iInvest Securities
Stockbroking & Wealth Management

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Morningnote

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Overseas Market Report

	Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▼	Dow Jones (US)	26287	7:20am 10/08/2019	-91	-0.34
▼	S&P 500	2919	7:20am 10/08/2019	-19	-0.66
▼	NASDAQ	7959	7:31am 10/08/2019	-80	-1.00
▼	FTSE 100 Index	7254	1:50am 10/08/2019	-32	-0.44
▼	DAX 30	11694	2:00am 10/08/2019	-152	-1.28
▼	CAC 40	5328	2:15am 10/08/2019	-60	-1.11
▲	Nikkei 225 (Japan)	20685	4:20pm 09/08/2019	91	0.44
▼	HKSE	25939	6:24pm 09/08/2019	-181	-0.69
▼	SSE Composite Index	2775	5:16pm 09/08/2019	-20	-0.71
▼	NZ 50	10873	3:20pm 09/08/2019	-1	-0.01

International Markets Roundup

[Morningstar with AAP]: US stocks have fallen following renewed jitters over the US-China trade war, capping a week of trading that saw big swings and high volume.

Asia

China stocks reversed earlier gains to fall on Friday, posting their biggest weekly decline since early May, as weak factory data and lingering trade worries weighed.

The blue-chip CSI300 index fell 1.0 per cent, to 3,633.53, while the Shanghai Composite Index slid 0.7 per cent to 2,774.75.

For the week, CSI300 was down 3 per cent, while SSEC shed 3.2 per cent, both logging their steepest weekly declines in three months.

Hong Kong stocks skid on Friday to post their third straight week of losses, weighed by protests and weak data on the mainland, while Sino-US trade worries lingered.

The Hang Seng index fell 0.7 per cent, to 25,939.30, while the China Enterprises Index lost 0.5 per cent, to 9,993.84.

Around the region, MSCI's Asia ex-Japan stock index was firmer by 0.21 per cent, while Japan's Nikkei index closed up 0.44 per cent.

Europe

European shares slid on Friday with Italian stocks 2.5 per cent lower on political uncertainty, while comments by US President Donald Trump that he was not going to make a trade deal with China also weighed on sentiment.

Italy's main index touched a two month low with its bank index tumbling 4.5 per cent after the leader of the ruling

LiveHire Limited (LVH) -LiveHire Announces Completion of Cashless Buy-Back and Cancellation of Employee Loan Back Shares And Issue of EIP Securities

Meteoric Resources NL (MEI) -Meteoric Resources Trading Halted, Pending Company Announcement

Downer EDI Limited (DOW) -Downer EDI Announces On Being Awarded Gas Services Contract Extension

First Au Limited (FAU) -First Au Trading Halted, Pending Company Announcement

Australian Pacific Coal Limited (AQC) -Australian Pacific Coal Announces Pause in Trading

Australian Pacific Coal Limited (AQC) -Australian Pacific Coal Trading Halted, Pending Company Announcement

League party, Matteo Salvini, pulled his support for the country's governing coalition on Thursday and called for fresh elections.

Italy's budget crisis and prospect of ultra-low interest rates for longer have already damaged bank stocks' valuations and the fresh political concerns sent the bank index to its lowest since September 2016.

Italian 10-year government bond yields were set for their biggest weekly rise this year.

Along with drops of more than 1 per cent in most other major indexes, including trade-sensitive German stocks, the pan-European STOXX 600 index gave up 0.8 per cent, in line with a move lower in world stocks.

Trump's remarks on a trade deal with China followed a report that said Washington was delaying a decision to allow some trade between US firms and China's telecom equipment maker Huawei again.

This added to worries about an escalation in trade tensions between the world's two biggest economies, which has seen the STOXX 600 give up 1.7 per cent over the week as investors worry over a prolonged impact on global economic growth.

Sectors most exposed to China and trade issues, such as technology, basic materials and automakers, led losses in Europe along with banks.

However, losses on London's FTSE were limited by a rally in healthcare stocks and a 7.2 per cent surge in advertising company WPP after it reported improved second-quarter trading.

The rise in the healthcare index came after strong results from Hikma Pharma and Carl Zeiss and was also helped by a 2.6 per cent rise in Bayer.

The pound was hit by data showing Britain's economy experienced a shock contraction in the second quarter in a severe hangover from a pre-Brexit stockpiling boost, boding poorly for Prime Minister Boris Johnson as he gears up to leave the EU in October with or without a departure agreement.

N America

US stocks have fallen following renewed jitters over the US-China trade war, capping a week of trading that saw big swings and high volume.

President Donald Trump said on Friday the US and China were pursuing trade talks but he was not ready to make a deal, fanning fears over the impact of the trade war on the global economy.

Trump also said the US would continue to refrain from doing business with Chinese telecoms equipment giant Huawei Technologies.

The week was marked by wild swings, but indexes finished nearly flat on the week. This week's volume on US exchanges was also the biggest weekly total of the year, exceeding 41 billion shares.

On Friday, all three indexes were down more than 1 per cent in early trading and rebounded later in the session, with the Dow briefly turning positive at one point. This left a 315-point swing between the blue-chip index's high and low of the day.

Shares of chipmakers and other tariff-sensitive technology companies fell, with the Philadelphia SE Semiconductor index down 1.8 per cent.

The Dow Jones Industrial Average on Friday fell 90.75 points, or 0.34 per cent, to 26,287.44; the S&P 500 lost 19.44 points, or 0.66 per cent, to 2,918.65; and the Nasdaq Composite dropped 80.02 points, or 1 per cent, to 7,959.14.

Shares of Amgen jumped 5.9 per cent after news that a US judge said patents relating to the Amgen's blockbuster rheumatoid arthritis drug Enbrel were valid, denying a challenge by Novartis.

Uber Technologies shed 6.8 per cent after the ride-hailing company reported a record $US5.2 billion ($7.7 billion) quarterly loss and revenue that fell short of Wall Street targets.

Nektar Therapeutics shares also plunged, a day after the drug developer flagged manufacturing issues with its experimental cancer drug bempeg.

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	1742	8:30am 10/08/2019	-7	-0.39
▼ Copper	5732	8:31am 10/08/2019	-44	-0.76
▼ Nickel	15513	8:32am 10/08/2019	-331	-2.09
▼ Gold	1497	5:00am 12/08/2019	-1	-0.07
▲ Silver	17.0	5:01am 12/08/2019	--	0.01
▲ Oil - West Texas crude	54.5	7:10am 10/08/2019	2.0	3.73
▼ Lead	2081	8:32am 10/08/2019	-18	-0.85
▼ Zinc	2225	8:32am 10/08/2019	-72	-3.13
▼ Ore	94	7:10am 10/08/2019	-4	-3.86

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ $A vs $US	0.6781	7:33am 12/08/2019	-0.0004	-0.05
▼ $A vs GBP	0.5625	7:34am 12/08/2019	-0.0008	-0.15
▼ $A vs YEN	71.60	7:34am 12/08/2019	-0.10	-0.14
▲ $A vs EUR	0.6052	7:34am 12/08/2019	0.0055	0.92
▲ $A vs $NZ	1.0489	7:34am 12/08/2019	0.0006	0.05
▲ $US vs Euro	0.8928	7:34am 12/08/2019	0.0090	1.01
▼ $US vs UK	0.8299	7:34am 12/08/2019	-0.0005	-0.06
▲ $US vs CHF	0.9728	7:26am 12/08/2019	0.0016	0.16
▼ $A vs $CA	0.8949	7:34am 12/08/2019	-0.0049	-0.55

Australian Market Report

	Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲	All Ordinaries	6663	4:31pm 09/08/2019	21	0.32
▲	S&P/ASX 200	6584	4:31pm 09/08/2019	16	0.25
▲	10-year Bond Rate	0.99	7:09am 10/08/2019	0.03	2.60
▲	90 Day Bank Accepted Bills SFE-Day	0.99	7:05am 10/08/2019	0.02	2.06
▲	3-yr Bond Rate	0.68	7:09am 10/08/2019	0.03	3.85

Local Markets Are Expected to Open Lower

Ahead of the local open SPI futures were 22 points lower at 6,499.

Friday 9 August - close [Morningstar with AAP]: The Australian share market has finished with modest gains to close out its worst week since November.

The benchmark S&P/ASX200 index closed Friday up 16.3 points, or 0.25 per cent, to 6,584.4 points, while the broader All Ordinaries finished up 21.1 points, or 0.32 per cent, to 6,663.4 points.

For the week, the ASX200 ended down 184 points, making for its worst week since 191-point loss in mid-November.

"I think the market's still very nervous with anything that pops up on trade," said X-chainge co-founder and director Nick Twidale, referring to the tension between the US and China.

The tech sector was the only one to move more than a percentage point, posting an overall gain of 1.3 per cent.

Afterpay rose 6.1 per cent to $24.17 after the buy-now, pay-later company said it now had more than two million US customers, up from 1.5 million in early June.

Wealth management software company Praemium was up 13.3 per cent, Wisetech Global rose 2.7 per cent and Altium was up two per cent.

James Hardie was the biggest ASX200 gainer, up 13.7 per cent to an 11-month high of $21.62 after the building materials company said it expected to make more profit this year than analysts had forecast.

AMP shot up 11.6 per cent to a three-week high of $1.93 after the fallen banking and wealth giant completed a $650 million capital raising to fund its three-year turnaround.

The big banks were mostly up, with Commonwealth gaining 0.6 per cent to $79.42, Westpac up 0.5 per cent to $28.21 and ANZ up 0.7 per cent to $27.

NAB was the outlier, declining 0.3 per cent to $27.65.

The mining sector was mixed despite a rise in the price of iron ore, with BHP down a single cent to $37.29, Rio Tinto down 0.9 per cent to $87.69 but South32 up 1.8 per cent to $2.88.

Brisbane-headquartered Argentinian lithium producer Orocobre was up 10.3 per cent to $3.01 after ground was broken on a lithium hydroxide plant in Japan it holds a 75 per cent stake in.

Goldminers were mostly down after several days of strong gains, even as the price of the precious metal stayed firm above $US1,500 an ounce.

Newcrest fell 0.6 per cent, Northern Star was down 2.4 per cent and Saracen dipped 2.6 per cent.

News Corp was up 1.3 per cent to $19.90 after the media company said it had achieved a $US228 million ($A423 million) full-year profit.

REA Group was up 5.6 per cent to $96.64 after announcing underlying profit rose 5.5 per cent to $295.5 million.

The Aussie dollar rose for a fourth straight day, buying 68.16 US cents, from 67.68 US cents on Thursday.

Looking forward, Mr Twidale said he expected trade issues to dominate next week, with attention focused on the fixing rate for China's yuan.

A number of companies will be reporting earnings include CSL, JH Hi-Fi, Challenger, Vicinity Centres, Evolution Mining, Orora and Pact Group.

ON THE ASX:

The benchmark S&P/ASX200 index closed up 16.3 points, or 0.25 per cent, to 6,584.4.

The All Ordinaries closed up 21.1 points, or 0.32 per cent, to 6,663.4.

The NZX 50 lost -1.08 points (-0.01%) to 10,873.21.

Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
AZJ*	Aurizon Holdings Limited	Annual
BSL*	BlueScope Steel Limited	Annual
DHG*	Domain Holdings Australia Limited	Annual
JBH*	JB Hi-Fi Limited	Annual
PPS*	Praemium Limited	Annual
GPT*	GPT Group	Interim
AZJ*	Aurizon Holdings Limited	Prelim
BEN*	Bendigo and Adelaide Bank Limited	Prelim
BSL*	BlueScope Steel Limited	Prelim
COE*	Cooper Energy Limited	Prelim
DHG*	Domain Holdings Australia Limited	Prelim
JBH*	JB Hi-Fi Limited	Prelim
PPS*	Praemium Limited	Prelim
DHG*	Domain Holdings Australia Limited	Prelim

* Estimated based on release date of previous report

Market Sensitive Announcements

07:36 AM

SkyCity Entertainment Group Limited (SKC) -SkyCity Entertainment Group Announces Launch Of Offshore Skycity Online Gaming Site

SkyCity Entertainment Group announced that its Maltese subsidiary, SkyCity Malta, has launched its offshore online gaming site skycitycasino under a .com URL. The existing online casino market in NZ is well established with estimates suggesting $160m a year is spent by NZs on online casino platforms currently provided by offshore operators. The Company remains supportive of regulating the NZ online casino market, including introducing an appropriate licensing regime for operators and imposing taxes and mandatory host responsibility requirements.

08:22 AM

AMP Limited (AMP) -AMP Completes A$650m Capital Raising

AMP announced the successful completion of the institutional placement announced to the market on 8 August 2019 to raise A$650m (Placement). 406.3m new FPO shares in Company (New Shares) will be issued to new and existing institutional investors. The Placement was priced at A$1.60 per New Share, representing a 6.7% premium to the underwritten floor price of A$1.50 per New Share.

08:35 AM

News Corporation (NWS) -News Corporation Announces Dividend For Period Ending 30 June 2019

News Corporation announced ordinary dividend of 10 cps for a period of six months ending 30 June 2019, with the record date of 11 September 2019 and payment date of 16 October 2019. The Company's DRP will not apply to this dividend.

08:44 AM

QMS Media Limited (QMS) -QMS Media Announces Acquisition of TLA Australia and Stride and Launches Capital Raise

QMS Media announced its wholly owned subsidiary company, QMS Sport Holdings (QMS Sport), has entered into agreements to acquire a 100% interest in the TLA Worldwide (Aust) and TLA - ESP (UK) (TLA) and, in turn, Stride Sports Management Holdings (Stride) businesses. QMS Sport will invest A$32.7m to acquire 100% of both TLA and Stride. On a 12-month pro-forma basis, the acquisitions are expected to contribute CY 2019 EBITDA of A$6.0m pre-synergies. EBITDA for QMS Sport in H1 CY 2019 is expected to be between A$11.0m and A$11.5m. The acquisitions will be funded in part via a private placement of unlisted FPO shares in QMS Sport to institutional and sophisticated investors to raise A$12m.

08:47 AM

REA Group Ltd (REA) -REA Group Announces FY 2019 Results

REA Group announced its results for the year ended 30 June 2019. The financial highlights from core operations include revenue growth of 8% on the prior year to $874.9m, and an increase in EBITDA of 8% to $501.2m. The revenue growth was driven by an 8% increase in the Australian business. The Board has declared a final dividend of 63.0 cps fully franked. The Commercial and Developer businesses achieved 6% revenue growth despite a 23% decline in new project commencements.

08:49 AM

REA Group Ltd (REA) -REA Group Provides Investor and Analyst Presentation

REA Group provided investor and analyst presentation. It reported revenue of $874.9m, EBITDA of $501.2m, EPS of 224.3c and NPAT of $295.5m. More than 18,000 verified agents' reviews are published on realestate.com.au, helping consumers find the right agent for them when looking to sell. It reported housing.com grew listings by 81.5%. Australian residential listings decreased 8% YoY, with declines in the second half of FY 2019.

09:05 AM

Impression Healthcare Limited (IHL) -Impression Healthcare Reinstates to Official Quotation

The suspension of trading in the securities of Impression Healthcare will be lifted immediately following the release by Company of an announcement regarding a material supply agreement.

09:12 AM

Sydney Airport (SYD) -Sydney Airport Provides Update on SAT1 Indemnity in Relation to Historical Investments

Sydney Airport noted that Sydney Airport Trust 1 (SAT1) has determined that based on a conservative view: the $119.1m non-current receivable in the 31 December 2018 Financial Report relating to the interest withholding tax indemnity should be expensed; and a $62.6m non-current provision should be raised for a possible call on the indemnity in respect of the dividend withholding tax matter. This provision reflects management's estimate of a final indemnity call which would be payable if an unfavourable resolution of the dispute had occurred as at 30 June 2019, including primary tax and additional interest accrued to that date. This amount is expected to increase by $6.5m p.a. while the matter remains unresolved in the Danish High Court.

09:16 AM

LiveHire Limited (LVH) -LiveHire Announces Completion of Cashless Buy-Back and Cancellation of Employee Loan Back Shares And Issue of EIP Securities

LiveHire advised that, in accordance with the Company's employee incentive plan (EIP), on 8 August 2019 it completed the cashless buy-back of 6.96m ordinary shares which were subject to loan-back arrangements under the EIP (Buy Back Shares). The consideration offered for the Buy Back Shares was the forgiveness of the outstanding loans to the Company in respect of the relevant issue price of the Buy Back Shares. The Company also advised that it has issued ordinary shares subject to a loan arrangement (Loan Back Shares) and unquoted performance rights (Performance Rights) under the EIP to two senior employees of the Company.

09:26 AM

Meteoric Resources NL (MEI) -Meteoric Resources Trading Halted, Pending Company Announcement

The securities of Meteoric 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 13 August 2019 or when the announcement is released to the market.

09:48 AM

Downer EDI Limited (DOW) -Downer EDI Announces On Being Awarded Gas Services Contract Extension

Downer EDI announced it had been awarded a five-year extension on its gas services contract with AusNet Services (AusNet) worth $350m. Commencing in April 2021, the contract extension will see Company continue to provide operations, maintenance, capital works and 24/7 emergency response for AusNet's gas distribution network. The gas services contract extension follows Company's recent announcement that it had been selected by AusNet to provide operational and maintenance services for its entire electricity distribution network for a period of five years worth $600m.

09:49 AM

First Au Limited (FAU) -First Au Trading Halted, Pending Company Announcement

The securities of First Au will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 13 August 2019 or when the announcement is released to the market.

09:52 AM

Australian Pacific Coal Limited (AQC) -Australian Pacific Coal Announces Pause in Trading

Trading in the securities of Australian Pacific Coal will be temporarily paused pending a further announcement.

10:18 AM

Australian Pacific Coal Limited (AQC) -Australian Pacific Coal Trading Halted, Pending Company Announcement

The securities of Australian Pacific Coal will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 13 August 2019 or when the announcement is released to the market.

Research Report Summaries

Morningstar Rating

★★★

Share Price

19.250

AGL Energy Limited (AGL) - Disappointing Guidance Overshadows AGL's Good FY19

Analyst Note-AGL Energy's fiscal 2019 net profit after tax rose 2% to AUD 1,040 million, or AUD 1.59 per share, 2% above our expectations. However, fiscal 2020 guidance for NPAT of AUD 780 to 860 million is, at the midpoint, 8% below our prior forecast and 21% below fiscal 2019 NPAT. While management previously flagged headwinds, the financial impact is worse than we expected. We downgrade our fiscal 2020 NPAT forecast to AUD 830 million and also reduce medium-term forecasts by a few percent as tough operating conditions should persist. We reduce our fair value estimate 2% to AUD 20.50 per share. At current prices, narrow-moat-rated AGL trades at a 7% discount to fair value and offers a 5% mostly franked yield.

While the outlook is challenging, we are big fans of the strong balance sheet, which should allow AGL to partially offset earnings headwinds by buying back shares or making acquisitions. Even with sharply lower earnings, we still forecast conservative credit metrics in fiscal 2020. For instance, net debt/EBITDA should be around 1.6 times, comparing favourably to peers typically at 2 to 3 times.

Headwinds for fiscal 2020 include an extended outage of Loy Yang Unit 2, higher depreciation, lower prices for wholesale electricity and renewable energy certificates, higher power station fuel costs, and retail price caps. With such extensive headwinds, we're happy AGL dropped its bid for struggling telecommunications company Vocus. That bid would have cost AUD 4 billion and been difficult to integrate. Instead, AGL is investing in its generation fleet and improving IT systems, has bought Perth Energy for a modest AUD 93 million and is buying back AUD 650 million worth of shares. We like management's disciplined capital investment strategy, evidenced by dropping the Vocus bid. Nonetheless, management remains on the lookout for an acquisition in the telecom space.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	1,022.90	1,039.90	819.89	820.24
EPS c	155.97	158.56	127.94	131.07
P/E x	14.92	13.05	14.91	14.56
EPS Growth %	30.35	1.66	-19.31	2.44
DPS c	117.00	119.00	95.96	98.30
Yield %	5.03	5.75	5.03	5.15
Franking %	80.0	80.0	80.0	80.0

Morningstar Rating

★★

Share Price

0.910

Asaleo Care Limited (AHY) - Transferring Analyst Coverage of Asaleo Care, Fair Value Estimate Unchanged

Analyst Note-We transfer analyst coverage of no-moat-rated Asaleo Care and maintain our AUD 0.85 per share fair value estimate. We continue to forecast low-single-digit annual EPS growth on average during the next five years, as retail revenue grows at a modest 2% per year. Our outlook factors in a continuation of the challenging competitive landscape, particularly in feminine care, leading to further pricing pressure. These challenges should be partially offset by return on the increased investment into advertising, promotions, and product development. However, we expect these additional costs, along with the soft macro and consumer environment (both of which are weighing on the broader retailing and supermarket industry), will constrain the firm's retail EBITDA margins at around the current 19%. We continue to forecast fiscal 2019 EBITDA of AUD 80 million, at the bottom of management's AUD 80-85 million guided range.

We do not think Asaleo Care has carved an economic moat. Despite its portfolio of highly reputable brands in the retail segment, larger competitors, such as narrow-moat Kimberly-Clark, boast similarly reputable brands and have been very aggressive with price discounting to take meaningful market share. Moreover, Asaleo's key customers, the supermarket giants Woolworths and Coles, are powerful and known to exert their substantial bargaining power on suppliers. The two leading Australian supermarkets compete fiercely with each other and with discount supermarket Aldi, and they will likely continue to apply price pressure on most suppliers. In our view, only products with very strong brand equity can earn excess returns in this competitive environment; however, even prominent multinational names such as Coca Cola and Nestle have experienced this pressure.

FYE Dec	2017A	2018A	2019E	2020E
Reported Npat $m	50.30	37.03	34.07	38.30
EPS c	9.24	6.82	6.27	7.05
P/E x	16.66	16.04	14.51	12.91
EPS Growth %	-19.86	-26.24	-8.01	12.44
DPS c	10.00	0.00	2.82	6.35
Yield %	6.50	0.00	3.10	6.98
Franking %	44.0	44.0	50.0	50.0

Morningstar Rating

★★★

Share Price

3.880

Inghams Group Limited (ING) - We Transfer Coverage of No-Moat-Rated Inghams, FVE Unchanged

Analyst Note-We transfer analyst coverage of no-moat-rated Inghams and retain our AUD 3.50 per share fair value estimate. Our long-term earnings projections are unchanged, and we forecast EBITDA growth in the mid-single digits on average during the next five years. Despite the higher poultry costs (on the back of the higher grain price) the outlook for consumption remains positive. We continue to project low-single-digit volume growth on average over the long term, supported by around 1%-2% per year in population growth, and incremental increases in consumption on a per capita basis. While it is still early days, the New Zealand business is starting to improve and management expects it to have made a full recovery by the end of fiscal 2020, after EBITDA fell by 35% during the first half of fiscal 2019.

We don't believe Ingham's benefits from an economic moat. Despite Ingham's large market share in the Australian and New Zealand poultry markets, we believe the company lacks a meaningful cost advantage. The company is in the midst of a transformation program which aims to generate AUD 160 million to AUD 200 million in annualised cost savings over the five years ending fiscal 2021. In the short term, we think this is achievable. However, in the long term, any excess returns stemming from efficiency gains will be eroded, due to the powerful and concentrated customer base, the commoditised nature of the products, and the ability of competitors to replicate productivity improvements. The balance of pricing power ultimately lies with the large Inghams customers, principally the dominant supermarket chains.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	102.00	112.50	108.17	120.21
EPS c	28.60	29.88	27.99	30.61
P/E x	11.23	12.05	14.01	12.81
EPS Growth %	9.84	4.49	-6.34	9.36
DPS c	12.10	21.10	20.00	21.40
Yield %	3.77	5.86	5.10	5.46
Franking %	0.0	0.0	100.0	100.0

Morningstar Rating

★★★

Share Price

21.680

James Hardie Industries Plc (JHX) - Above Market Index Growth Returns in Spades For Hardie in 1Q20 But Shares Screen as Fairly Valued

Analyst Note-The delivery of stellar above-market index volume growth, or PDG, in narrow-moat Hardie's fiscal 2020 first quarter has revived the market's faith that the company's ambitions under its long-held "35/90" strategy could be realised. Hardie's shares jumped as PDG in North America of circa 10% was revealed. We're pleased by early results of the recently enacted sales strategy to drive greater pull through demand for Hardie's product range. But our long-term view of Hardie's North American prospects remains unchanged. Nonetheless, abating U.S. freight costs lead us to upgrade our full-year adjusted net income forecast by 4% to USD 361 million. We've also lifted our fair value estimate for Hardie by 4% to AUD 22.10 per share to account for recent depreciation of the AUD. After today's 14% rally, Hardie shares screen as fairly valued.

Our volume expectations are unchanged. Strong volume growth in North America was achieved in spite of tepid U.S. housing construction in the quarter. Fibre cement volumes grew 4% despite a 3% decline in interior product ranges and housing starts which were 6% lower than a year prior. With the decline in construction activity, we estimate segment PDG is estimated at a phenomenal 10% for the quarter. This tracks above management's full-year PDG target of 3%-5%, but the highly favourable result will be difficult to repeat with market share gains a significant contributor to PDG performance. With Hardie's U.S. fibre cement competitors already operating at the very edges of the industry we expect further gains of this nature will be muted at best. That is, we continue to expect the U.S. siding market will grow by 3.3% in fiscal 2020 and Hardie to garner PDG of 2.4% over and above this. Nonetheless, we increase our full-year segment EBIT forecast to USD 430 million owing to easing freight costs. Cost-out from Hardie's lean transformation program also contribute to our upgraded gross margin forecast of 35%, up from a prior 33%.

FYE Mar	2018A	2019A	2020E	2021E
Reported Npat $m	418.92	350.33	481.78	525.61
EPS c	94.71	79.21	108.65	118.55
P/E x	21.59	24.83	19.95	18.29
EPS Growth %	25.37	-16.37	37.18	9.11
DPS c	52.05	49.32	54.33	59.27
Yield %	2.55	2.51	2.51	2.73
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

19.900

News Corporation (NWS) - Making Complex News Simple

Analyst Note-News Corporation's fiscal 2019 fourth-quarter financial result contained the usual mix of good (News and Information EBITDA up 15%), bad (Subscription Video Services down 22%) and ugly (Books down 38%). Much of this can be attributed to year-on-year volatility, and the 17% decline in group normalised EBITDA to USD 271 million was broadly as expected. As such, we maintain our USD 14.50 fair value estimate, or AUD 21.30 at the current exchange rate (from AUD 20.70).

At a strategic level, however, we are encouraged by management's public commitment to simplifying News and liberating the value of its individual assets currently buried within the company's complex structure. The process began with the recently announced "strategic review" of News America Marketing, a business that was a notable contributor to News and Information division's fourth quarter earnings rise and one that could fetch well over USD 500 million (assuming 12% EBITDA margin on its circa USD 900 million revenue base). That is not inconsiderable compared with the current News market value of USD 7.9 billion, for a small unit deeply buried within a division dominated by the group's high-profile newspaper mastheads.

The litmus test for News' simplification commitment is whether there will be other assets to be reviewed and what will be done with any realised proceeds. This value-liberation mindset is certainly preferable to any manoeuvres that add to complexity, such as the one more than a year ago that landed Foxtel into News' consolidated sphere. The pay TV operator has heightened News' capital intensity and entirely saddled management with the challenge of arresting the pay TV operator's earnings decline in a streaming-centric world. All this has contributed to the persistent discount News shares have traded relative to our intrinsic assessment over the past year, albeit that discount has now narrowed to 8%.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	332.77	377.31	315.88	407.10
EPS c	57.07	64.17	53.72	69.24
P/E x	35.00	28.71	37.04	28.74
EPS Growth %	15.30	12.43	-16.28	28.88
DPS c	25.80	27.95	26.84	29.36
Yield %	1.29	1.52	1.35	1.48
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★★

Share Price

5.740

Qantas Airways Limited (QAN) - Transferring Analyst Coverage of Qantas, FVE Unchanged

Analyst Note-We transfer analyst coverage of no-moat-rated Qantas, and maintain our AUD 5.00 per share fair value estimate. The oil price will remain a key driver of performance, and we forecast the firm's fuel bill to rise by approximately 8% during fiscal 2020 to AUD 4.2 billion. We think the firm can recover part of this through higher unit revenue although not all of it, due to softening domestic demand. Longer term, we forecast an oil price around of USD 60 per barrel (broadly in line with current levels). While in the interim this will boost margins, it will also incentivise international carriers to add capacity, which tends to weigh on utilisation and average unit prices, offsetting the lower fuel price. Notwithstanding, our long-term projections are unchanged, and we expect EPS growth to be constrained to the low-single digits on average, during our explicit five-year forecast period.

We maintain our no-moat rating for Qantas. In our opinion, all airlines lack economic moats for the following reasons: a long history of value destruction; a business model that is not conducive to rational pricing; a lack of high entry barriers; the commoditised nature of air travel; and the presence of low switching costs, coupled with high price transparency. We believe these conditions, which have long plagued the airline industry, will persist through the cycle. Despite being the dominant player in the local market, Qantas operates at a cost disadvantage to rival Virgin. However, Qantas tickets sell for a slight premium to Virgin, which contributes to its higher domestic profit margin.

FYE Jun	**2017A**	**2018A**	**2019E**	**2020E**
Reported Npat $m	1,011.74	1,123.84	980.28	998.64
EPS c	54.60	64.00	59.29	61.50
P/E x	6.69	9.05	9.61	9.27
EPS Growth %	2.82	17.22	-7.36	3.73
DPS c	14.00	17.00	22.53	24.91
Yield %	3.83	2.94	3.95	4.37
Franking %	0.0	58.82	100.0	100.0

Morningstar Rating

★★

Share Price

96.640

REA Group Ltd (REA) - Raising REA Group FVE to AUD 80 Following Resilient Fiscal 2019 Result

Analyst Note-We have increased our fair value estimate for narrow-moat-rated REA Group by 30% to AUD 80 per share following a reduction in the cost of equity we use to value the stock. The COE is the rate at which we discount future cash flows to their present value and reflects a fair return for the risk of investing in equities. We use a COE of 9% for most companies, which is based on the historical and likely long-term total return of the equity market. However, for companies with relatively low earnings sensitivity to the economy, we use a COE of 7.5%, and we've adopted this rate for REA Group.

Fiscal 2019 was a particularly tough year for the residential real estate market, with the Royal Commission into the financial services sector, a reduction in credit availability, and the threat of punitive Labor Party policies all contributing to a 7% fall in national residential real estate prices. From REA Group's perspective, the accompanying 20% slump in national real estate listings was challenging because the company's revenue is largely based on the number of its listings and the price it charges per listing. It's therefore quite an achievement that group revenue still grew 8%, which mainly reflects an increase in listing prices, of around 10%, and higher sales of relatively expensive premiere listings.

Despite our fair value estimate increase, we still think REA Group shares are expensive at the current price of over AUD 96 per share. The share price implies a fiscal 2020 price/earnings ratio of 36 and dividend yield of 1.4%, or 1.8% including franking credits. In contrast, our fair value estimate implies a P/E ratio of 29 and yield of 1.8%, or 2.2% including franking.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	278.76	298.52	353.73	415.91
EPS c	211.64	226.64	268.56	315.76
P/E x	35.77	35.87	35.98	30.61
EPS Growth %	22.09	7.09	18.50	17.58
DPS c	109.00	118.00	140.00	164.00
Yield %	1.44	1.45	1.45	1.70
Franking %	100.0	100.0	100.0	100.0

Morningstar Rating

★★★

Share Price

1.930

AMP Limited (AMP) - Corporate Action: AMP's FVE Increased Following New Strategy, Recommend Participating in SPP

Analyst Note-Narrow-moat AMP Ltd fair value estimate increased to AUD 1.95 per share from AUD 1.80 following first-half 2019 results, underpinned by a strong performance from AMP Capital. AMP Capital is also set to become a bigger contributor to group earnings under management's new strategy. A just-completed AUD 650 million institutional equity raising at AUD 1.60 per new share provides the balance sheet capacity to immediately start implementing the strategy. AMP will also provide retail investors the opportunity to acquire shares at the same price of AUD 1.60 per new share (or lower) via a share purchase plan, or SPP, next week. Although we expect continued disruption in AMP's wealth management division, or AWM, and lower earnings growth from AMP Bank, we think these headwinds are now priced into the stock. Accordingly, we recommend participating in the SPP.

AMP Capital remains the jewel in the group's portfolio of businesses. We forecast AMP Capital to generate underlying NPAT of AUD 210 million in 2019, 21% higher than 2018, and be the group's major earnings growth driver. The segment posted a very strong 2019 half-year result, with underlying NPAT of AUD 123 million--28% higher than the 2018 half year. However, we expect lower earnings in the second half due to seasonally lower performance fees and higher employee expenses as AMP invests to grow the business. The earnings were primarily driven by higher earnings from its externally sourced funds, which invest in real assets, particularly infrastructure that garner higher margin revenue. There appears to be continuing strong momentum in its externally managed infrastructure AUM. AMP Capital is also continuing to expand its global footprint, with AUM on behalf of direct international institutional clients increasing to AUD 18.8 billion at June 30, 2019, from 17.3 billion at Dec. 31, 2018.

FYE Dec	2017A	2018A	2019E	2020E
Reported Npat $m	1,040.42	680.03	595.15	471.33
EPS c	35.29	23.08	18.92	14.08
P/E x	14.50	16.55	10.20	13.71
EPS Growth %	113.25	-34.59	-18.02	-25.61
DPS c	29.00	14.00	0.00	6.00
Yield %	5.67	3.66	0.00	3.11
Franking %	90.0	90.0	80.0	80.0

Morningstar Rating

★★★

Share Price

7.680

Insurance Australia Group Limited (IAG) - Operational Improvements Underpin IAG's Solid FY19 Result. FVE AUD 7.50 Unchanged

Analyst Note-Insurance Australia Group delivered a sound fiscal 2019 cash NPAT of AUD 931 million, down 10% on fiscal 2018 and broadly in line with our forecast. The result was in line with key guidance metrics of gross written premium, or GWP, in the 2% to 4% range (actual 3.1%) and a reported insurance margin between 16% to 18% (actual 16.9%). A minor disappointment was guidance that IAG would incur a below the line expense of approximately AUD 50 million pretax in fiscal 2020, attributable to investments in complementary technologies and businesses. Despite the increasing cost of investing in data, artificial intelligence, and innovation, we like the firm's strategy to optimise core insurance operations while focusing on longer-term complementary growth options in adjacent businesses, such as car sharing and road side assistance. But it is difficult to assess the future value of these investments and we hope management will be quick to act should relatively small investments fail to deliver.

Our no-moat, high fair value uncertainty, and Standard stewardship ratings are unchanged as we transition coverage to a new analyst. Our forecast fiscal 2020 cash NPAT of AUD 1 billion is broadly in line with our previous forecast and our AUD 7.50 fair value estimate is unchanged. At current prices around AUD 7.70, the stock screens as fairly valued.

The 10% decline in fiscal 2019 cash profit was due to business sales, higher reinsurance expense, increased regulatory and compliance spend, offset by operating expense savings and higher investment returns with investment markets booming in the second half. The New Zealand business performance was a standout with the insurance profit increasing 79% to AUD 390 million on the back of rate increases and benign natural hazard claims. The group underlying growth in GWP was approximately 4% in fiscal 2019 and we expect a similar outcome in fiscal 2020. Rate increases were achieved across consumer, commercial, and New Zealand.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	1,034.00	931.00	1,007.79	1,083.00
EPS c	43.68	39.94	42.92	46.94
P/E x	16.54	18.83	17.89	16.36
EPS Growth %	4.42	-8.56	7.46	9.37
DPS c	34.00	37.50	32.99	34.99
Yield %	4.71	4.99	4.30	4.56
Franking %	100.0	84.0	80.0	80.0

Morningstar Rating

★★★

Share Price

5.750

Independence Group NL (IGO) - Raising our Independence Group FVE to AUD 5.20 per Share on Higher Nickel Price

Analyst Note-The nickel price is up 18% to USD 5.70 per pound since early July. The higher spot price drives an 8% increase in our fair value estimate for no-moat-rated Independence Group to AUD 5.20 per share. Offsetting some of the benefit is higher than expected capital costs, both at the 100% owned Nova nickel mine and the 30%-owned Tropicana gold mine. Higher costs in part reflect the need for more desalination capacity at Nova and waste mining costs at Tropicana.

Independence shares are close to fairly valued. Both the Tropicana and Nova-Bollinger mines have admirably low operating costs of less than AUD 700 per ounce of gold and less than AUD 2.50 per pound of payable nickel, respectively. The company is in a period of high free cash flow with both mines fully capitalised. Management's attention is on growth through exploration, but this is not without risks. Independence has successfully extended mine life through exploration. But new mines will ultimately need to be found to sustain earnings. This is a harder ask and here the company has struggled. The fiscal 2020 exploration budget of AUD 73 million represents a meaningful bet for a firm of this size.

London Metal Exchange nickel stockpiles have continued to decline, an indicator of tightness in supply. The nickel price has generally been below USD 6 per pound since 2015, and unlike many other commodities, such as iron ore and coking coal, the recovery from 2015 lows has been slow. It's been a challenging environment to add supply, particularly for traditional producers of nickel sulphides which encompass most of the production from Western Australia. Nickel is still likely to suffer from China's ability to add significant supply from directly smelting low grade ores to make nickel pig iron. But the emergence of demand from batteries is improving fundamentals for nickel sulphide producers. Batteries provide a higher value in use, while nickel from pig iron will mainly find its way into stainless steel.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat $m	41.75	52.69	88.46	170.64
EPS c	7.18	8.94	14.92	28.76
P/E x	54.13	48.71	36.60	18.98
EPS Growth %	10.83	24.64	66.83	92.75
DPS c	2.00	3.00	8.00	17.00
Yield %	0.51	0.69	1.47	3.11
Franking %	100.0	100.0	60.0	11.76

Morningstar Rating

★★

Share Price

5.160

ALE Property Group (LEP) - Ale Property's FVE Unchanged Despite Modestly Lower Fiscal 2019 Distributable Income

Analyst Note-No-moat Ale Property Group's fair value estimate remains AUD 4.60 per unit following fiscal 2019 earnings that were modestly below our expectations. Fiscal 2019 distributable income (statutory profits less non-cash fair value gains) of about AUD 28 million was below fiscal 2018's AUD 29 million and our forecast of AUD 29 million. Distributable income benefited from a 3.7% increase in rents primarily because of the 10% rent increases from the completed 2018 rent reviews on 36 properties, with 43 properties remaining subject to independent determination as part of the reviews. However, the rent uplift was offset by an increase in one-off costs associated with the rent reviews and an increase in the Queensland land tax. The full impact of the rent reviews and non-recurrence of the review costs should see distributable income increase about 11% in fiscal 2020 to AUD 31 million. At our fair value estimate, Ale has a fiscal 2020 distribution yield of 4.7% and at a current price of AUD 5.10 per unit screens as modestly expensive.

We forecast rental income to increase by about 5% to AUD 63 million in fiscal 2020 and by a CAGR of about 2.9% over the next five years. The higher near-term increase is primarily from the 2018 rent reviews. Management provided guidance that total passing rent from the reviews has a worst-case scenario of no change and a best-case scenario of an 8.9% uplift. Rent reviews allow for a maximum 10% increase or decrease in rents for the individual properties, but for the group this increase is not possible as seven of its 86 properties are not subject to the reviews. Ale is confident of a positive result from the remaining 43 properties, and we expect the group's total passing rents will increase by 8% once the 2018 reviews are completed.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	47.26	35.79	38.56	35.27
EPS c	24.12	18.27	19.70	18.02
P/E x	20.33	27.65	26.35	28.80
EPS Growth %	-23.73	-24.27	7.82	-8.52
DPS c	20.80	20.90	21.50	22.00
Yield %	4.24	4.14	4.14	4.24
Franking %	0.0	0.0	0.0	0.0

Morningstar Rating

★★

Share Price

3.290

Mirvac Group (MGR) - Mirvac Strategy Sound, but Residential Earnings Still Coming Off a High; Shares Remain Overvalued

Analyst Note-Mirvac Group's fiscal 2019 earnings rose 4% to 17.1 cents per share. The result was decent in light of the headwinds faced by parts of its diversified portfolio. The firm delivered at the top end of guidance and in line with our expectations. The result has no material impact on our view; the stock screens as expensive versus our unchanged fair value estimate, which is close to the company's net tangible assets per security of AUD 2.50. Mirvac aims to generate about one fifth of earnings from development, mainly residential. This is a differentiator from purely rent-collecting REITs, but development earnings are more volatile, and it's difficult to carve out a moat in this competitive segment. This underpins our no-moat rating and, in part, drives our cautious outlook.

Mirvac has executed well, but the share price appears to be factoring both persistently low interest rates and a cyclical upturn in the property market. Mirvac may benefit from one or the other, but unlikely both.

Mirvac says the residential market is near a cyclical low, but a V-shaped recovery is unlikely. Today's result is illustrative: Mirvac settled approximately 2,600 residential lots over fiscal 2019, down 23% from the record 3,400 settlements in 2018, yet still elevated versus history. Company guidance indicates settlements of at least 2,500 for fiscal 2020. That's achievable thanks to a decisive Federal Liberal election win, APRA's slight relaxation of mortgage serviceability rules in July, and lower interest rates. However, once these sugar hits abate, structural headwinds remain. These include overall tighter mortgage lending constraints since the financial services Royal Commission, high household debt, and deflation in the terms of trade, which is a drag on national income.

FYE Jun	2018A	2019A	2020E	2021E
Reported Npat $m	608.00	631.00	690.30	702.55
EPS c	16.39	17.07	17.68	17.99
P/E x	13.76	14.73	19.23	18.90
EPS Growth %	13.70	4.18	3.55	1.78
DPS c	11.00	11.60	12.20	12.40
Yield %	4.88	4.61	3.59	3.65
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
▲	A2M	The a2 Milk Company	★★★	09/08/2019	Upgrade due to price change
▼	CQE	Charter Hall Education Trust	★★★	09/08/2019	Upgrade due to price change
▼	MEL-NZ	Meridian Energy	★	09/08/2019	Downgrade due to price change
▲	SGR	The Star Entertainment Group	★★★★	09/08/2019	Upgrade due to price change
▼	ALQ	ALS	★	08/08/2019	Downgrade due to price change
▼	APE	AP Eagers	★★	08/08/2019	Downgrade due to price change
▲	ATM-NZ	The a2 Milk Company	★★★	08/08/2019	Upgrade due to price change
▼	CQE	Charter Hall Education Trust	★★	08/08/2019	Downgrade due to price change
▼	RRL	Regis Resources	★	08/08/2019	Downgrade due to price change
▲	SWM	Seven West Media	★★★★★	08/08/2019	Upgrade due to price change
▲	WHC	Whitehaven Coal	★★★★	08/08/2019	Upgrade due to price change
▲	WOR	WorleyParsons	★★	08/08/2019	Upgrade due to price change
▲	TCL	Transurban Group	★★	07/08/2019	Corporate Action: Don't Subscribe to SPP; Transurban has Good FY19 and Raises for Small Acquisition
▲	ALL	Aristocrat Leisure	★★★	06/08/2019	Upgrade due to price change
▲	BEN	Bendigo Adelaide Bnk	★★★	06/08/2019	Upgrade due to price change
▲	BKL	Blackmores	★★★★	06/08/2019	Upgrade due to price change
▲	BLD	Boral	★★★★	06/08/2019	Upgrade due to price change
▲	CSL	CSL	★★★	06/08/2019	Upgrade due to price change
▲	CSR	CSR	★★★	06/08/2019	Upgrade due to price change
▲	FXL	FlexiGroup	★★★	06/08/2019	Upgrade due to price change
▲	GNC	Graincorp	★★★★	06/08/2019	Upgrade due to price change
▲	HPI	Hotel Property Investments	★★★	06/08/2019	Upgrade due to price change
▲	ING	Inghams Group	★★★	06/08/2019	Upgrade due to price change
▲	PDL	Pendal Group	★★★★	06/08/2019	Upgrade due to price change
▲	REA	REA Group	★★	06/08/2019	Upgrade due to price change
▲	STO	Santos	★★★★	06/08/2019	Upgrade due to price change
▲	ALQ	ALS	★★	05/08/2019	Upgrade due to price change
▲	APE	AP Eagers	★★★	05/08/2019	Upgrade due to price change
▲	ILU	Iluka Resources	★★★★	05/08/2019	Upgrade due to price change
▲	MIN	Mineral Resources	★★★★	05/08/2019	Upgrade due to price change
▲	PMV	Premier Investments	★★★	05/08/2019	Upgrade due to price change

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