kevin Hassett said in a CNN interview the US could see zero growth in the first three months if the partial government shutdown is extended for the whole quarter.

US President Donald Trump and US House of Representatives Speaker Nancy Pelosi argued publicly over whether Trump can deliver the annual State of the Union address in the House chamber during the shutdown.

The Dow Jones Industrial Average rose 171.14 points, or 0.7 per cent, to 24,575.62, the S&P 500 gained 5.8 points, or 0.22 per cent, to 2,638.7 and the Nasdaq Composite added 5.41 points, or 0.08 per cent, to 7,025.77.

MSCI's gauge of stocks across the globe rose 0.1 per cent, after the pan-European STOXX 600 index lost 0.06 per cent.

Investors also kept a close eye on China on hopes more economic stimulus measures would ease worries over slow progress in trade talks between Washington and Beijing.

Trump told reporters on Wednesday that the US was doing well in trade talks and that China "very much wants to make a deal."

The day before his advisers had said he would not soften his position that Beijing must make real structural reforms, including how it handles intellectual property, to reach a trade deal.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	1896	5:21am 24/01/2019	18	0.94
▲ Copper	5919	5:21am 24/01/2019	15	0.25
▲ Nickel	11628	5:21am 24/01/2019	112	0.97
▼ Gold	1283	8:24am 24/01/2019	-2	-0.19
▲ Silver	15.3	8:24am 24/01/2019	0.0	0.25
▼ Oil - West Texas crude	52.6	8:25am 24/01/2019	-0.4	-0.74
▲ Lead	2021	5:21am 24/01/2019	8	0.41
▲ Zinc	2628	5:21am 24/01/2019	40	1.53
Ore	75	9:10am 23/01/2019	0	--

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7142	8:25am 24/01/2019	0.0024	0.34
▼ \$A vs GBP	0.5464	8:25am 24/01/2019	-0.0028	-0.51
▲ \$A vs YEN	78.27	8:25am 24/01/2019	0.43	0.55
▲ \$A vs EUR	0.6275	8:25am 24/01/2019	0.0010	0.15
▼ \$A vs \$NZ	1.0520	8:25am 24/01/2019	-0.0018	-0.17
▼ \$US vs Euro	0.8787	8:25am 24/01/2019	-0.0013	-0.14
▼ \$US vs UK	0.7654	8:25am 24/01/2019	-0.0064	-0.83
▼ \$US vs CHF	0.9948	8:25am 24/01/2019	-0.0022	-0.22
▲ \$A vs \$CA	0.9532	8:25am 24/01/2019	0.0026	0.28

**Australian Market Report**

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ All Ordinaries	5909	7:20pm 23/01/2019	-16	-0.26
▼ S&P/ASX 200	5844	7:20pm 23/01/2019	-15	-0.26
▲ 10-year Bond Rate	2.29	7:39am 24/01/2019	0.01	0.44
90 Day Bank Accepted Bills SFE-Day	2.00	7:36am 24/01/2019	--	--
▲ 3-yr Bond Rate	1.77	7:36am 24/01/2019	--	0.28

## Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 4 point lower at 5,788.

Wednesday 23 January - close [Morningstar with AAP]: The Australian share market has clawed back some of its earlier losses to close lower with the financial and energy sectors weighing the heaviest.

The benchmark S&P/ASX200 index was down 15.1 points, or 0.26 per cent, to 5,843.7 at 1630 AEDT on Wednesday, while the broader All Ordinaries was down 15.6 points, or 0.26 per cent, lower at 5,908.7.

Bell Direct equities analyst Julia Lee said despite the market lows earlier in the day January is still faring well.

"The market is up about 3.6 per cent for the month and has done pretty well in recovering those earlier losses," Ms Lee told AAP.

"All together trading volume is still relatively light and won't be back at normal levels until school and the market returns."

The big four were all down in the doldrums with National Bank Australia falling 0.33 per cent to \$24.51

NAB's cashless retail sales index for December showed electronic purchases rose just 0.9 per cent from November amid weak spending over Christmas.

ANZ also fell by 0.39 per cent to \$25.71 as did Commonwealth Bank down 0.07 per cent to \$72.13 and Westpac falling the furthest at 0.58 per cent to \$25.60.

Macquarie Group was also down 0.02 per cent to \$116.29

Despite fund manager Pinnacle Investment's expectation of a 25 per cent lift in half-year profit to \$10.1 million, stocks fell by 12.35 per cent to \$4.40.

Continuing the downward trend, Challenger Financial plummeted 17.12 per cent to \$7.65, a three-year low after the retirement fund manager flagged a 97 per cent plunge in first-half profit and cut its full-year guidance.

As a percentage the energy sector performed the worst with Santos and Beach Energy falling between 1.49 and 2.94 per cent.

Also losing ground was Origin Energy down 1.67 per cent to \$7.08 while Sundance Energy fell even further at 6.67 per cent to 42 cents.

Shares in car dealer AP Eagers have been making significant gains and are "fascinating" to watch Ms Lee said, with the steady rise of online sales prompting retail companies to buy-up delivery trucks.

The automotive retail group managed to climb up 7.28 per cent to \$6.63.

Mining giant BHP extended its previous days' losses, down 0.43 per cent to \$32.63.

Rio Tinto also dipped 0.51 per cent to \$79.60, as did South32 down 0.6 per cent to \$3.34 and Bluescope Steel lowering 1.88 per cent to \$11.98.

The Aussie dollar has lifted slightly buoyed by a rise in the New Zealand dollar, buying 71.38 US cents from 71.36 US cents on Tuesday.

ON THE ASX:

The benchmark S&P/ASX200 index was down 15.1 points, or 0.26 per cent, to 5,843.7

The All Ordinaries was down 15.6 points, or 0.26 per cent, lower at 5,908.7

The NZX 50 dropped 8.60 points (-0.09%) closed at 9,106.03

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

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

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**Market Sensitive Announcements**


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07:57 AM

**Z Energy Limited (ZEL) -Z Energy Provides Quarterly Operating Update**

Z Energy announced that operational performance for the third quarter of FY 2019 has been positively impacted by rapid declines in the price of underlying crude meaning the company was able to improve its competitive position in the retail market with less pressure on both retail and commercial margins. The reversal of the crude price lag and reduced retail margin compression in the quarter allows for a review of FY 2019 earnings guidance with RC EBITDAF for the full year revised upwards to \$420m- \$450m. Dividend guidance has also increased, based on higher 3Q earnings and a more stable crude outlook. Total dividends for FY 2019 are expected to be between 38 and 47 cps inclusive of the 12.5 cps interim dividend paid in December 2018.

08:27 AM

**Northern Star Resources Ltd (NST) -Northern Star Resources Provides December 2018 Quarterly Activities Report**

Northern Star Resources provided December 2018 quarterly activities report. Total gold sales in the December 2017 quarter were 210,561oz, taking sales for the six months to December 31 to 423,243oz. As a result, the Company remains on track to achieve its FY 2019 production guidance of 850,000-900,000oz. The Group's in-mine drilling activity continued at high levels leading into the Christmas period with the continuing focus on resource conversion and extension programs.

08:29 AM

**Galaxy Resources Limited (GXY) -Galaxy Resources Announces Regarding Mt Cattlin Resource and Reserve Upgrade**

Galaxy Resources announced a Mineral Resource and Ore Reserve update following drilling activities undertaken during the second half of 2018 at the Mt Cattlin Project in Ravensthorpe, WA. There has been a 42% increase in classified Resources compared with the equivalent position as at June 2018. Ore Reserves continued to be modeled using a US\$650/t revenue factor and have increased 40% overall to 10.7Mt (Proven and Probable) @ 1.15% Li2O and 137 ppm (parts per million) Ta2O5. Ore Reserves were last updated in December 2017.

08:34 AM

**Mount Gibson Iron Limited (MGX) -Mount Gibson Iron Provides Quarterly Activities Report**

Mount Gibson Iron provided quarterly activities report. The Company's cash and liquid investments totalled \$431m at 31 December 2018, compared with \$452m at 30 September 2018. The movement reflected a positive cash inflow from the Mid-West business of \$35m, \$3m of interest revenue, \$3m of corporate office costs and \$4m in favourable net working capital movements, before Koolan Island cash expenditure of \$42m and payment of the \$18m cash component of the 2017/2018 final dividend. FOB ore sales revenue for all products sold totalled \$72m in the December 2018 quarter and \$137m for the half year.

08:37 AM

**Metals X Limited (MLX) -Metals X Provides Quarterly Activities Report**

Metals X provided quarterly activities report. During quarter, the Company completed heritage studies and fauna and flora studies to obtain clearance for resource definition drilling on its calcrete deposits (a major neutralising reagent in the proposed processing plant) and also to obtain clearance for exploratory water bore drilling on the Mann Fault. On 12 November 2018 the Company announced the appointment of Mr. Damien Marantelli as MD and CEO of the Company, replacing Mr. Warren Hallam. Mr. Hallam and Mr. Allan King, previously Chief Operating Officer, both resigned effective 12 Novembers 2018.

08:45 AM

**Pinnacle Investment Management Group Limited (PNI) -Pinnacle Investment Management Group Provides Market Update**

Pinnacle Investment Management Group provided market update. Retail FUM stood at \$9.4bn at 31 December 2018, compared with \$7.9bn at 30 June 2018. This \$1.5bn growth was attributable to \$1.4bn net inflows, \$0.7bn acquired FUM (MXT), with reductions due to market movements/investment performance of \$0.6bn. Basic EPS from continuing operations are expected to be 6.1 cps for the half year ended 31 December 2018, compared with 5.0 cps in the pcg and 14.3 cps in the 12 months ended 30 June 2018.

08:49 AM

**Alacer Gold Corp (AQG) -Alacer Gold Announces 2019 Production and Cost Guidance**

Alacer Gold announced 2019 production and cost guidance. The sulfide plant ramp up is progressing to plan as reflected in gold poured during the month of December 2018 of 22 thousand ounces. It expects to achieve commercial production in early 2019 and are planning to process 1.7Mt of sulfide ore at an average grade of 4.75 g/t. In addition, its oxide plant operations will continue to be a material contributor to the free cash flow profile in 2019. Oxide plant production will be generated from two sources, Copler oxide ore and Cakmaktepe oxide ore and is expected to be weighted 60% to the first half of the year and 40% to the second half of the year.

08:59 AM

**Champion Iron Limited (CIA) -Champion Iron Enters into Joint Exploration Agreement with Supreme Metals**

Champion Iron announced that a joint exploration agreement has been reached with Supreme Metals in order to access the claims located on the Bloom Lake East Property (Bloom East). Magnetic survey work, conducted by Supreme in 2018, identified iron ore prospects at Bloom East, which could be of strategic importance to the Company and its subsidiary Quebec Iron Ore (QIO), as it could potentially be considered as a source of iron ore feed for the Bloom Lake Mine (Bloom Lake) concentration plant owned and operated by QIO. In addition to accelerating exploration on the Walsh Prospect, the one-year Agreement allows it to evaluate further mineralization outside of QIO's current claims and lease and could potentially increase the resources in the vicinity of Bloom Lake operations.

09:04 AM

**Grange Resources Limited (GRR) -Grange Resources Provides Quarterly Report for Three Months Ended 31 December 2018**

Grange Resources provided quarterly report for three months ended 31 December 2018. Phase 1 of the diamond drilling program investigating the access of the ore body in North Pit through underground mining continued in Q4 and is nearing completion. Nine holes have been drilled for an advance of 9,192m. Laboratory testing of diamond core for geophysical and assay information is progressing. Phase 2 of the drilling has commenced with 1,980m completed to date. As at 31 December 2018 there were 4,370 shareholders. Diamond drilling programs continue in North Pit and Centre Pit.

09:07 AM

**Cardinal Resources Limited (CDV) -Cardinal Resources Hits More High-Grade Shallow Gold at Ndongo East**

Cardinal Resources announced that first drilling results following the recent wet season have commenced, intersecting further high-grade and shallow gold mineralisation at the new Ndongo East discovery. Importantly, the Ndongo Prospecting License is located only 24km north of the Company's Namdini Gold Project for which Cardinal declared a Maiden Probable Ore Reserve of 4.76Moz on the 18 September 2018. Drilling has encountered multiple intercepts of near-surface mineralization. Drilling is ongoing and will continue to evaluate the strike and depth extension of the Ndongo East mineralised system.

09:13 AM

**St Barbara Limited (SBM) -St Barbara Provides Quarterly Report**

St Barbara provided quarterly report. The Total Recordable Injury Frequency Rate (TRIFR, 12 months moving average) increased from 2.8 at the end of Q1 September FY 2019 to 2.9 at the end of Q2 December FY 2019, due to six low severity recordable injuries. The first diamond drill hole (BND08) commenced testing the Banesa copper-gold porphyry target on Big Tabar Island in December 2018. Total cash at bank and term deposits at 31 December 2018 was A\$3571m (30 September 2018: A\$350m), after income tax payments of \$46m and growth capex of \$13m. The Company generated an operational cash contribution<sup>2</sup> in Q2 December FY 2019 of A\$76m.

09:18 AM

**Base Resources Limited (BSE) -Base Resources Announces an Update to the Ranobe Deposit Mineral Resources Estimate at its Toliara Project**

Base Resources announced an update to the Ranobe deposit Mineral Resources estimate at its Toliara Project (the 2019 Ranobe Mineral Resources). The Company completed the acquisition of the Toliara Project on 22 January 2018 and is currently progressing the project through a full study phase. The Toliara Project is founded on the Ranobe deposit, located 40 kms north of the regional town of Toliara in south west Madagascar and 15 kms inland from the coast. The drill program will continue over the course of 2019, with the objectives of completing the remaining mineralogy redefinition, improving the understanding of the lower mineralised units and increasing the volume of Mineral Resources within the measured and indicated categories.

09:26 AM

**Challenger Limited (CGF) -Challenger Provides Earnings and Guidance Update**

Challenger provided an update on expected earnings for the half year ending 31 December 2018 (1H 2019) and guidance for the 2019 financial year (FY 2019). It will release its financial information for 1H 2019 to the market on 12 February 2019. While the financial information is still being finalised and is subject to audit review, it expects to report normalised net profit before tax of \$270m for 1H 2019. Statutory net profit includes valuation movements on assets and liabilities supporting the Life business, which results in investment experience. It expects to report 1H 2019 investment experience of -\$194m (after tax), resulting in a statutory NPAT of \$6m.

09:29 AM

**Regis Resources Limited (RRL) -Regis Resources Provides Quarterly Activities Report**

Regis Resources provided quarterly activities report. Cash and bullion of \$206.7m at the end of the quarter, an increase of \$16.7m from the previous quarter with operating cash flow of \$76.4m, mine development and capital expenditure of \$27.6m, exploration expenditure of \$11.0m and income tax payments of \$18.4m. Latest Drilling programme at Discovery Ridge completed with very good results including 109 metres @ 1.6 g/t and 94m @ 2.6 g/t and still open at depth. Guidance for the FY 2019 year remains unchanged with gold production in the mid to upper range of 340,000-370,000 oz and AISC at the lower end of guidance between \$985-1055/oz.



## Research Report Summaries

## Morningstar Rating

★★★★

## Share Price

2.320

## Domain Holdings Australia Limited (DHG) - REA Group and Domain's Strong Long-Term Outlook Unaffected by Real Estate Downturn

**Analyst Note**—We expect real estate price weakness to weigh on the narrow-moat-rated real estate advertising platforms, REA Group and Domain, in the short term but not materially in the long term. Australian real estate prices fell by 4.8% in 2018 but the national figure masks significant regional differences, with prices in state capitals falling 6.1% but regional areas down just 0.2%. Similarly, Sydney and Melbourne fell by 8.9% and 7.0%, respectively, but Hobart and Canberra rose by 8.7% and 3.3%, respectively. The Sydney and Melbourne markets reached record house price/income ratios in 2017 and are the main cause of the current weak national performance.

Although we don't explicitly forecast real estate price levels, we expect rising rental yields to eventually support prices, barring an increase in unemployment. Gross rental yields have increased to 4.0% nationally, from a low of 3.7% in 2017, which is already reasonably attractive relative to the Reserve Bank of Australia's base rate of 1.5%. In Sydney and Melbourne, yields are 3.3% and 3.5% respectively, but still reasonable relative to the base rate, especially as futures markets are increasingly implying an interest rate cut.

However, both platforms are primarily dependent upon real estate turnover and listings, rather than prices, which is being impacted in the short-term but should increase with population growth in the long term. We also expect the platforms to increase their share of real estate marketing fees which are still significantly below real estate agent fees, and which will also support earnings growth. Our preferred exposure currently is Domain which has fair value estimate of AUD 2.80 and a price/fair value of 0.81, versus REA's fair value estimate of AUD 59.00 and price/fair value of 1.31. Our fair values imply a higher fiscal 2019 price/earnings ratio for Domain than REA because we expect a temporary fall in Domain's earnings in 2019 and relatively strong earnings growth beyond.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	49.10	52.80	32.44	52.00
EPS c	12.37	9.10	5.59	8.90
P/E x	0.00	35.55	41.50	26.07
EPS Growth %	-9.11	-26.48	-38.56	59.18
DPS c	0.00	8.00	5.00	7.00
Yield %	0.00	2.47	2.16	3.02
Franking %	0.0	50.0	75.0	100.0

## Morningstar Rating

★★

## Share Price

76.210

## REA Group Ltd (REA) - REA Group and Domain's Strong Long-Term Outlook Unaffected by Real Estate Downturn

**Analyst Note**—We expect real estate price weakness to weigh on the narrow-moat-rated real estate advertising platforms, REA Group and Domain, in the short term but not materially in the long term. Australian real estate prices fell by 4.8% in 2018 but the national figure masks significant regional differences, with prices in state capitals falling 6.1% but regional areas down just 0.2%. Similarly, Sydney and Melbourne fell by 8.9% and 7.0%, respectively, but Hobart and Canberra rose by 8.7% and 3.3%, respectively. The Sydney and Melbourne markets reached record house price/income ratios in 2017 and are the main cause of the current weak national performance.

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FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	228.32	278.76	333.34	383.64
EPS c	173.34	211.64	253.08	291.27
P/E x	33.32	35.77	30.11	26.16
EPS Growth %	17.92	22.09	19.58	15.09
DPS c	91.00	109.00	152.00	204.00
Yield %	1.58	1.44	1.99	2.68
Franking %	100.0	100.0	100.0	100.0

## Morningstar Rating

★★

## Share Price

7.500

## Oil Search Limited (OSH) - Strong Finish to 2018 Though our Oil Search AUD 6.60 FVE Is Unchanged.

**Analyst Note**-We make no change to our AUD 6.60 per share fair value estimate, with weaker near-term oil prices substantially offset by time value of money considerations and a strong fourth quarter. Oil Search reported stronger than expected revenue, up 6% to USD 503 million thanks to inventory drawdown and a 5% increase in LNG price to USD 10.96 per mmBtu. Our 2018 EPS estimate consequently increases by 3% to AUD 0.32. But a softer spot crude price, down 20% to USD 62.50 per barrel since our October 2018 note, weighs on the fair value and reduces our 2019 EPS forecast by more than 40% to AUD 0.31. Longer-term assumptions, including a midcycle USD 60 Brent price and AUD/USD exchange rate of 0.72, are intact.

A solid final quarter's production of 7.4 million barrels of oil equivalent, or mmboe, brought the full-year total to 25.2 mmboe, as expected and within guidance. But unit production and depreciation costs are now favourably expected to be at the lower end of previously advised ranges of USD 11.50-12.50 per boe and USD 12.00-13.00 per boe, respectively. The costs creditably include approximately half of the USD 65 million in earth quake expenses not already offset by insurance recoveries. Positive for cash flow, the performance leaves Oil Search with lower than anticipated net debt of USD 2.7 billion at end December, though net debt/EBITDA is still elevated at 3.0. The PNG LNG project produced at an average annualised rate of 8.8Mtpa during second-half 2018, the highest half yearly rate ever achieved and an underpinner of the lower unit costs.

Although down from plus AUD 9.00 October 2018 highs, at AUD 7.60 no-moat Oil Search shares remain materially overvalued, we think the market is still insufficiently accounting for risks. Our fair value ascribes above average risk to equity and incorporates a 3.0% sovereign risk premium for PNG. Removing the premium would increase our fair value by 35% to AUD 8.90 from AUD 6.60, above the share price.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	143.33	394.13	475.37	474.11
EPS c	9.42	25.87	31.21	31.11
P/E x	72.57	27.20	24.03	24.11
EPS Growth %	-70.04	174.73	20.62	-0.30
DPS c	4.70	12.39	14.80	15.56
Yield %	0.69	1.76	1.97	2.07
Franking %	0.0	0.0	0.0	0.0

## Morningstar Rating

★★★★

## Share Price

5.650

## Z Energy Limited (ZEL) - Oil Price Relief for No-Moat Z Energy with Earnings Guidance Increased. FVE Upgraded to NZD 8.30.

**Analyst Note**—Z Energy has upwardly revised fiscal 2019 earnings guidance by around 5% to NZD 420-450 million in replacement cost, or RC, EBITDA, accounting for a decline in the crude price and reversal of the price lag. In a falling crude market, Z Energy enjoys better retail and commercial trading conditions as fuel becomes cheaper for customers, and reduced their price-sensitivity shifts consumption towards full-service offerings. Prior to crude's retreat, Z Energy had been experiencing the most challenging operating environment in its eight-year history. But Brent fell 40% to December, from a high of USD 86 to USD 51 per barrel, providing some relief. We recently reiterated earnings detractors were short term in nature only. Recovery is now underway, though not soon enough to completely recover fiscal 2019 earnings. Z Energy previously made two earnings guidance cuts from an original RC EBITDA guidance estimate of NZD 450-485 million. Latest guidance is still around 7% below that original midpoint.

Z says crude markets remain volatile with Brent already having risen back above USD 60. Upgraded guidance assumes crude remains within a range of USD 60-70 per barrel for the remainder of the fiscal year to March. DPS guidance is also increased to NZD 0.38-0.47, inclusive of the interim NZD 0.125 paid in December. Z had previously downgraded DPS to an unspecified range, from an original target of NZD 0.50-0.55. Our DPS forecast had overoptimistically remained at the high end of expectations.

Our new fiscal 2019 RC EBITDA and dividend forecasts are set at guidance midrange levels of NZD 435 million and NZD 0.425; changes of plus 14% and minus 5%, respectively. We had been expecting a higher dividend payout ratio of 110% versus 83% now. Our fiscal 2019 EPS forecasts increases 25% to NZD 0.51. Fiscal 2020 is little changed at NZD 0.60. Our fair value estimate increases by 3.8% to NZD 8.30 per share, largely equivalent to time value of money.

FYE Mar	2017A	2018A	2019E	2020E
Reported Npat \$m	190.33	190.13	189.42	219.53
EPS c	47.58	47.53	47.36	54.89
P/E x	15.34	14.62	11.93	10.29
EPS Growth %	38.97	-0.10	-0.37	15.90
DPS c	27.62	29.81	29.81	39.18
Yield %	3.78	4.29	5.28	6.93
Franking %	100.0	100.0	100.0	100.0

## Morningstar Rating

★★★

## Share Price

4.800

## ALE Property Group (LEP) - More Conservative View on Market Rent Review Sees Moderate Reduction in Our ALE FVE

**Analyst Note**—A change in analyst prompts a reduction in the fair value estimate for ALE Property Group to AUD 4.60 per security from AUD 5.10 and moat rating to none from narrow. Our fair value estimate cut stems from moderately lower expected rent increases from the 2018 rent reviews and a more cautious view on the 2028 rent reviews. However, we maintain our overall positive view on the defensive characteristics of the real estate investment trust. At our new fair value estimate, ALE has a fiscal 2019 dividend yield of 4.8%.

We forecast that the 2018 market rent reviews will result in a circa 8.5% rent increase on the properties subject to the reviews. Our previous forecast was a 10% increase, which is the maximum increase under the 10% cap and floor. Our estimate is based on what has already been announced and management's expectation of a positive outcome. We understand ALE and ALH have agreed to the maximum 10% increase on about half the properties under review. We believe there are currently a little over 30 properties in dispute, which will be assessed by mutually agreed independent valuers. Although we expect ALE's properties are generally below market rents, we think it will vary by individual property and not all disputed properties will achieve the maximum 10% rental increase. These properties are diversified among states and will require separate valuations, so the timeline for completion is unclear. ALE is likely to provide an update at its half-year results scheduled for Feb. 13.

Our base case expects a positive rental uplift from the full market rent reviews scheduled for November 2028. We expect a positive uplift because of the strong locations of its properties, which mostly in major eastern state capital cities and highly populated metro areas. Also, ALH has proved it can generate growth in earnings before interest, tax, depreciation, amortisation, and rent from its pubs at a rate significantly above the consumer price index.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	44.51	36.68	41.90	40.92
EPS c	22.71	18.72	21.40	20.90
P/E x	19.52	26.20	22.43	22.97
EPS Growth %	-1.25	-17.58	14.32	-2.32
DPS c	20.40	20.80	22.05	22.50
Yield %	4.60	4.24	4.59	4.69
Franking %	0.0	0.0	0.0	0.0

### Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▼ DLX	DuluxGroup	★★	23/01/2019	Downgrade due to price change
▼ IVC	InvoCare	★★★★	23/01/2019	Downgrade due to price change
▲ SOL	Washington H. Soul Pat	★★	23/01/2019	Upgrade due to price change
▲ SPK	Spark New Zealand	★★★	22/01/2019	Upgrade due to price change
▼ SUL	Super Retail Group	★★★	22/01/2019	Downgrade due to price change
▼ FLT	Flight Centre Travel Group	★★	21/01/2019	Downgrade due to price change
▼ GMA	Genworth Mortgage Insurance Australia	★★★	21/01/2019	Downgrade due to price change
▼ OSH	Oil Search	★★	21/01/2019	Downgrade due to price change
▼ QBE	QBE	★★★	21/01/2019	Downgrade due to price change
▼ TPM	TPG Telecom	★★	21/01/2019	Downgrade due to price change
▼ MMS	McMillan Shakespeare	★★★	18/01/2019	Downgrade due to price change
▼ CSR	CSR	★★★	17/01/2019	Downgrade due to price change
▼ GMG	Goodman Gp	★★	17/01/2019	Downgrade due to price change
▼ A2M	The a2 Milk Company	★★★	16/01/2019	Downgrade due to price change
▼ ATM-NZ	The a2 Milk Company	★★★	16/01/2019	Downgrade due to price change
▼ CPU	Computershare	★★★	16/01/2019	Downgrade due to price change
▼ RMD	ResMed	★★	16/01/2019	Downgrade due to price change

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