

29-January-2019

Morningnote

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Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Dow Jones (US)	24528	8:35am 29/01/2019	-209	-0.84
▼ S&P 500	2644	8:35am 29/01/2019	-21	-0.78
▼ NASDAQ	7086	8:55am 29/01/2019	-79	-1.11
▼ FTSE 100 Index	6747	3:50am 29/01/2019	-62	-0.91
▼ DAX 30	11210	4:00am 29/01/2019	-71	-0.63
▼ CAC 40	4889	4:15am 29/01/2019	-37	-0.76
▼ Nikkei 225 (Japan)	20649	5:20pm 28/01/2019	-125	-0.60
▲ HKSE	27577	7:23pm 28/01/2019	8	0.03
▼ SSE Composite Index	2597	6:15pm 28/01/2019	-5	-0.18
▲ NZ 50	9115	4:50pm 28/01/2019	34	0.04

International Markets Roundup

[Morningstar with AAP]: US stocks have tumbled after warnings from Caterpillar Inc and Nvidia Corp added to concerns about a slowing Chinese economy and tariffs taking a bite out of US corporate profits.

Asia

Asian markets finished mixed as of the most recent closing prices. The Hang Seng gained 0.03 per cent, while the Nikkei 225 led the Shanghai Composite lower. They fell 0.60 per cent and 0.18 per cent respectively.

Hong Kong's biggest pay TV operator, the embattled i-Cable Communications, fell 7.8 per cent - the most in 11 weeks after the firm revived a fundraising plan to place new shares with investors.

Carmaker Geely is down 1.35 per cent.

Industrial profits in China in December fell 1.9 per cent from a year earlier to 680.8 billion yuan, weighed down by weak factory-gate prices and soft demand, the National Bureau of Statistics said on Monday.

US-China trade talks are set to begin in Washington tomorrow.

Europe

European markets finished lower today with shares in London leading the region.

The FTSE 100 is down 0.91 per cent while France's CAC 40 is off 0.76 per cent and Germany's DAX is lower by 0.63 per cent.

The pan-European STOXX 600 lost 0.97 per cent, its biggest fall since 3 January, as a profit warning from Caterpillar, the world's largest heavy equipment maker, cemented investors' pessimistic mood after data showed the second consecutive drop in Chinese industrial profits in December.

Hot Chili Limited (HCH) -Hot Chili

Suspends from Official Quotation

Viva Energy Group Limited (VEA) -Viva

Energy Group Provides Refining Margin Update

NOVONIX Limited (NVX) -NOVONIX

Announces Pause in Trading

NOVONIX Limited (NVX) -NOVONIX

Trading Halted, Pending Company Announcement

Macphersons Resources Limited (MRP)

-Macphersons Resources Provides Quarterly Activities Report

N America

US stocks have tumbled after warnings from Caterpillar Inc and Nvidia Corp added to concerns about a slowing Chinese economy and tariffs taking a bite out of US corporate profits.

Shares of Caterpillar fell 9.13 per cent on Monday and had their worst day since 2011 after the company's quarterly profit widely missed Wall Street estimates, hit by softening demand in China and higher manufacturing and freight costs.

Caterpillar's drop accounted for nearly one-third of the Dow's fall, and the S&P industrial index dropped one per cent.

Nvidia fell 13.82 per cent after the chipmaker cut its fourth-quarter revenue estimate by half a billion US dollars on weak demand for its gaming chips in China and lower-than-expected data centre sales.

The Philadelphia semiconductor index slumped 2.09 per cent, while the S&P technology index dropped 1.4 per cent.

Also hurting global investor sentiment, China data showed earnings at industrial companies shrank for a second straight month in December, hit by slowing prices and weak factory activity amid a protracted trade war with the US.

As signs of a slowdown in the world's second-largest economy become stark, investors are pinning their hopes for a compromise between Washington and Beijing on trade when officials meet on Wednesday and Thursday.

Although earnings have largely surpassed Wall Street's expectations, helping the S&P 500 climb about 12 per cent from its December lows, worries about slowing global growth have tempered expectations.

With Wall Street in the thick of quarterly results this week, 72.6 per cent of companies that have already reported have exceeded profit estimates, according to IBES data from Refinitiv.

The Dow Jones Industrial Average fell 209.98 points, or 0.84 per cent, to 24,528.22, the S&P 500 lost 23.92 points, or 0.90 per cent, to 2,640.84 and the Nasdaq Composite dropped 79.18 points, or 1.11 per cent, to 7,085.68.

Nine of the 11 major S&P sector indexes fell. Amazon.com and Microsoft Corp each fell nearly 2 per cent, while Apple shares declined almost 1 per cent, dragging down the S&P 500 and the Nasdaq. All three are set to report later this week.

The S&P energy index dropped 1.03 per cent as oil prices fell after US companies added rigs for the first time this year, a signal that crude output may rise further.

Amgen fell 3.43 per cent, weighing the most on the Nasdaq Biotech index, after Evercore ISI downgraded its stock, citing heightened competition for its arthritis drug.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	1847	5:21am 29/01/2019	-56	-2.94
▼ Copper	5979	5:21am 29/01/2019	-58	-0.97
▼ Nickel	11761	5:21am 29/01/2019	-146	-1.23
▲ Gold	1303	8:55am 29/01/2019	3	0.19
▲ Silver	15.7	8:54am 29/01/2019	0.0	0.22
▼ Oil - West Texas crude	52.0	8:55am 29/01/2019	-1.7	-3.17
▼ Lead	2066	5:21am 29/01/2019	-39	-1.88
▲ Zinc	2690	5:21am 29/01/2019	7	0.26
Ore	75	9:10am 26/01/2019	0	--

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ \$A vs \$US	0.7165	8:55am 29/01/2019	-0.0012	-0.16
▲ \$A vs GBP	0.5445	8:55am 29/01/2019	0.0011	0.21
▼ \$A vs YEN	78.32	8:55am 29/01/2019	-0.22	-0.28
▼ \$A vs EUR	0.6270	8:55am 29/01/2019	-0.0019	-0.30
▲ \$A vs \$NZ	1.0488	8:55am 29/01/2019	0.0002	0.02
▲ \$A vs \$CA	0.9499	8:55am 29/01/2019	0.0008	0.08

Australian Market Report

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	5971	7:21pm 25/01/2019	41	0.68
▲ S&P/ASX 200	5906	7:21pm 25/01/2019	40	0.68
▲ 10-year Bond Rate	2.23	8:54am 29/01/2019	0.03	1.13
90 Day Bank Accepted Bills	1.97	8:39am 29/01/2019	--	--
SFE-Day				
▲ 3-yr Bond Rate	1.72	8:54am 29/01/2019	0.02	1.18

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 18 points lower at 5,831.

Monday 28 January - Local market closed due to Australia Day Holiday

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
CCP*	Credit Corp Group Limited	Interim
NVT*	Navitas Limited	Interim

* Estimated based on release date of previous report

Market Sensitive Announcements

08:14 AM

AMP Limited (AMP) -AMP Provides Update Ahead of FY 2018 Results Announcement

AMP provided an update on expected earnings and final dividend for the year ended 31 December 2018 ahead of its FY 2018 results announcement. While its FY 2018 results are still being finalised and subject to audit review, it expects to report an underlying profit of around A\$680m and profit attributable to shareholders of A\$30m. Total business unit operating earnings in 2H 2018 are expected to be A\$220m. An additional provision for advice remediation of A\$200m (pre-tax) is expected to be recognised at 31 December 2018.

08:34 AM

Iluka Resources Limited (ILU) -Iluka Resources Provides Quarterly Review for 31 December 2018

Iluka Resources provided quarterly review for 31 December 2018. It is progressing with the doubling of capacity of both the Gangama and Lanti dry operations from 500-600t per hour to 1,000-1,200t per hour. Capital expenditure for these expansions received Board approval in December 2017. Expenditure on exploration and evaluation charged to the profit and loss account for the December quarter 2018 was \$2.6m, with full year expenditure of \$11.7m (2017: \$12.7m).

08:39 AM

Iluka Resources Limited (ILU) -Iluka Resources Announces Regarding Pejebu Inaugural Mineral Resource Estimate

Iluka Resources announced the inaugural Mineral Resource estimate of rutile mineralisation at the Pejebu Deposit, located adjacent to current mining operations in Sierra Leone. The Pejebu Deposit Mineral Resource consists of 23.4Mt material at 0.95% in situ rutile, containing 0.22Mt of rutile, estimated in accordance with the guidelines of the JORC Code (2012 edition). This is in line with estimated parameters provided for the Pejebu Exploration Target. 80% of the Pejebu Mineral Resource is in the Indicated Mineral Resource category while the remaining 20% is classified as Inferred.

08:42 AM

Pilbara Minerals Limited (PLS) -Pilbara Minerals Provides Quarterly Activities Report

Pilbara Minerals provided quarterly activities report. During the Quarter the Company continued to comply with the terms and conditions of the secured USD Nordic Bond used to finance Stage 1 of the Pilgangoora Project. The Company received proceeds of A\$48.0m during the Quarter largely from the sale of spodumene concentrate. Pre-production costs incurred during the Quarter included expenditure to establish inventory levels that will support the ongoing operations at Pilgangoora. The cost value of inventory held by the Company at 31 December 2018 totalled \$33.3m.

08:45 AM

Pilbara Minerals Limited (PLS) -Pilbara Minerals Provides Corporate Presentation

Pilbara Minerals provided corporate presentation. The proceeds of A\$48.0m received from spodumene concentrate sales. The Non-binding MoU signed to consider a larger jointly owned chemical conversion facility of up to 40ktpa LCE (currently 30ktpa) in South Korea. Processing plant delivers high quality product during commissioning and production ramp-up.

09:07 AM

Netwealth Group Limited (NWL) -Netwealth Group Provides December 2018 Quarterly Business Update

Netwealth Group provided December 2018 quarterly business update. Net Funds Under Administration (FUA) flows for Q2 were \$876m while market movement was negative \$1.2bn resulted in FUA of \$19.0bn at 31 December 2018, a small decrease of \$0.3bn (-1.5%) for the quarter. FUA increased \$3.6bn over the last 12 months (up 23.0% on December 2017). During the quarter it released a range of new platform features and products focused on improving the delivery of advice and increasing client engagement.

09:09 AM	Oliver's Real Food Limited (OLI) - Oliver's Real Food Trading Halted, Pending Company Announcement The securities of Oliver's Real Food will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 30 January 2019 or when the announcement is released to the market.
09:27 AM	Australian Mines Limited (AUZ) - Australian Mines Announces Qld Government Provides Sconi Prescribed Project Status Australian Mines announced that the Sconi Cobalt-Nickel-Scandium Project has been declared a Prescribed Project by the Government of Qld, in a move that will assist in streamlining Sconi's progress through the final stages of regulatory approvals and fast-track its future development. The construction of Sconi will generate 500 jobs, while steady-state operations will provide 300 full-time employment opportunities in the region for the initial 18-year life of the proposed mining and processing operation.
09:38 AM	Oil Search Limited (OSH) - Oil Search Expands Alaskan Exploration Lease Position Oil Search exercised its right to acquire a 50% interest in, and operatorship of, 120 leases covering 195,200 gross ac in the eastern area of the Alaska North Slope. These leases were successfully bid on by Lagniappe Alaska which is 100% controlled by Armstrong, in the November 2018 State lease sales. It will pay US\$8m for the leases, equivalent to 50% of the acquisition costs incurred by Lagniappe at an average acquisition cost of US\$82 per acre. It is anticipated that the leases will be formally awarded by the State in mid-2019.
09:49 AM	Hot Chili Limited (HCH) - Hot Chili Suspends from Official Quotation The securities of Hot Chili Limited will be suspended from quotation immediately under Listing Rule 17.2, at the request of the Company, pending the release of an announcement regarding an acquisition.
09:55 AM	Viva Energy Group Limited (VEA) - Viva Energy Group Provides Refining Margin Update Viva Energy Group advised that its Geelong Refining Margin (GRM) in respect of crude intake processed through the Geelong Refinery for the month of December 2018. The actual GRM for December 2018 is US\$3.3/Barrel (BBL), which results in an actual GRM for the months of November 2018 and December 2018 combined of US\$5.2/BBL, compared to the revised assumption provided on 19 November 2018 of US\$8.0/BBL for November 2018 and December 2018. It expects the Underlying EBITDA (RC2) for the year ended 31 December 2018 (FY 2018) for the Refining Business to be \$125m (unaudited), compared to the guidance of \$150m provided on 19 November 2018. A commensurate impact to Group Underlying EBITDA (RC) is expected.
10:23 AM	NOVONIX Limited (NVX) - NOVONIX Announces Pause in Trading Trading in the securities of the NOVONIX will be temporarily paused pending a further announcement.
10:47 AM	NOVONIX Limited (NVX) - NOVONIX Trading Halted, Pending Company Announcement The securities of NOVONIX will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 30 January 2019 or when the announcement is released to the market.
10:58 AM	Macphersons Resources Limited (MRP) - Macphersons Resources Provides Quarterly Activities Report Macphersons Resources provided quarterly activities report. Cash used during the quarter amounted to some A\$0.7m, representing mainly payments for exploration drilling at Boorara and administration costs. The cash balance as at 31 December 2018 stood at A\$1.0m. Forecast expenditure for the March quarter 2019 on feasibility activities and administration is about A\$550,000. During the second half of 2018 it received additional enquiries regarding the status of the Nimbus silver/zinc project some 1 km east of the Boorara Gold project.

Research Report Summaries

Morningstar Rating

★★

Share Price

7.300

Netwealth Group Limited (NWL) - Netwealth Remains Overvalued as 2Q Fund Flows Disappoint the Market

Analyst Note—We have maintained our earnings forecasts and AUD 5.30 fair value estimate for Netwealth following its second-quarter trading update which was in line with our expectations. Funds under management and administration, or FUMA, fell by 1% versus the prior quarter but were impacted by particularly weak equity markets, including a 9% fall in the S&P/ASX 200 index. Excluding market movements, FUMA grew by 4.8%, versus the prior quarter but we expect the 15% fall in net FUMA inflows was the main cause of the 10% fall in the Netwealth share price. As a growth stock, Netwealth shares are highly sensitive to trading updates and associated growth rates which can cause share price volatility. However, we maintain our fiscal 2019 FUMA growth forecast at 27%, following the first- and second-quarter growth rates of 43% and 24% versus the prior comparable period respectively.

At the current market price of around AUD 7.30, we continue to believe Netwealth shares are overvalued. Although growth slowed in the second quarter, it's largely in line with our forecasts which assume FUMA growth will slow as the business matures. Over the next decade, we assume a FUMA CAGR of 20% as the company wins market share from incumbent providers and the value of clients' portfolios grow. However, we also expect competition combined with the lack of an economic moat to result in lower FUMA margins and a corresponding revenue CAGR of 13% over the period. Netwealth shares typically trade on a relatively high price/earnings ratio due to the high earnings growth outlook but our fair value implies a fiscal 2019 P/E ratio of 35, versus a market P/E of around 47. Our fair value also implies a dividend yield of 2.2%, or 2.9% including franking credits, versus 1.5%, or 2.0% including franking, at the current share price.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	17.04	29.05	36.61	46.49
EPS c	7.75	12.50	15.40	19.56
P/E x	0.00	56.11	47.40	37.32
EPS Growth %	22.19	61.43	23.17	27.00
DPS c	2.17	9.15	11.00	14.00
Yield %	0.00	1.30	1.51	1.92
Franking %	0.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

14.460

Premier Investments Limited (PMV) - Premier Investments' Long-Term Outlook Unfazed by Near-Term Weakness; FVE Unchanged at AUD 14.50

Analyst Note—The share price of no-moat-rated Premier Investments is down some 27% from recent highs of around AUD 20 in September 2018. The shares are now trading at our unchanged AUD 14.50 fair value estimate but don't offer a margin of safety at these levels.

Premier faces significant short-term headwinds. Brexit uncertainties have been weighing on retail spending in Smiggle's largest market, while at home in Australia all of the company's brands are exposed to increasingly pessimistic consumer sentiment, driven by sluggish wage growth and a slowing housing market. Some competing Australian retailers have already reported soft trading conditions over the key fiscal 2019 Christmas period. David Jones said its performance weakened in line with the broader retail market in the final weeks before Christmas. Similarly, Wesfarmers' Kmart saw sales growth nearly stalled in the first half of fiscal 2019 after consecutive years of strong performance. The discount department store called out weaker sales in apparel sales, especially in womenswear, as a key culprit. We expect the positive momentum Premier's apparel brands exhibited in the final quarter of fiscal 2018 slowed in the first half of 2019. For fiscal 2019, we maintain our forecast of a 2% decline in core apparel brand sales. However, we are more optimistic on Smiggle and Peter Alexander's prospects in fiscal 2019 and forecast sales growth of 23% and 18%, respectively.

Despite the muted near-term outlook for Premier, our investment thesis and long-term forecast stand. We expect Premier's growth brands, first and foremost Smiggle but also Peter Alexander, to continue growing over the next decade. For Smiggle, we forecast sales to increase at a compound annual growth rate of 17% over the period. Smiggle more than offsets dwindling sales at the five core apparel brands: Dotti, Portmans, Jacqui E, Just Jeans, and Jay Jays.

FYE Jul	2017A	2018A	2019E	2020E
Reported Npat \$m	110.53	118.12	129.41	145.00
EPS c	69.65	74.34	81.11	90.87
P/E x	20.28	19.76	17.83	15.91
EPS Growth %	3.77	6.73	9.11	12.04
DPS c	53.00	62.00	65.00	73.00
Yield %	3.75	4.22	4.50	5.05
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

14.470

ResMed Inc. (RMD) - Strong Sales Growth in Consumables Masks ResMed's Sluggish Device Sales

Analyst Note—We retain our USD 101 fair value estimate for narrow-moat-rated ResMed following the release of second-quarter results to December 2018. Strong momentum in mask sales continued from the first quarter, while device sales, particularly outside the Americas, disappointed. Although the strong sales growth in the firm's small software-as-a-service business was impressive, ResMed's earnings and moat are underpinned by its core sleep apnoea business, which enjoys switching costs and a commanding market share. With little change in the Australian dollar/U.S. dollar exchange rate, our fair value estimate for the Australian CDI remains AUD 14.20. After falling around 12% on the day of the announcement, shares in ResMed are now trading at levels we consider fairly valued.

The core devices business was sluggish, growing just 3% on the prior corresponding period on a constant-currency basis. In U.S., Canada, and Latin America devices, sales growth of 7% was offset by revenue declining in the rest of world markets, with France and Japan particularly challenged following digital health upgrade systems in those countries. Year-to-date sales growth in the segment of 8% tracks our unchanged estimate of 8% sales growth in fiscal 2019. Longer term, we expect ResMed can expand the devices business at a high-single-digit compound annual growth rate over the five years to 2023 as it increases its share of an unpenetrated and hence growing market.

The masks business increased revenue 10% on the prior corresponding period on a constant-currency basis, outpacing the lower-margin devices business. This favourable shift in product mix, along with manufacturing efficiencies, allowed ResMed to enjoy a 70-basis-point expansion in gross margin from 58.2% in the first quarter to 58.9% in the second quarter. We continue to expect masks to grow at a low-double-digit CAGR over the five years to fiscal 2023.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	534.96	671.20	743.52	881.32
EPS c	37.56	46.62	51.63	61.21
P/E x	23.62	24.45	28.03	23.64
EPS Growth %	4.45	24.13	10.76	18.56
DPS c	17.86	18.77	30.70	36.73
Yield %	2.01	1.65	2.12	2.54
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★★

Share Price

8.190

Iluka Resources Limited (ILU) - Not Only Clouds on the Horizon for Iluka but Some Sunshine, Too

Analyst Note—The market appears to have been overly pessimistic of late in selling down Iluka's shares. After peaking in May 2018 above AUD 12.00, the shares declined about 40% to recent lows of nearly AUD 7.00. We contend that concerns around a potential slowdown in demand for zircon and titanium dioxide feedstocks, and for prices to only fall from here, are overblown. Scars from the most recent multiyear price downturn are still fresh in investors' minds, but we think conditions this time around are different. Key is the supply challenge facing the industry with undeveloped deposits of lower grades and quality than those now in production. In addition, the major mines in production are also generally facing challenges from grade declines and depletion.

Contrary to what may seem intuitive, we think the supply challenges will be a positive for the industry and Iluka, helping to preserve supply discipline. Relative to history, higher prices will be required to incentivise the new supply required to offset declines at maturing mines. It's likely rutile, synthetic rutile, and zircon prices in particular will remain elevated for longer than the market thinks, due to the supply headwinds.

Those expecting a pessimistic outlook from Iluka and for prices to come under pressure were delivered a reminder that all is not bad. Iluka secured price increases for rutile and synthetic rutile of 9% to 11%, respectively, for the first half of 2019. This is somewhat stronger than we expected, and we raise our rutile price forecast for 2019 to USD 1,150 per tonne from USD 1,050 per tonne previously. Our 2019 earnings forecast rises 8% to AUD 0.98 per share as a result.

Iluka's shares increased 9% on the day but this likely reflects the market's overly pessimistic prior outlook, rather than a material improvement relative to our long-term expectations. The higher near-term rutile and synthetic rutile prices alone are not enough to drive a change to our AUD 10.50 per share fair value estimate.

FYE Dec	2016A	2017A	2018E	2019E
Reported Npat \$m	-31.30	95.60	256.59	413.38
EPS c	-7.49	22.84	60.92	97.95
P/E x	-85.81	37.64	13.44	8.36
EPS Growth %	-136.40	-405.07	166.70	60.78
DPS c	3.00	31.00	20.00	30.00
Yield %	0.47	3.61	2.44	3.66
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
▼ 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
▲ 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

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