

31-January-2019

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	25015	8:35am 31/01/2019	435	1.77
▲ S&P 500	2681	8:35am 31/01/2019	41	1.55
▲ NASDAQ	7183	8:55am 31/01/2019	155	2.20
▲ FTSE 100 Index	6942	4:50am 31/01/2019	108	1.58
▼ DAX 30	11182	4:55am 31/01/2019	-37	-0.33
▲ CAC 40	4975	5:03am 31/01/2019	47	0.95
▼ Nikkei 225 (Japan)	20557	5:20pm 30/01/2019	-108	-0.52
▲ HKSE	27643	7:24pm 30/01/2019	111	0.40
▼ SSE Composite Index	2576	6:15pm 30/01/2019	-19	-0.72
▼ NZ 50	8926	4:50pm 30/01/2019	-81	-0.90

International Markets Roundup

[Morningstar with AAP]: US stocks have surged after the Federal Reserve said it would be patient in lifting borrowing costs further this year, reassuring investors worried about a slowing economy.

Asia

Asian markets finished mixed. The Hang Seng gained 0.40 per cent, while the Shanghai Composite led the Nikkei 225 lower. They fell 0.72 per cent and 0.52 per cent respectively.

The blue-chip CSI300 index ended 0.8 per cent lower, amid worries about China's slowing economic growth

Shares of Alibaba were up about 4 per cent in early trading on Wednesday in the US, following the company's latest earnings report, which boasted a 41 per cent rise in revenue.

Europe

European markets finished mixed as of the most recent closing prices. The FTSE 100 gained 1.58 per cent and the CAC 40 rose 0.95 per cent. The DAX lost 0.33 per cent.

Europe's STOXX 600 traded sideways before closing up 0.25 percent and was on track for its best monthly performance since October 2015.

Britain's FTSE 100 jumped 1.6 per cent thanks to a weaker pound boosting London-listed multinational exporters.

German payments company Wirecard was the worst performer on the pan-European index, falling 13.3 percent as it denied a report in the Financial Times that alleged financial wrongdoing.

France's LVMH shares jumped 6.7 percent after upbeat results from the luxury conglomerate, which said it was "cautiously" confident as fourth-quarter sales held up despite fears of a China slowdown.

Atlas Arteria (ALX) -Atlas Arteria Provides Toll Revenue and Traffic Statistics

Titan Minerals Limited (TTM) -Titan Minerals Provides Quarterly Activities Report

Catapult Group International Limited (CAT) -Catapult Group International Provides Preliminary 1H 2019 Results

Maca Limited (MLD) -Maca Enters into a Memorandum of Understanding (MoU) with Renaissance Minerals

Danakali Limited (DNK) -Danakali Announces UNDP Report Released

N America

US stocks have surged after the Federal Reserve said it would be patient in lifting borrowing costs further this year, reassuring investors worried about a slowing economy.

Along with better-than-feared quarterly results from Apple, the Fed's comments helped Wall Street reverse two down days triggered by profit warnings from US bellwethers that signalled a bigger impact from a slowdown in China.

The US central bank held interest rates steady, as widely expected.

While the Fed said continued US economic and job growth were still "the most likely outcomes," it removed language from its December policy statement that risks to the outlook were "roughly balanced" and struck language that projected "some further" rate hikes would be appropriate in 2019.

It also said it could alter the pace of its balance sheet reduction "in light of economic and financial developments". The Fed's balance sheet surged following the 2008 financial crisis, and many investors believe its effort to shrink it may stifle economic growth.

Investors in recent months have become more concerned about the global economy. US corporate results have shown companies including Apple, Intel Corp and Caterpillar Inc are feeling pain from the slowing expansion of China's economy, which has been hurt by a trade conflict with the United States.

Apple shares jumped 6.83 per cent after the company reported a sharp growth in services business, easing concerns after the iPhone maker earlier this month cut current-quarter sales forecast.

Boeing Co gained 6.25 per cent after the world's largest plane-maker forecast full-year profit and cash flow above analysts' estimates amid a boom in air travel and speedier 737 production.

Following the Fed's rate announcement, all three main US stock indexes extended gains from earlier in the session and the S&P 500 closed at its highest since December 6.

The Dow Jones Industrial Average was up 1.77 per cent at 25,014.86 points, while the S&P 500 had gained 1.50 per cent to 2,679.50 and the Nasdaq Composite added 2.2 per cent to 7183.08.

Investors were also tracking the latest round of talks between Washington and Beijing that began on Wednesday, the highest-level meeting since US President Donald Trump and Chinese President Xi Jinping agreed to a 90-day truce to their trade war in December.

The Philadelphia Semiconductor index surged 2.87 per cent, while the S&P technology index jumped 3.03 per cent.

Microsoft Corp and Facebook, set to report after the closing bell, rose 3 per cent or more.

Of the 168 S&P 500 companies that have reported results so far, 73.2 per cent have topped profit estimates, according to Refinitiv data.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Aluminium	1891	5:36am 31/01/2019	17	0.88
▲ Copper	6120	5:35am 31/01/2019	88	1.45
▲ Nickel	12281	5:36am 31/01/2019	227	1.88
▲ Gold	1320	8:55am 31/01/2019	7	0.57
▲ Silver	16.1	8:53am 31/01/2019	0.3	1.68
▲ Oil - West Texas crude	54.2	8:55am 31/01/2019	0.9	1.73
▲ Lead	2075	5:36am 31/01/2019	14	0.65
▲ Zinc	2692	5:36am 31/01/2019	31	1.16
Ore	82	9:10am 30/01/2019	0	--

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▲ \$A vs \$US	0.7251	8:55am 31/01/2019	0.0098	1.37
▲ \$A vs GBP	0.5530	8:55am 31/01/2019	0.0059	1.07
▲ \$A vs YEN	79.05	8:55am 31/01/2019	0.75	0.96
▲ \$A vs EUR	0.6316	8:55am 31/01/2019	0.0059	0.94
▲ \$A vs \$NZ	1.0507	8:55am 31/01/2019	0.0021	0.20
▼ \$US vs Euro	0.8710	8:55am 31/01/2019	-0.0034	-0.39
▼ \$US vs UK	0.7626	8:55am 31/01/2019	-0.0020	-0.26
▼ \$US vs CHF	0.9941	8:55am 31/01/2019	-0.0004	-0.04
▲ \$A vs \$CA	0.9538	8:55am 31/01/2019	0.0047	0.49

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	5951	7:20pm 30/01/2019	12	0.20
▲ S&P/ASX 200	5887	7:20pm 30/01/2019	13	0.21
▼ 10-year Bond Rate	2.21	8:54am 31/01/2019	-0.03	-1.12
▲ 90 Day Bank Accepted Bills SFE-Day	2.00	8:40am 31/01/2019	0.01	0.50
▼ 3-yr Bond Rate	1.72	8:55am 31/01/2019	-0.03	-1.44

Local Markets Are Expected to Open Higher

Ahead of the local open SPI futures were 18 points higher at 5,845.

Wednesday 30 January - close [Morningstar with AAP]: The Australian share market has closed higher after a fluctuating trading session with the resources sector putting in a strong performance.

The benchmark S&P/ASX200 index was up 12.5 points, or 0.21 per cent, to 5,886.7 at 1630 AEDT on Wednesday, while the broader All Ordinaries was up 11.6 points, or 0.2 per cent, lower at 5,951.1.

Investors have been cautious in light of ongoing trade negotiations with China, and as the US Federal Reserve's policy committee has its first meeting of the year to decide on interest rates.

"This has certainly played on the minds of investors who are waiting to see and get a bit more clarity from both scenarios", CommSec markets analyst James Tao said.

Both the US and China have until March to nut out an agreement before tariffs increase between the two countries.

"And that's something everyone wants to avoid," Mr Tao said.

While investors in the Australian market continued their "ball watching", strong gains in the mining sector continued off the back of a spike in iron ore prices.

This comes amidst concerns of iron ore supply shortages following the deadly Minas Gerais mining disaster in Brazil.

Shares for mining giant BHP were up 2.55 per cent to \$34.60, Rio Tinto up 4.51 per cent to \$87.30, while Fortescue Metals rose 7.75 per cent to \$5.42.

The Aussie dollar rallied on the news inflation rates had risen 0.5 per cent in the December quarter which was more than expected, buying 71.95 US Cents at the close.

While the Aussie dollar jumped about half a US cent following the data's release, Mr Tao said the RBA would remain on the sidelines, unlikely to raise the cash rate any time soon.

Energy stocks made steady gains over the day after an overnight oil price rise.

Beach Energy was up 3.96 per cent to \$1.70, Origin Energy rose 0.56 per cent to \$7.17 and Santos climbed 1.45 per cent to \$6.31.

Wins in the mining sector were largely offset by the heavyweight financials with all four banks lowered at the

close.

Commonwealth Bank finished 0.15 per cent lower at \$71.24, ANZ was down 0.39 per cent at \$25.48, NAB closed down 0.04 per cent to \$24.25 while Westpac finished 0.4 per cent lower at \$25.19.

Elsewhere in the market Qantas shares dived down 5.09 per cent to \$5.59 while Virgin stocks fell 2.7 per cent to 18 cents, after Air New Zealand reported a drop-in booking due to a dwindling tourism market.

ON THE ASX:

The benchmark S&P/ASX200 index was up 12.5 points, or 0.21 per cent, to 5,886.7

The All Ordinaries was up 11.6 points, or 0.2 per cent, lower at 5,951.1

Companies Reporting Today (ASX 300):

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

Market Sensitive Announcements

08:12 AM

Air New Zealand Limited (AIZ) -Air New Zealand Updates Forward Trading Outlook

Air New Zealand revised guidance to its earnings before taxation for the 2019 financial year. The Company expects earnings before taxation of \$340m to \$400m for the year ended 30 June 2019. This includes the impact of the global Rolls-Royce engine issues. The previously announced guidance was for underlying earnings before taxation of \$425m to \$525m, which excluded an estimated \$30m to \$40m impact of schedule changes prompted by the global Rolls-Royce engine issues. The Rolls-Royce engine issues continue to be challenging for the business, both commercially and operationally, but are expected to improve as the year progresses. The revised guidance reflects updated revenue forecasts based on recent forward booking trends.

08:29 AM

Mayne Pharma Group Limited (MYX) -Mayne Pharma Group Announces Tolsura (SUBA-itraconazole) Capsule Launched in the US

Mayne Pharma Group announced the launch of TOLSURA (SUBA-itraconazole) 65mg capsule in the US. TOLSURA is a new formulation of itraconazole indicated for the treatment of systemic fungal infections including blastomycosis (pulmonary and extrapulmonary), histoplasmosis (including chronic cavitary pulmonary disease and disseminated, non-meningeal histoplasmosis) and aspergillosis (pulmonary and extrapulmonary, in patients who are intolerant of or who are refractory to amphotericin B therapy). The Company has also completed the recruitment and training of a specialised field sales team who are promoting the benefits of TOLSURA to infectious disease physicians.

08:32 AM

Sandfire Resources NL (SFR) -Sandfire Resources Provides December 2018 Quarterly Report

Sandfire Resources provided December 2018 quarterly report. During the Quarter the Company participated in an Institutional Placement undertaken by Adriatic Metals. The Company maintained its 7.7% stake via its anti-dilution rights. Company cash on hand as at 31 December 2018 totalled \$164.7m (unaudited). Group cash on hand as at 31 December 2018 totalled \$179.0m (unaudited). During the Quarter, the Company exercised its option to enter into a JV Agreement with White Rock Minerals regarding White Rock's high-grade zinc and precious metals VMS Red Mountain Project in central Alaska.

08:35 AM

Sandfire Resources NL (SFR) -Sandfire Resources Provides December 2018 Quarterly Report Presentation

Sandfire Resources provided December 2018 quarterly report presentation. Its Focus continues to be applied to improving safety leadership, culture and assurance of critical controls. Total Recordable Injury Frequency Rate (TRIFR) is 7.3 at Quarter-end. Total DG ore production for the Quarter is 392,115t grading 4.67% Cu.

08:41 AM

Gold Road Resources Limited (GOR) -Gold Road Resources Provides Exploration Update

Gold Road Resources provided exploration update. The drilling programme, comprising 11 diamond holes (3,521 metres) and 22 RC holes (3,941 metres), was designed to infill previously reported high-grade results. RC drilling has been completed to an average 50 by 50 metre spacing to a vertical depth of 150 metres. Diamond drilling is spaced at an average 100 metre centres from 150 to 300 metres below surface. A diamond drilling programme designed specifically to test the Waters Fault at the north end of the Deposit, returned high-grade intersections associated with visible gold in quartz veining observed within the fault zone.

08:46 AM

ioneer Ltd (INR) -ioneer Provides December 2018 Quarterly Activities Report

ioneer provided December 2018 quarterly activities report. The Cash on hand at 31 December 2018 was \$69.8m. During the quarter, the Company appointed Mr. Ian Bucknell as Chief Financial Officer (CFO) after an extensive search process with the assistance of Spencer Stuart. Fluor was appointed the engineering and design firm to complete the Definitive Feasibility Study (DFS) for the Project. A maiden Ore Reserve estimate and updated Mineral Resource estimate for Rhyolite Ridge were released during the quarter.

08:49 AM

Adacel Technologies Limited (ADA) -Adacel Technologies Announces USAF Renews Tower Simulator System Support Contract

Adacel Technologies announced that the United States Air Force (USAF) has awarded the Company a contract to continue to provide services in support of the USAF's ATC Tower Simulator System (TSS) program. The original contract for the acquisition and support of ATC tower simulators was awarded to the Company by the USAF in 2002. Over 100 simulators were delivered by the Company during the acquisition phase of the program and it remains the largest single contract for ATC simulators ever awarded.

09:01 AM

Newcrest Mining Limited (NCM) -Newcrest Mining Provides Quarterly Report

Newcrest Mining provides quarterly report. During the December quarter, the Company increased its ownership of SolGold through the purchase of 28m ordinary shares for \$14m. It holds 15.23% of SolGold, which owns the Cascabel project located in Ecuador. Gold production at Gosowong increased in the December 2018 quarter due to increased ore production and increased grades from both the Kencana and Toguraci mines. Gold production for the December 2018 quarter was 12% higher than the prior quarter due to record volume of tonnes processed and higher head grade.

09:25 AM

Senex Energy Limited (SXY) -Senex Energy Provides Quarterly Activities Report

Senex Energy provided quarterly activities report. Sales volumes of 264 kboe were broadly in line with the prior quarter. Sales revenue of \$17.2m was 33% lower than the prior quarter due to lower Brent oil prices, less oil in the sales mix and the accrual accounting impact of oil price declines. The average realised Australian dollar oil price reduced 32% to \$78/bbl (from \$114/bbl). Gross capital expenditure of \$38.8m was incurred, which primarily related to drilling activity in the Cooper Basin, construction activity for the Roma North pipeline and gas processing facility, and development planning for Project Atlas.

09:30 AM

Atlas Arteria (ALX) -Atlas Arteria Provides Toll Revenue and Traffic Statistics

Atlas Arteria released its December 2018 quarter toll revenue and traffic statistics for each of its portfolio toll roads. Weighted average toll revenue for the December 2018 quarter increased by 1.5% compared to the pcg and weighted average traffic decreased by 1.6% compared to pcg. The result reflects lower traffic levels at APRR and the Dulles Greenway during the quarter. For the 12 months to 31 December 2018, weighted average toll revenue and traffic were 4.0% and 1.5% above pcg respectively. During the December 2018 quarter, total traffic decreased by 1.8% on pcg. Light vehicle traffic decreased by 2.9% on pcg and heavy vehicles increased by 3.1% on pcg during the quarter.

09:34 AM

Titan Minerals Limited (TTM) -Titan Minerals Provides Quarterly Activities Report

Titan Minerals provided quarterly activities report. As at 31 December 2018 the Company had a cash position of \$5.52m. The Company will continue with exploration activity including ongoing surface sampling and reconnaissance activity to define continuity of grade at surface on targets with potential to achieve either its mine development objectives or size criteria for stand alone operations. It will move forward with required environmental permitting for drilling top tier targets as early as is feasible in 2019. It continues to advance its development strategy for the recently acquired gold treatment arm of its business focused in the Southern Peru region within the highly prospective Andean Terrane.

09:37 AM

Catapult Group International Limited (CAT) -Catapult Group International Provides Preliminary 1H 2019 Results

Catapult Group International provided preliminary unaudited financial information for the half year ending 31 December 2018 (H1 FY 2019). Building on momentum across the second half of last financial year and a first quarter for FY 2019, its results show continued growth across the business. Group revenue increased by 32% (26% constant currency (CC) USD) to \$43.0m while growth in operating expenditure was contained to 8% (constant currency 5%). Driven by accelerating growth of the core elite business it remains in a financial position. Cash at bank at 31 December 2018 was \$27.1m.

09:40 AM

Maca Limited (MLD) -Maca Enters into a Memorandum of Understanding (MoU) with Renaissance Minerals

MACA advised that it has entered into a Memorandum of Understanding (MoU) with Renaissance Minerals (Cambodia), a wholly owned subsidiary of Emerald Resources, to supply equipment and contract mining services at the Okvau Gold Project in Cambodia. The MoU is subject to a final investment decision to develop the project by the Emerald Resources Board of Directors. The Company and Emerald have agreed all material terms, conditions, schedules and rates within a draft mining contract (Mining Contract) to be executed upon a final investment decision.

09:42 AM

Danakali Limited (DNK) -Danakali Announces UNDP Report Released

Danakali announced that a report prepared by independent consultants that was initiated and funded by the United Nations Development Programme (UNDP) on the potential contributions of the Colluli Potash Project (Colluli or the Project) to Eritrea's Sustainable Development Goals has been released (the Report). The Report was prepared during 2018 by senior economists on behalf of the UNDP. It assesses a wide range of econometric data and includes findings from engagements with Eritrean government officials, relevant public institutions and other Colluli stakeholders.

Research Report Summaries

Morningstar Rating

★★★

Share Price

11.100

GUD Holdings Limited (GUD) - Unfavourable Mix Shift and Weakness in Davey Weigh on GUD's Margins in 1H

Analyst Note—No-moat-rated GUD's net profit after tax, or NPAT, from continuing operations rose by 14% in the first half of fiscal 2019 to AUD 29 million. This was driven by strong growth in the core automotive segment, although this mainly reflected the first full six-month contribution from recently acquired Disk Brakes Australia and AA Gaskets. The board declared a fully franked interim dividend of AUD 25 cents per share, a 4% increase on the previous corresponding period, at a 74% payout ratio.

At the current pace, the company is tracking marginally behind our previous fiscal 2019 full-year normalised NPAT projection which we've now trimmed by 3% to AUD 60 million, reflecting lower margins and softness in Davey. Management didn't provide any explicit earnings guidance, although it expects further improvement in the second half reflecting the Narva Catalogue release in the fourth quarter, full-year contribution from other automotive products, and improvement in Davey reflecting sales initiatives. Our long-term forecasts are unchanged, as is our AUD 11.00 per share fair value estimate. Having fallen by around 30% in the past six months, shares in GUD now trade in line with our fair value estimate.

We've lifted our fiscal 2019 automotive revenue forecasts slightly to reflect the 18% segment growth, however, only 5% of this was organic, the remaining 13% from contributions from the acquired businesses. We expect the company to continue making bolt-on acquisitions in the auto space and deliver around 10% annual EPS growth on average over the next five years. We remain concerned with the significant exposure to internal combustion vehicles (around 42% of revenue), which will become a smaller part of the vehicle fleet over the long term. While at present, the penetration of electric vehicles is negligible, it is growing, and we believe the most recent acquisitions do little to alleviate this concern.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	45.90	55.21	59.51	68.42
EPS c	52.98	63.54	68.49	78.74
P/E x	20.30	19.12	16.21	14.10
EPS Growth %	10.60	19.93	7.79	14.97
DPS c	46.00	52.00	54.00	62.00
Yield %	4.28	4.28	4.86	5.59
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

3.300

Incitec Pivot Limited (IPL) - Market Unimpressed as More Plant Issues Plague Incitec Pivot; No change to our AUD 3.00 FVE

Analyst Note—Our AUD 3.00 per share fair value estimate is unchanged. That's despite reducing our fiscal 2019 EPS forecast by 10% to AUD 0.28. We think the drivers are short-term only, and long-term assumptions remain intact. No-moat Incitec Pivot says a combination of plant outages have had a negative EBIT impact of AUD 45 million on fiscal 2019. We reduce our fiscal 2019 EBIT estimate by an equivalent AUD 45 million to AUD 717 million from AUD 762 million.

First the Louisiana ammonia plant suffered downtime, with repair work required on the carbon dioxide removal system. The outage is expected to reduce fiscal 2019 production by around 80,000 tonnes or 10% of nameplate capacity and crimp EBIT including repair costs by AUD 25 million. Second, the Phosphate Hill facility suffered a leak in its acid plant requiring repairs. These have been completed, but not before the loss of 50,000 tonnes of ammonium phosphates or approximately 5% of annual output and an associated fiscal 2019 EBIT impact of AUD 20 million.

These are not the first plant reliability issues Incitec Pivot has suffered, and the market is growing somewhat weary of the setbacks. The shares fell 8% upon the latest announcement and that after having already fallen 15% from November 2018 AUD 4.24 highs. At AUD 3.28, we view the shares as now only slightly overvalued.

Our fair value estimate equates to an unchanged fiscal 2023 EV/EBITDA of 6.6 and unfranked dividend yield of 4.0% both discounted at WACC. Broadly speaking, our FVE breaks down to 70% from explosives and 30% from fertilisers. We factor 1.6% group revenue CAGR to AUD 4.2 billion by fiscal 2023, supporting an five-year annual EBITDA CAGR of 3.8% in explosives and 7.5% in fertiliser, the latter from a low base. We project dividends to grow at an 8% CAGR for the next five years, assuming maintenance of 50% payout ratio. But this would still be only a moderate real 4.0% fiscal 2023 yield at the current share price.

FYE Sep	2017A	2018A	2019E	2020E
Reported Npat \$m	318.70	347.40	469.36	476.42
EPS c	18.83	20.90	28.54	28.97
P/E x	18.40	17.86	11.56	11.39
EPS Growth %	7.80	11.01	36.57	1.50
DPS c	9.40	10.70	14.27	14.49
Yield %	2.71	2.87	4.32	4.39
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

3.610

SkyCity Entertainment Group Limited (SKC) - SkyCity Entertainment's 1H Performance Tracking Ahead of Expectations

Analyst Note-Narrow-moat-rated SkyCity Entertainment finished the first half of fiscal 2019 better than expected on the back of strong performance in Auckland and international VIP business. This is a pleasing outcome, and management guided to interim 2019 normalised EBITDA of NZD 189 million and NPAT of NZD 97 million, up around 10% and 11%, respectively, on the prior year.

The company cautioned that earnings growth will be harder to achieve in the second half, given the strong comparable period, although we are unconcerned about this. Despite the more challenging second half, SkyCity expect the full year to exceed previous guidance for modest growth in normalised EBITDA. As such, we have lifted our fiscal 2019 EBITDA estimate by around 3%, to NZD 360 million, which implies 6% growth year on year. Our long-term projections are broadly unchanged, and we project mid- to high-single-digit EBITDA growth on average during the next five years, which includes forgone earnings on the sold Darwin property, which we assume occurs during fiscal 2019. We retain our NZD 4.20 fair value estimate, although our Australia-based fair value estimate rises by AUD 0.20 to AUD 4.00 per share, reflecting the 1.05 Australian dollar/New Zealand dollar spot rate.

We continue to believe SkyCity shares are slightly undervalued at current levels. The current price offers shareholders an attractive 5% dividend yield, fully imputed for New Zealand tax residents. Additionally, we are attracted to the company's portfolio of monopoly casino licences, which underpins its narrow moat rating. The long-term outlook for Auckland remains positive, with the new convention centre likely to be a driver of foot traffic and revenue growth upon completion within the next 12 months.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	145.01	156.22	166.25	138.81
EPS c	21.81	23.25	24.44	20.40
P/E x	18.62	15.66	14.77	17.70
EPS Growth %	-6.76	6.63	5.09	-16.52
DPS c	18.87	18.40	20.00	20.48
Yield %	4.65	5.05	5.54	5.67
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

7.040

TPG Telecom Limited (TPM) - TPG Telecom's Punctured Mobile Dream a Blessing in Disguise

Analyst Note-We increase our fair value estimate on TPG Telecom by 15% to AUD 7.00 per share, following the decision to abandon the Australian mobile network rollout. The uplift reflects the financial impact of the AUD 704 million savings on the balance owing on the 700MHz spectrum acquired in April 2017 and the elimination of assumed AUD 100 million in operating losses and AUD 670 million future capital expenditure associated with the venture.

Critically, the bursting of the narrow-moat rated group's aspirations to become the fourth mobile network operator Down Under may be a blessing in disguise. The federal government's ban on the use of Huawei equipment for 5G may have thwarted management's strategy to own and operate its own mobile network, one that could have bypassed the crippling economics of being a fixed-line reseller on the National Broadband Network.

However, abandoning the mobile network has significantly increased the chances of gaining the Australian Competition and Consumer Commission's, or ACCC, approval for the proposed merger with Vodafone. The competition regulator's primary concern about the TPG-Vodafone tie-up is that the deal will ensure the mobile industry remains a three-player market that would be prima facie negative for competition. Now that the potential fourth player has decided not to play, the ACCC's argument has lost much of its cogency. The timing of TPG's announcement (six weeks after the ACCC raised preliminary concerns about the merger) makes one wonder whether the decision to abandon the rollout was more than just Huawei related.

Shares in TPG are trading broadly in line with our revised intrinsic assessment for TPG as a stand-alone entity. While implications of management's mobile network ambitions will no longer occupy investors' minds, stock price volatility is likely to remain elevated, as market attention turns to second-guessing ACCC's decision on the Vodafone merger (mid-April 2019) and the implications from the tie-up.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	417.28	432.60	360.88	413.26
EPS c	48.28	46.71	38.90	44.54
P/E x	16.34	12.20	18.10	15.81
EPS Growth %	12.09	-3.26	-16.72	14.51
DPS c	10.00	4.00	5.00	5.00
Yield %	1.27	0.70	0.71	0.71
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★★

Share Price

1.815

Viva Energy Group Limited (VEA) - Viva Energy Group: Another Late Earnings Downgrade on Persisting Low Refiner Margins; FVE Intact

Analyst Note—We make no change to our AUD 3.00 fair value estimate for no-moat Viva Energy. The company has again downgraded fiscal 2018 earnings guidance due to weaker-than-expected regional refiner margins. But we hold to our longer-term view, including assumed reversion of the refiner margin to a midcycle USD 9.00 per barrel in real terms. Viva says the actual refiner margin for December was just USD 3.30 per barrel, driven lower due to gasoline cracks falling on excess regional supply. Consequently, the 2018 refiner margin has come in at just USD 7.40 per barrel, well below original USD 9.20 prospectus forecast. We reduce our underlying EBITDA estimate for the refining business for 2018 by AUD 25 million to AUD 125 million, in line with updated guidance. This results in a commensurate decrease to our group EBITDA estimate to AUD 518 million, and an approximately 6% decline in our 2018 NPAT and EPS forecasts to AUD 280 million and AUD 0.14, respectively.

Further, we reduce our 2019 EPS forecast by 16% to AUD 0.16. The prospectus assumes a first-half 2019 refiner margin of USD 9.70 per barrel, and we'd adopted that figure. But the low refiner margin that has already persisted into January 2019 is likely to pervade for some time yet. Viva calculates every dollar move in the refiner margin impacts EBITDA by AUD 29 million and NPAT by AUD 20 million. We now reduce our first-half refiner margin expectation from USD 9.70 prospectus levels to USD 7.50, before a second-half recovery to an unchanged USD 9.20.

Our Viva fair value estimate equates to a little changed 2023 EV/EBITDA multiple of 8.3, high enough we think given risks. Our fair value estimate equates to a 2023 P/E of 15 times and dividend yield of 3.1%, both discounted at WACC, or 9.9 times and 5.0%, respectively, at today's fair value. We continue to view longer-term earnings potential as attractive, including a five-year revenue CAGR of 3.7% and underlying EPS CAGR of 14% over the same period.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	263.71	387.52	262.49	310.72
EPS c	13.56	19.93	13.50	15.98
P/E x	0.00	0.00	13.44	11.36
EPS Growth %	-15.07	46.95	-32.26	18.37
DPS c	0.00	0.00	3.71	9.59
Yield %	0.00	0.00	2.04	5.28
Franking %	100.0	100.0	100.0	100.0

Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▲ AIR-NZ	Air New Zealand	★★★	30/01/2019	Upgrade due to price change
▲ AIZ	Air New Zealand	★★★	30/01/2019	Upgrade due to price change
▲ AMP	AMP Limited	★★★★	30/01/2019	Upgrade due to price change
▲ CCP	Credit Corp Group	★★★	30/01/2019	Upgrade due to price change
▼ MYS	Mystate	★★★	30/01/2019	Downgrade due to price change
▲ QAN	Qantas Airways	★★★	30/01/2019	Upgrade due to price change
▲ SDF	Steadfast Group	★★★★	30/01/2019	Upgrade due to price change
▲ TPM	TPG Telecom	★★★	30/01/2019	TPG Telecom's Punctured Mobile Dream a Blessing in Disguise
▲ AMP	AMP Limited	★★★★	29/01/2019	Upgrade due to price change
▼ CCP	Credit Corp Group	★★	29/01/2019	Downgrade due to price change
▼ FMG	Fortescue Metals	★★	29/01/2019	Downgrade due to price change
▼ GPT	GPT Group	★★	29/01/2019	Downgrade due to price change
▲ IPL	Incitec Pivot	★★★	29/01/2019	Upgrade due to price change
▼ RIO	Rio Tinto	★	29/01/2019	Downgrade due to price change
▼ SKC-NZ	SkyCity	★★★	28/01/2019	Downgrade due to price change
▼ BWP	BWP Trust	★★	25/01/2019	Downgrade due to price change
▼ IPL	Incitec Pivot	★★	25/01/2019	Downgrade due to price change
▼ MGR	Mirvac Group	★★	25/01/2019	Downgrade due to price change
▲ RMD	ResMed	★★★	25/01/2019	Upgrade due to price change
▼ WES	Wesfarmers	★★	25/01/2019	Downgrade due to price change
▼ DLX	DuluxGroup	★★	23/01/2019	Downgrade due to price change
▼ IVC	InvoCare	★★★★	23/01/2019	Downgrade due to price change
▲ SQL	Washington H. Soul Pat	★★	23/01/2019	Upgrade due to price change

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