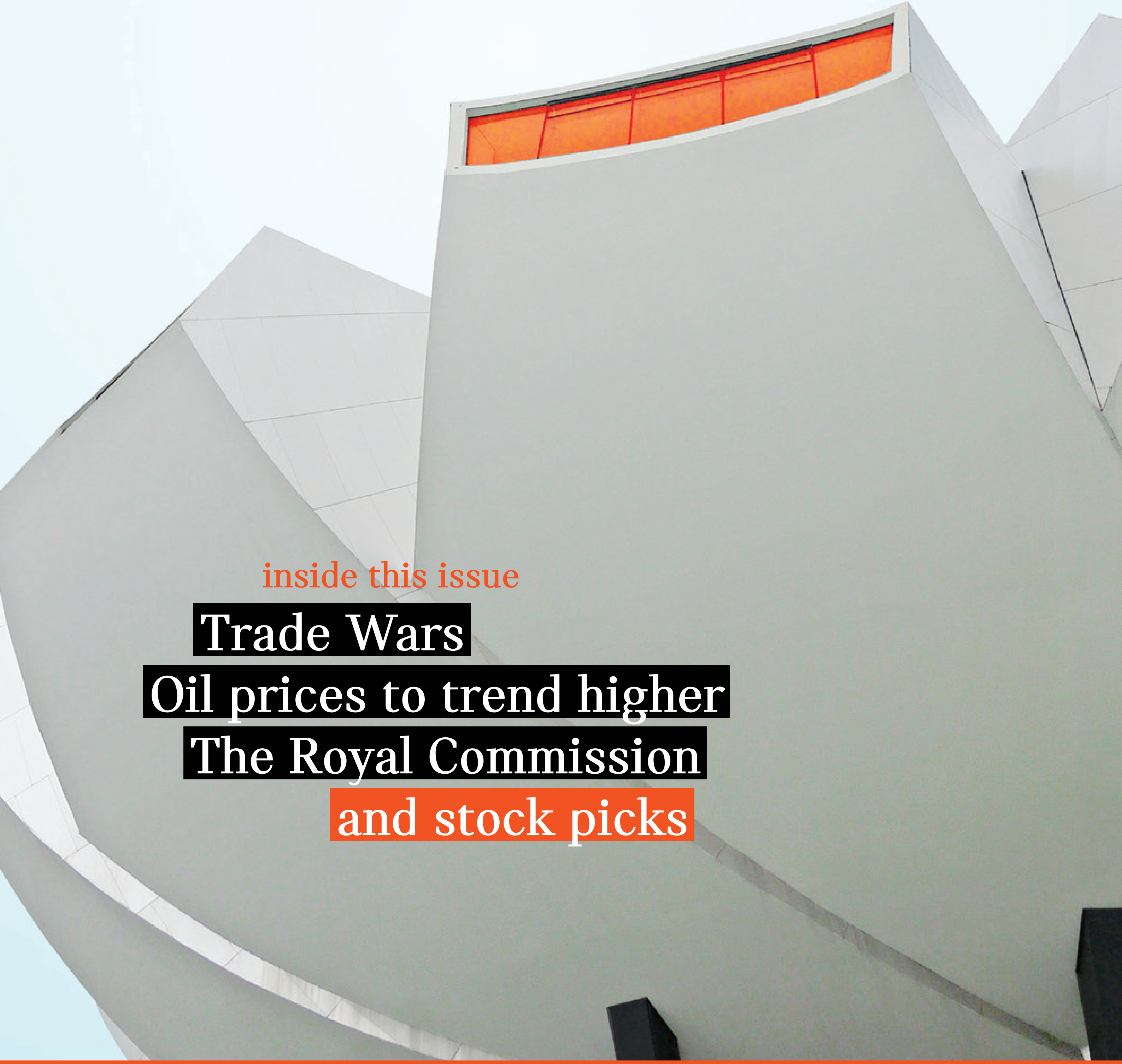
ShawandPartners

The Research Monitor

September Quarter 2018



inside this issue

Trade Wars
Oil prices to trend higher
The Royal Commission
and stock picks

June Quarter 2018 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, rose 7.5% on a price basis and by 8.4% including dividends in the June 2018 quarter, the best since March 2015 and in the top 20% since 1992.

The performance of the market during the quarter was dominated by very strong performances in a small number of sectors, notably Pharmaceuticals up 23% - lead by index heavyweight CSL, up 23.9%. Energy was up 19.8% lead by Woodside Petroleum (WPL) up 21.3%, and Food and Staples Retailing was up 16.4% lead by Wesfarmers (WES) up 18.8%. These three sectors comprise 17% of the index.

The largest component of the index is the Banks Sector (23.5% index weight), which rose only 1.2% in price terms and 3.4% including dividends, extending the period over which banks have underperformed the index. Conversely, the second largest sector, Materials (18.5% index weight) rose 11.4% including dividends, with bellwether BHP up 20.2%.

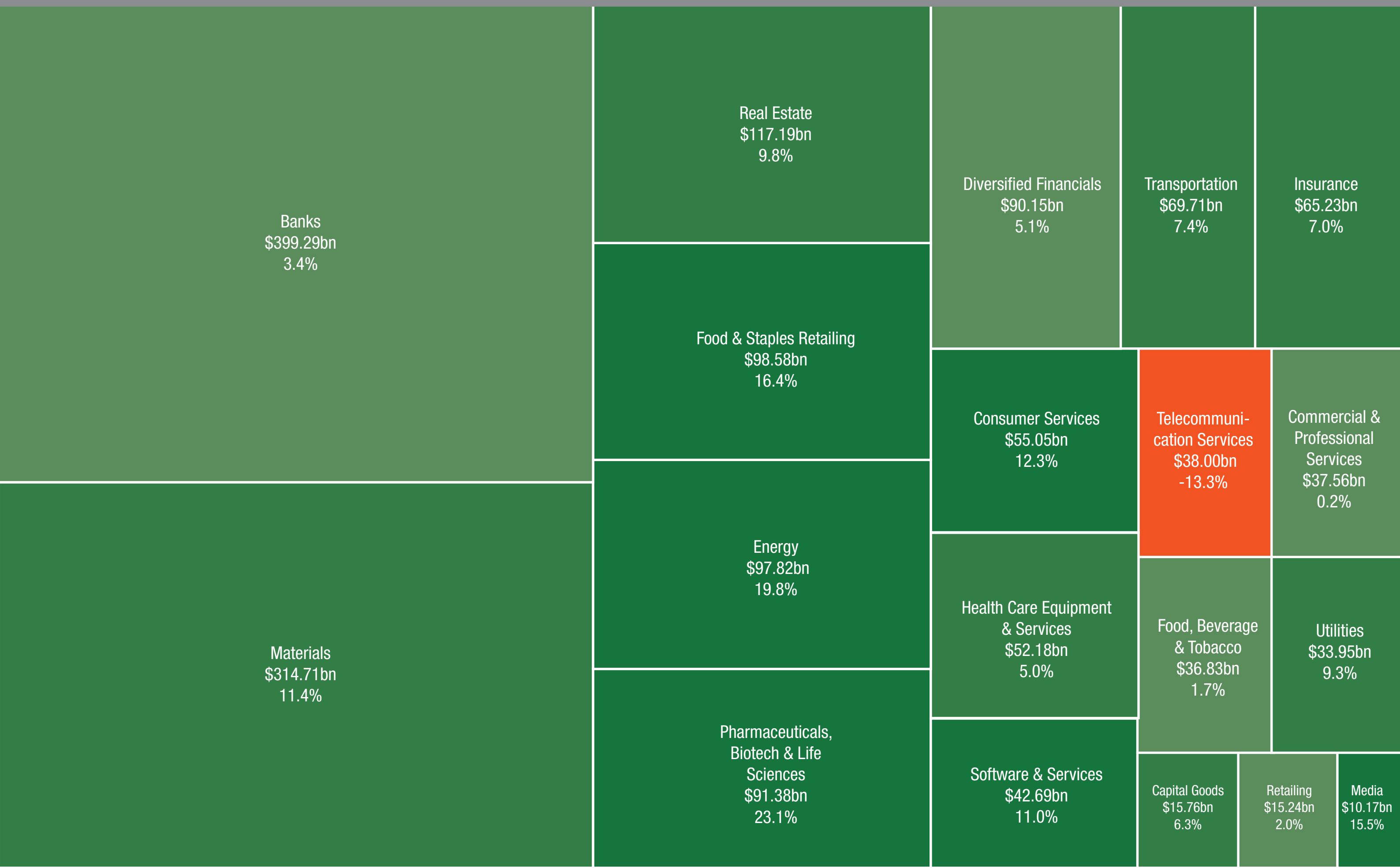
The market rose 3.75% in April mostly on the back of a strong earnings season in the United States. The adage "sell in May and go away" looked like it was working again as the market rose only 0.6% in May – as investors became increasingly nervous around trade tensions and the ongoing tightening of credit conditions in the Australian and global markets.

The spread between 90 day bank bills and cash increased from 53 basis points at the end of March to 61 basis points at the end of June – a sign of tightening credit conditions. The same spread was 29.5 points at the start of the year. June proved to be a very strong month however, with Australian shares rising 2.96%.

The more cyclical sectors performed well over the quarter. Global markets performed relatively better than local shares in the March quarter. The Australian dollar was 3.7% lower over the period.

The NASDAQ index was up 6.3% as technology stocks continued their recent strong gains after a period of significant volatility, while the broader S&P500 was up 2.9%. European stocks were relatively flat up only 0.8%, Japanese stocks rose 1.7% and the World index was up 2.1%. Fixed income markets were slightly better as some bond yields drifted lower, with the Bloomberg AusBond Composite (0+Y) Index up 0.8%.

Heat map legend: Size of box: market cap of sector. Colour of box: Quarterly performance (green positive, red negative). Source: Shaw and Partners



Brett Le Mesurier
Senior Banking and Insurance Analyst

The Royal Commission

The Royal Commission into Financial Services was borne out of misconduct from CBA in life insurance and yet CBA has not been the largest casualty. This unhappy spot has been taken by AMP who has managed to make the least of a poor situation.

It's confronted with future adverse effects on its revenue, expenses and capital. It even has ASIC chasing it for civil penalties for its Financial Planners not acting in the best interests of its clients. There's also the issue of the independent expert's report, where serious questions have been raised about its independence. At least so many people looked at it that its probably had an expert eye cast over it at some stage. Criminal penalties may be next. The question must rightly be asked as to whether or not it could get any worse for AMP and sadly the answer is probably yes. The earnings downgrades are yet to come which are likely to push the beleaguered share price even lower.

The good news for AMP is that they have an experienced and capable Chairman, but this may not be enough.

The Royal Commission has not only carved its way through AMP but it's having an adverse impact on the housing market as well. APRA and the RBA took action to cool the market last year and the Royal Commission has added its own special brand of cold water.

The major banks now have an army of fact checkers making sure that all expenses are identified on loan applications and all income is verified. The result is lower loan sizes, lower leverage and lower house prices. It does demonstrate to the RBA and APRA that all they had to do in the first place to cool the market was to restrict the loan to value ratios at the time the loans are written.

Owner/occupiers are taking over the market as investors retreat. Such is the extent of this retreat that investors are no longer providing any loan growth at all.

The problem faced by banks is that loan growth is falling and 4% p.a. is now the norm. Bank share prices are expecting a little worse and this makes them an interesting investment.

General insurers are the next group to feel the hand of the Royal Commission on their shoulder. It may be more than a comforting tap as we shall see in the coming months.

Martin Crabb

Chief Investment Officer

Trade Wars and the implications for Australian Shares

TRUMP'S TRILLION-DOLLAR TRADE WAR

U.S. President Donal Trump's trade wars with allies and trade partners could easily surge through the trillion-dollar mark and affect almost a third of America's total trade with the world.

CHINA
U.S. and China to impose tariffs on $34bn worth of imports – tariffs on further $16bn announced.

Trump has vowed further $400bn worth of imports to be targeted with 10% tariff if Beijing strikes back. China has pledged tit-for-tat tariffs.
Total: US$900bn

INDIA
Tariffs hiked by 50% on 30 imported US goods in retaliation to steel and aluminum levies.
Total: US$240m

EUROPEAN UNION
Threat to hit €10bn of U.S. goods if Trump imposes tariffs on auto trade worth $61.2bn.
Total: US$71.2bn

MALAYSIA & SOUTH KOREA
Hit by 30% tariff on $4bn solar panel exports to U.S. and 20% tariff on $1.3bn washing machine exports.
Total: US$5.3bn

MEXICO
Has imposed tariffs on $3bn worth of U.S. exports to match Trump tariffs.
Total: US$6.0bn

CANADA
U.S. has imposed 25% steel and 10% aluminum tariffs worth $12.6bn. Canada is responding with like-for-like tariffs.
Total: US$25.2bn

NAFTA
Looming threat of auto levies on Canada and Mexico.
Total: US$246bn

Since President Trump issued his first salvo in the "trade war" between the United States and the rest of the world with his fairly innocuous tariffs on imported solar panels and washing machines on January 22nd this year, the tit-for-tat escalation has grown to include steel, aluminium, pork, wine, fruit and nuts, industrial technology, transport and medical products.

Further threats from America include:

- 10% tariff on $200 billion of Chinese goods
- 20% tariff on cars imported from Europe
- US leaving the World Trade Organisation (WTO).

Further threats from China include imposing tariffs on 659 US goods imported into China worth $50 billion.

Students of economic history will no doubt be aware of the impact of a trade war between the United States in Europe under the Smoot-Hawley Tariff Bill in 1929 – which effectively deepened the economic downturn causing it to become the Great Depression; which ended with 20% unemployment in the United States and an 85% fall in share prices.

Global trade has been responsible for a huge increase in productivity, a lowering of price inflation and has powered the great industrialisation of many emerging economies. Any measure which threatens to derail world trade is likely, therefore to undermine some of this progress. Global merchandise trade was worth $US17,500 billion in 2017, of which $US3,900 billion or 22% was US trade with the world. The threats so far risk approximately $US1,250 billion worth of trade.

Australia is somewhat removed from the current tariff debate - being permanently exempt from the US tariffs on steel and aluminium - and a potential beneficiary should China, the United States and Europe seek to do less trade with each other and more with Australia, particularly in the area of mining and agricultural commodities.

> Trump tweeted that "Trade wars are good and easy to win". We'd argue the opposite – trade wars are bad and nobody wins.

The implications of a trade war on Australian shares are complicated. Firstly, any slowdown in economic activity that is brought about by an escalation in trade tensions will hit the Australian dollar and Australian exporting stocks – such as resources.

Secondly, tariffs are inflationary. If there is no change to the supply or demand of goods and services, prices under tariffs simply go up – causing inflation further up the food chain. Under this scenario, resource shares will go up.

Thirdly, some companies are reliant to a great extent on world trade – think of A2 Milk or Treasury Wine Estates, which sell a large majority of their produce overseas. If world trade is more broadly interrupted, these types of shares could be significantly impacted.

Stuart Baker
Senior Analyst – Oil and Gas

Oil prices to trend higher

Increased supply is not enough to meet the market.

The recent OPEC meeting concluded on June 23 with a degree of ambiguity as to what the agreement means in practical terms. Industry followers estimate the increase could be in the range 0.6 to 1.0 MMbopd.

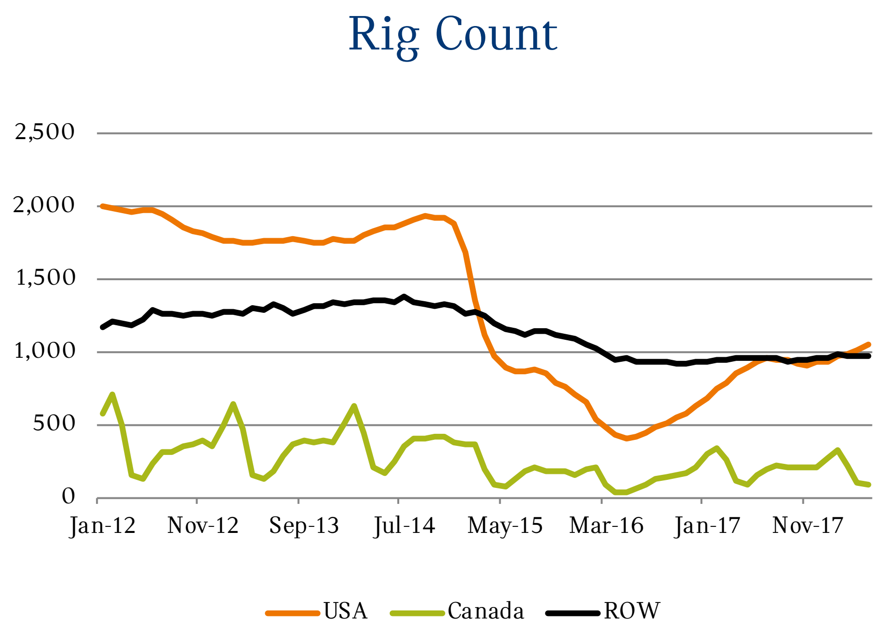
Supply increases of this order are enough to meet demand in 2H 2018 and 2019, but are insufficient to send oil markets into over-supply. An impending issue is the impact of sanctions on Iran and the collapse in production from Venezuela. Loss of supply from these countries could be as much as 1.5 MMbopd in the coming year and would more than offset increases in supply from OPEC and more specifically, Saudi Arabia and Russia.

Fundamentally, the oil market continues to tighten. Demand is robust and rising at ~1.4-1.5 MMbopd. Production in the USA has been rising since mid 2016 but in the past month there is evidence of a plateauing, with infrastructure constraints emerging. Inventories in the USA are falling at a steep rate, partly due to seasonality with the driving season in full swing and partly due to record high exports. OCED stocks continue to fall and are at a 3 year low. Increased supply from OPEC will slow the rate of de-stocking but isn't enough to reverse it.

Moving through 2019, the market will continue to tighten despite increases from OPEC and the USA. More supply is required from the rest of the world (ROW) and the leading indicator of broad-based global supply growth is drilling rig activity. Onshore, the USA is the only region where rig activity has grown, whilst rig utilization in the ROW has been flat since 2016. For supply to recover in the ROW, the industry needs to re-allocate capital away from low risk / fast-payback USA drilling, back into riskier, longer cycle time drilling in offshore regions around the world. There is no sign of that happening just yet.

Although there is clearly a pricing signal to stimulate more exploration and development, in reality most E&P companies are constrained by annual budgets, usually set in Q4 for the year ahead, so there is inertia at work. Today's spending reflects capital budgeting decisions made late last year and budget decisions for 2019, in general, won't be determined until later this year.

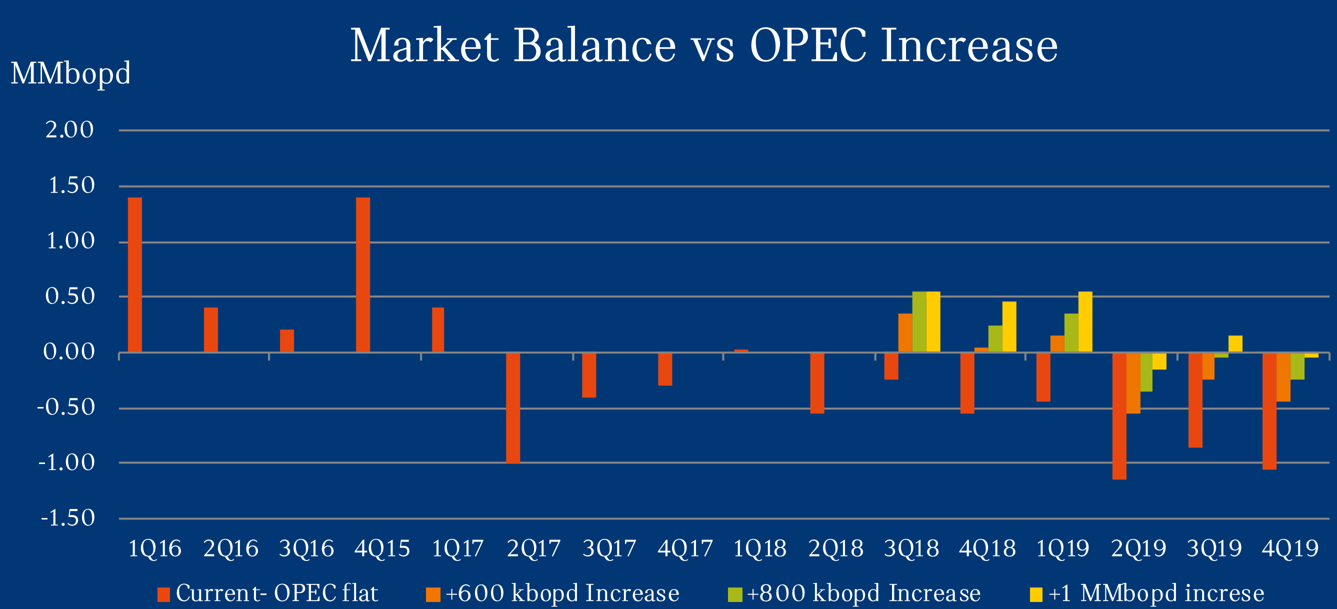
Our preferred exposure is Woodside which we rate a buy, with a price target of $39.



Woodside (WPL, Buy, $39 target) is our preferred investment for 4 key reasons. First, it is the absolute low cost producer in the industry, and it generates more FCF per barrel of oil produced than peers, so it has more per-barrel to re-invest for growth and to pay dividends. Second, the balance sheet is very strong after its recent equity issue and robust enough for WPL to consider multi-billion dollar LNG expansions. Third, it has some very large gas & oil projects to drive long term production growth. Fourth, the dividend payout ratio is generous by industry standards.

Santos (STO, Hold, $5.40 target) is emerging from a 3 year period of fiscal constraint, asset portfolio adjustment and the target of M&A. In absolute terms it is a far stronger company today with lower break-even costs and positive FCF for the first time in 9 years, but the task from here will be to re-stock reserves and growth production. It has a limited suite of organic growth options, and could augment this with some judicious asset purchases. On a DCF basis, Santos is not cheap and we think the share price reflects investor expectations that management can create value in line with the recent, failed M&A deal.

Oil Search (OSH, Hold, $8.30 target) has world class, low cost production assets in PNG and a large resource base to underwrite LNG expansions which if sanctioned would double the asset base. Its partners Exxon and Total bring global capability, and OSH's improving balance sheet in the coming years gives it the financial capacity to participate in growth with minimal or no recourse to additional equity. Timing of growth is uncertain however, as these mega-LNG projects take years to deliver and we would not expect to see LNG growth until the mid 2020's. Separately, planned exploration and appraisal of oil assets in Alaska in 2019 could lead to meaningful oil production from 2022.



Shaw Managed Accounts

Shaw Managed Accounts are a sophisticated investment and reporting platform incorporating advanced features to assist in the management of your overall investment strategy and portfolio.

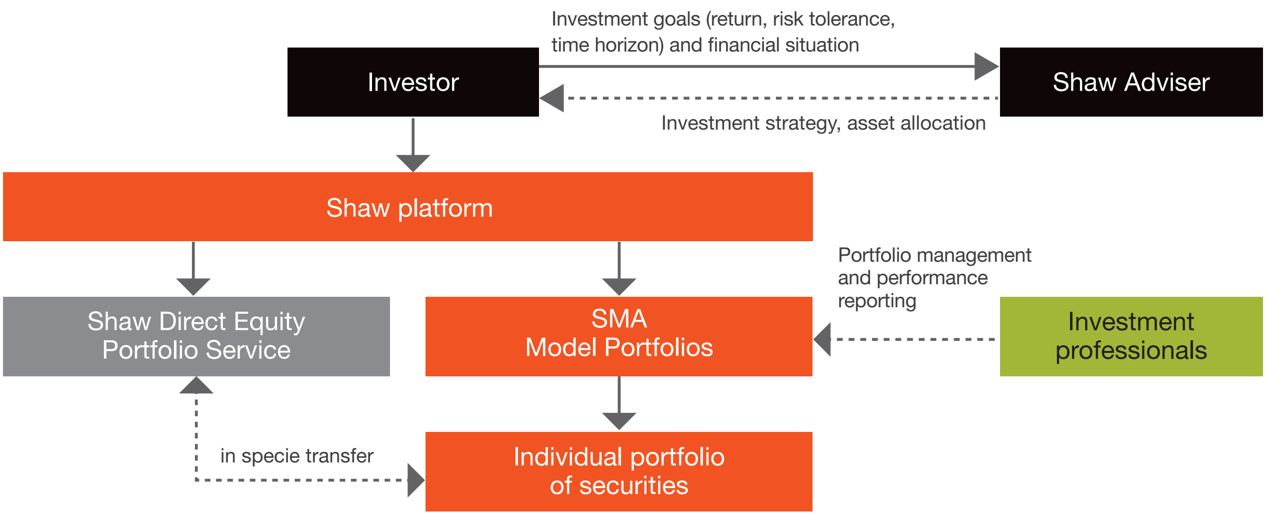
Shaw Managed Accounts are established and offered within the registered managed investment scheme known as the Separately Managed Accounts. Each investor has a separate "account" to which their investments are allocated.

Your account can be constructed by using a range of available investment strategies (referred to as Model Portfolios) that you can select from the investment menu together, with your Shaw and Partners adviser.

Once you decide which Model Portfolios are best suited to your investment needs and objectives, Shaw and Partners will purchase securities to be included in your account so that it reflects the Model Portfolio, or a combination of Model Portfolios.

The Model Portfolios are managed in a disciplined and consistent manner; overseen by a dedicated team of investment professionals with many years of experience in securities markets.

With Shaw Managed Accounts, not only are you the beneficial owner of the portfolio (and shares), you will also enjoy the ownership benefits (such as dividends and franking credits) and have the ability to see the exact make up and market value of the portfolio at any time, via our online service.



Shaw Managed Accounts are positioned between Individually Managed Portfolios and Managed Funds. They offer increased levels of control and transparency, agility and tax optimisation.

Benefits of Shaw Managed Accounts	Professionally managed	Reduced tax administration	Flexibility
Lower trading costs	Portfolio transparency	Performance monitoring	Dividend reinvestment
Powerful online reporting tools	Dividend and franking credit benefits	In specie transfers	No inherited liability
Safe custody of investments	Beneficial ownership	Tax optimisation	Margin Lending capability

Shaw Managed Accounts

Portfolio Performances – June 2018

		1 Mth	3 Mth	6 Mth	1yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	1.58%	4.11%	2.13%	N/A	6.90%
Objective: RBA Cash +3%	Portfolio Objective	0.37%	1.13%	2.25%	N/A	3.73%
Inception: Sep-17	Excess v Objective	1.21%	2.98%	-0.12%	N/A	3.17%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	1.97%	5.37%	3.56%	N/A	10.04%
Objective: RBA Cash +4%	Portfolio Objective	0.45%	1.38%	2.76%	N/A	4.57%
Inception: Sep-17	Excess v Objective	1.51%	3.99%	0.80%	N/A	5.47%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	2.28%	8.00%	6.91%	N/A	17.36%
Objective: RBA Cash +5%	Portfolio Objective	0.53%	1.63%	3.27%	N/A	5.42%
Inception: Sep-17	Excess v Objective	1.75%	6.37%	3.65%	N/A	11.94%

		1 Mth	3 Mth	6 Mth	1yr	Inception
Debt Securities Income Portfolio	**Total Portfolio Return**	0.38%	0.93%	1.02%	N/A	2.10%
	Inception: Sep-17					
Hybrid Income Portfolio	**Total Portfolio Return**	1.68%	2.28%	1.20%	5.20%	7.23%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	**Total Portfolio Return**	2.59%	7.45%	2.66%	N/A	8.82%
	Inception: Sep-17					
Australian Equity (Large Cap) - Growth	**Total Portfolio Return**	3.18%	11.40%	10.45%	N/A	22.41%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	**Total Portfolio Return**	3.66%	9.76%	6.50%	17.56%	15.91%
	Inception: Sep-16					
Australian Equity - Small and Mid Cap	**Total Portfolio Return**	2.50%	7.28%	5.46%	N/A	15.95%
	Inception: Sep-17					
International Equity Portfolio	**Total Portfolio Return**	0.91%	3.99%	3.08%	N/A	12.44%
	Inception: Sep-17					

Speak to your Adviser for more information about Shaw Managed Accounts and to obtain a copy of the Product Disclosure Statement

Australian Large Cap Model Portfolio

The Shaw and Partners Australian Large Cap Model Portfolio rose just shy of 4% in June, resulting in a 15.8% annual return, ahead of the benchmark S&P/ASX 100 index which rose 12.1% for the year. Both the sector overweight and stock selection within the Energy sector drove outperformance. We make small changes this month.

MARKET PERFORMANCE

The Australian share market performed strongly in June, eclipsing the performance of most global equity markets and it is likely that a weaker Australian dollar lead to some buying by offshore investors. Over the course of June, currencies related to world trade – such as the Australian dollar – performed poorly and the $A fell 2.2% against the US dollar. The June quarter return for the ASX100 rose 8.4%, which is the best quarterly return since March 2015.

SECTOR HIGHLIGHTS

The Energy sector lead the market again in June, up 7.7%, followed by Food and Staples Retailing up 7.3% and Utilities and Software both up 5.9%. Lagging was Telecommunication Services (again), down 5.5%. Crude oil was supported by supply disruptions and continued strong demand growth. Financials saw some support as investors responded to attractive valuations, with the sector up 4.1%.

PORTFOLIO POSITIONING

We retain a “pro-inflationary” stance in the portfolio, holding large overweights to Energy and Materials sectors, and underweight the more defensive sectors. Whilst we are positioned for acceleration in inflation and a sell-off in bond markets, we think the latter is still some way off and can see value in both the retail banks and property sectors in light of this view.

GROWTH OR VALUE

The outperformance of growth stocks over value stocks has been dramatic in both Australia and around the world. In the past year, Australian growth stocks have outperformed Australian value stocks (as measured by the MSCI Factor Indices) by 24%, against an historical annual underperformance on average of 3.2%. At a World Index level, growth has outperformed value by 11.6% over the past year versus and historical annual underperformance of 1.9%.

CHANGES

We have held Magellan Financial Group (MFG) for six months since ceasing coverage – our self-imposed limit – and so we remove it from the portfolio. We also take some profits in Oil Search (OSH) following its stellar run and our significant overweight position (we reduce from 5.1% to 3.1%). We add Mirvac (MGR) to the portfolio given the attractive valuation and desire to dial down the portfolio beta, and top up in the large retail banks, Commonwealth (CBA) and Westpac (WBC).

RECOMMENDATION

The Australian Share Market outperformed our expectations in June and was also a top performing market globally, which was a surprise. Valuations continue to look full and the outlook for earnings growth remains challenged, with Analysts looking for 3.9% EPS growth in FY19 and 3.3% in FY20 – hardly exciting. As a result, we continue to dial down the portfolio beta, whilst still maintaining a stance that will do well as inflationary pressures build.

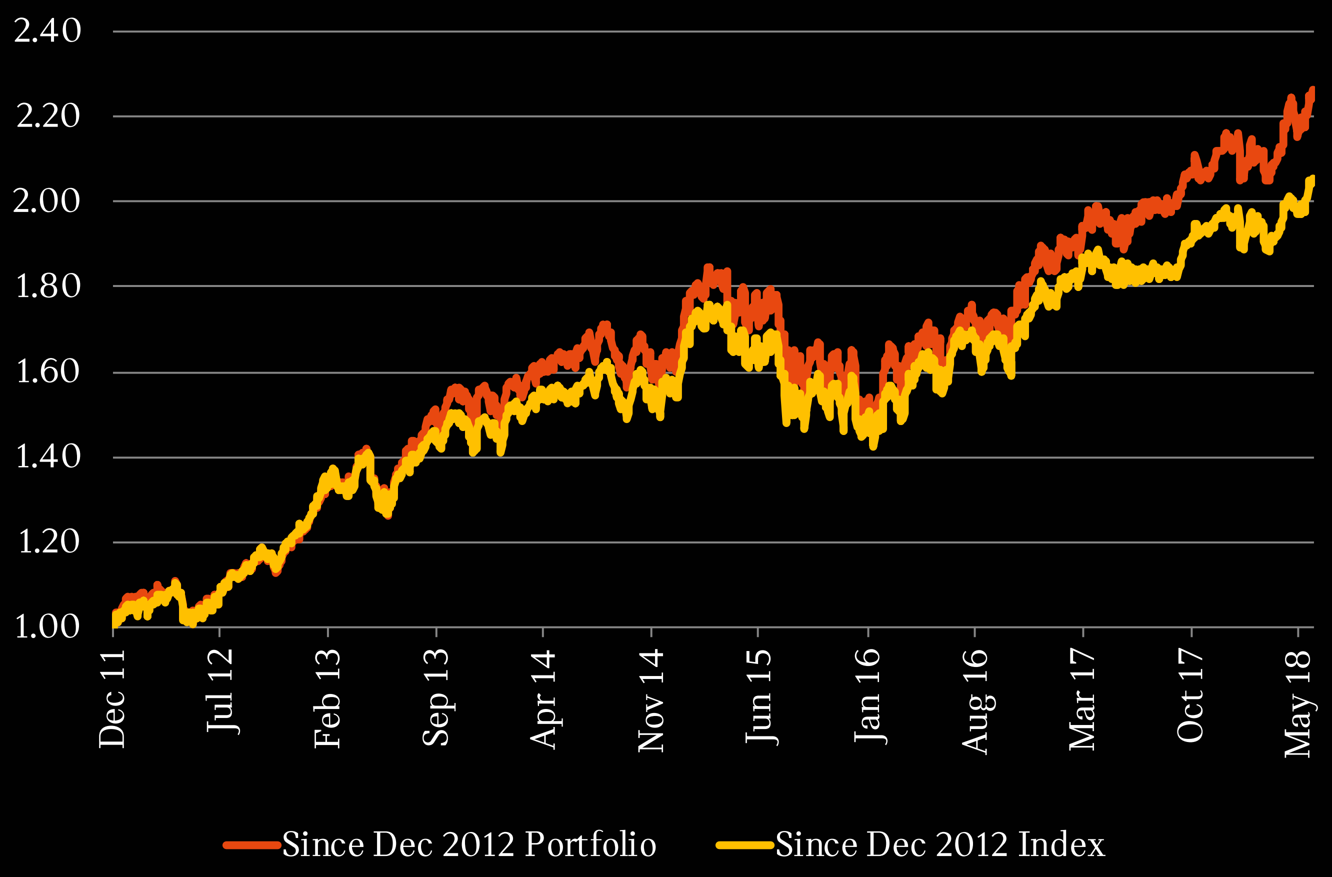
PORTFOLIO ATTRIBUTION

The Australian market was strong in June, rising 3% against a backdrop of rising US interest rates, a falling Australian dollar, weak emerging markets and ongoing tension regarding world trade. A combination of lower bond yields (the key Australian 10 year bond rate fell from 2.6% to 2.5%) and stronger oil prices provided support to the market.

Energy led the way among S&P/ASX 200 sectors this month to take the gold medal this quarter. Rising commodity prices provided tailwinds; the benchmark commodity price index, the S&P GSCI, posted a 6.7% quarterly gain amid an improved outlook for the global economy and the potential impact of China’s proposed tariffs on U.S. energy companies.

Telecommunication services continued to fall; it plunged 5.8% in June to record a whopping 13.7% drop since March. Both Wesfarmers (WES) and Woolworths (WOW) shone during June, up 7-8% each, as investors anticipate an improvement in operating conditions in Australian supermarkets business ahead of a spin-off of Coles.

Portfolio Performance (Accumulation Basis)



Model Portfolio at 30 June 2018

WBC	Westpac Banking Corp	11.16%	FMG	Fortescue Metals Grp	3.41%
CBA	Commonwealth Bank.	10.87%	WES	Wesfarmers Limited	3.36%
BHP	BHP Billiton Limited	8.15%	ILU	Iluka Resources	3.30%
WPL	Woodside Petroleum	6.85%	SCG	Scentre Grp	3.28%
NAB	National Aust. Bank	5.65%	OSH	Oil Search Ltd	3.15%
MQG	Macquarie Group Ltd	5.03%	IFL	IOOF Holdings Ltd	2.37%
RIO	Rio Tinto Limited	4.77%	OZL	OZ Minerals	2.23%
NCM	Newcrest Mining	3.90%	CTX	Caltex Australia	2.04%
SGP	Stockland	3.78%	MGR	Mirvac Group	2.00%
AWC	Alumina Limited	3.69%	BOQ	Bank of Queensland.	1.93%
FLT	Flight Centre Travel	3.64%	VCX	Vicinity Centres	1.88%
SUN	Suncorp Group Ltd	3.55%		**Total**	**100%**

Our Preferred Stocks

Commonwealth Bank of Australia (CBA) provides banking and financial services. It offers banking and financial products and services to retail, small business, corporate and institutional clients.

Westpac Banking Corporation (WBC) provides a broad range of consumer, business and institutional banking and wealth management services through a portfolio of financial services brands and businesses.

BHP (BHP) is an international resources company. The Company's principal business lines are mineral exploration and production, including coal, iron ore, gold, titanium, ferroalloys, nickel and copper concentrate, as well as petroleum exploration, production, and refining. Dually-listed company with BLT LN.

OZ Minerals (OZL) is an Australian based mining company with a focus on copper. The Company owns and operates the Prominent Hill copper-gold mine and the Carrapateena copper-gold project located in South Australia and has a number of equity interests in listed resource companies.

P2P Transport (P2P) is Australia's largest and only vertically integrated fleet operator that provides rental cars (taxis and UBER vehicles) to professional drivers with 8 depots located along Australia's eastern seaboard.

Paragon Care (PGC) engages in supplying medical equipment to the health and aged care markets. Its product categories include balance and mobility, beds, mattresses and furniture, carts and trolleys, consulting room equipment, dermatology and cosmetic medicine, general medical products, consumables, infection control, lighting, materials management, newborn care, operating theatre, and ophthalmic.

Centuria Capital Group (CNI) is a listed diversified funds manager company. It operates through the following segments: Reverse Mortgages, Investment Bonds, Property Funds Management, and Corporate. The company was founded in 1980 and is headquartered in Sydney, Australia.

Stockland (SGP) is a diversified Australian property group. The Group develops and manages Retail centres, Residential Communities and Retirement Living assets with a focus on regional centres and outer metropolitan. Stockland also owns a portfolio of Office and Industrial assets.

Midway Limited (MWY) engages in the production and exploration of hardwood and softwood woodchips. It operates through the following segments: Midway, Queensland Commodity Exports (QCE), South West Fibre (SWF) and a 25% stake in ADDCO.

Bingo Industries (BIN) operates as a waste management and recycling company. The Company offers front and rear lift commercial waste bins and compactors to handle waste such as general waste, paper, cardboard, and co-mingled recyclables, as well as provides solutions for liquid waste such as oily waters, grease traps, wash waters, and chemicals.

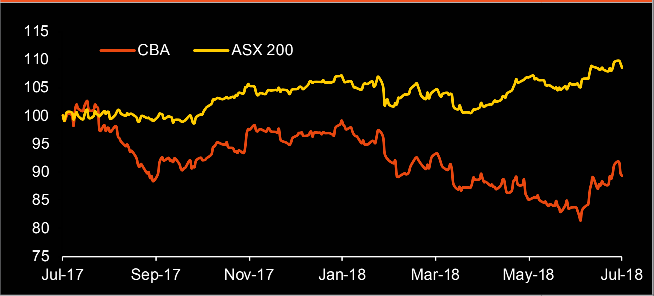
Axsesstoday (AXL) provides equipment finance solutions. The Company offers hospitality, catering, material handing, transportation, and logistics equipment leasing services. Axsesstoday serves customers in Australia.

Capitol Health (CAJ) Is a leading provider of diagnostic imaging and related services with Australia. CAJ operates primarily across the geographies of Victoria and Tasmania, where the company currently offers services through 48 clinics.

Commonwealth Bank (CBA)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$74.63
Target Price	$78.00
Analyst	Brett Le Mesurier

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	8.7%	2.4%	-9.1%

* Relative Performance is compared to the S&P/ASX 200 Index

- Revenue: revenue is forecasted to increase by 3% from FY18 to FY19 as a result of 4% credit growth and 2 bps NIM decline. 3% growth in non-interest income is forecast but no adjustment for the IPO of CFSGAM has been made. The non-interest income growth forecast reflects higher earnings in the general insurance and the retained funds management business.
- Expenses: CBA's FY17 expenses included an additional $393m associated with software write-offs which were inspired by the gain of the Visa share sale. CBA's FY18F expenses include $700m for AUSTRAC and $400m for regulatory, compliance and remediation program costs. Such costs should reduce in FY19 so a decline in expenses from FY18 to FY19 is forecast.
- Capital: From 1/7/18, CBA has a 26 bps reduction in the CET1 ratio due to the introduction of AASB9. The completion of the sale of the life insurance business in 1H19 should add 65 bps to CET1 which should give CBA a CET1 ratio of 10.8% at 31/12/18. This should put it in the position to consider capital returns. Our forecast includes an $800M share buyback in 2H19 and $2B in FY20. The IPO of CFSGAM would add to this.

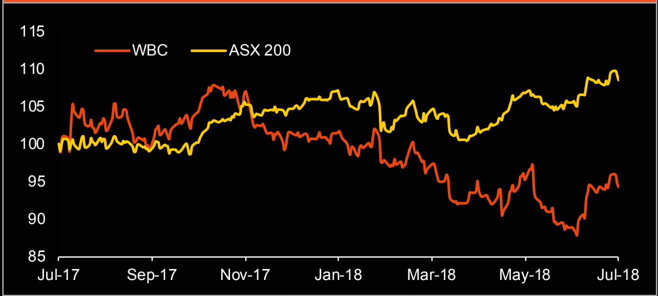
Forecasts

YE 30 Jun	FY17A	FY18E	FY19E
Earnings cps	574.3	538.2	588.1
Dividends (AUD) cps	429.0	412.9	441.1
PE x	14.4	13.9	12.7
Yield %	5.2%	5.5%	5.9%
Franking %	100%	100%	100%

Westpac Banking (WBC)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$29.53
Target Price	$32.00
Analyst	Brett Le Mesurier

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.9%	2.3%	-4.2%

* Relative Performance is compared to the S&P/ASX 200 Index

- Bank share prices assume a terminal credit growth rate that's significantly below experience.
- Banks have faced higher capital requirements, lengthening of their wholesale funding maturities, higher liquidity requirements and increasing use of mortgage brokers by their customers over the past 5 years. Against this backdrop, they have increased their Australian loan to deposit spreads and maintained a rate of growth which is close to system. They have pricing power on loans and deposits, but, this power wanes as the size of the client increases. ANZ can offer the best testimony on this point; and a continued fall in credit growth is likely to lead to a fall in interest rates which would support housing prices and improve credit growth.
- Revenue: WBC's revenue is forecast to increase by 2% from FY18 to FY19. This is a product of 4% loan growth, 5 bps NIM decline and 2% growth in non-interest income.
- Expenses: With 2% forecast revenue growth, WBC will likely target no expense growth from FY18 to FY19 but this will probably be difficult to achieve.
- Capital: WBC will probably have a CET1 ratio slightly above the 10.5% benchmark at 30/9/19. Its forecast return on NTA is 16% in FY20 and its dividend payout ratio is 75% so it can grow loans and RWA at 4% p.a. without the use of its DRP.

Forecasts

YE 30 Sept	FY17A	FY18E	FY19E
Earnings cps	239.7	249.4	253.7
Dividends (AUD) cps	188.0	188.5	190.3
PE x	13.3	11.8	11.6
Yield %	5.9%	6.4%	6.4%
Franking %	100%	100%	100%

BHP (BHP)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$33.37
Target Price	$35.00
Analyst	Peter O'Connor

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.2%	14.3%	35.8%

* Relative Performance is compared to the S&P/ASX 200 Index

- "It won't touch the sides …" – This comment is right up there with the best – and most shareholder friendly - of CY2018. This one was delivered by BHP's eager to please CFO, Peter Beaven, during an intimate sell-side soiree in late February. The substance and context = BHP shareholders are cum a very BIG return of cash once BHP wraps up the shale divestment. Whether via a buy back – on or off market – or a special dividend the numbers will be large which net of some balance sheet deleveraging and allocation of project capex could be close to the total divestment proceeds i.e. closer to the rumoured ~US$10bn rather than $5bn.
- Divestment update - Shale: 1st round bids in – BHP Billiton Ltd. has received first-round bids for its U.S. shale portfolio with "indicative bids ranging in value from $US7bn – $US9bn, according to trade/media channels.
- Round 2 in July - 2nd round bids are likely in early July around 1 month away.
- Deal size – Whilst the US$7-9bn headline number bandied about from Round 1 bidding probably underwhelms vs market expectations/hopes; we note that bids typically firm as the process progresses to final, binding bids i.e. 1st bids get you in the process (your hat is in the ring) but bidders will keep the "powder dry" until the competitive and contestability builds. We still expect a total divestment consideration of US$10 or greater.
- Completion in FY19 – Transactions could be announced by the end of the year.

Forecasts			
30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	126.6	173.8	147.8
Dividends (AUD) cps	106.1	134.5	99.8
PE x	14.1	14.2	16.7
Yield %	4.5%	4.2%	3.0%
Franking %	100%	100%	100%

OZ Minerals (OZL)

Recommendation	Buy
Risk	High
Share Price (as at 13 July 2018)	$9.19
Target Price	$13.00
Analyst	Peter O'Connor

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-15.5%	-0.3%	14.7%

* Relative Performance is compared to the S&P/ASX 200 Index

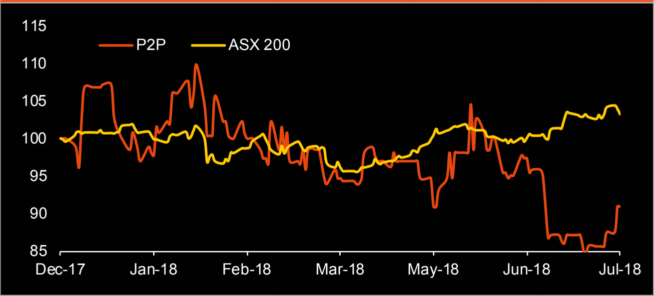
- OZL has now established another growth option having essentially completed the A$418m (cash and scrip) acquisition of junior copper miner, Avanco.
- So what does OZL get? Province. From a high level perspective this deal is more than just the underlying assets (outlined below) but it is the stepping off point into a globally significant copper province/precinct that is similar to current operations in South Australia.
- Avanco's portfolio consists of four assets (three 100% owned, one with an option to acquire) in various life cycle stages from early stage exploration through development and operation. Assets are located within two prominent Brazilian mining jurisdictions.
- Copper production and free cash flow (current) 'Antas' is only of modest scale, a 0.8Mt mill capacity facility producing 14kt Cu and 11koz Au in CY2017 (AISC US$1.94/lb Cu).
- Copper growth projects – The most advanced development asset 'Pedra Branca' is similarly modest with the PFS (May 2017) indicating a 1.2Mtpa operation will produce 24ktpa Cu and 16kozpa Au over LOM at C1 US$1.30/lb.
- Gold resource/mine potential – Resource from the early stage 'CentroGold' development opportunity with indications of ~2.2 moz resource to support a ~100koz pa operation. A lookalike asset in Australia would likely trade at ~$100-200m
- Self-funding?! On face value the deal looks to be self-funding with the free cash flow from Antas (1Q18 annualised = ~$15-20m) covering the opportunity interest on deal proceeds. Plus the Centro Gold package could deliver either FCF or a divestment opportunity.

Forecasts			
31 Dec-18	FY17A	FY18E	FY19E
Earnings cps	63.4	57.6	46.8
Dividends (AUD) cps	20.0	20.0	20.0
PE x	14.4	15.9	19.6
Yield %	2.2%	2.2%	2.2%
Franking %	100%	100%	100%

P2P Transport (P2P)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$1.21
Target Price	$1.80
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.3%	-5.5%	N/A

* Relative Performance is compared to the S&P/ASX 200 Index

- First movers win and P2P is the first Australian company to emulate the vertically integrated fleet model that was very successful in offshore markets. P2P is the largest vertically integrated point-to point (ptp) fleet operator (taxis, UBER cars, hire cars) in Australia. It listed on the ASX in December raising $30.0m to continue its vertical and horizontal growth. There is substantial evidence suggesting it will lead to very strong market share gains, high ROI's and very significant returns to investors.
- P2P recently pushed further towards a fully vertically integrated model with the acquisition of Black and White Cabs (BWC). BWC is a radio network operator servicing Brisbane and Perth with tablet based dispatch technology for vehicles, and a passenger booking app that allows fixed price fares and discounted bookings. The network services 1,400 vehicles other than P2P's own Brisbane fleet. P2P is also developing a digital advertising initiative which could see a significant step change in earnings realised relatively quickly.
- Shaw and Partners see P2P as an industry consolidation opportunity that presents significant acquisition upside and significant organic growth. The 3Q18 cash flow statement was particularly important given the light it sheds on not only the cash growth P2P is currently achieving but also the significant upside potential of the business model over future years.

Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	0.1	8.1	16.9
Dividends (AUD) cps	0.0	0.0	8.1
PE x	0.0	14.9	7.2
Yield %	0.0%	0.0%	6.7%
Franking %	100%	100%	100%

Paragon Care (PGC)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$0.82
Target Price	$1.15
Analyst	Darren Vincent

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.1%	13.2%	1.2%

* Relative Performance is compared to the S&P/ASX 200 Index

- PGC supplies hospitals and aged care service providers with consumables, capital equipment and services. The footprint now covers most of Australia and following the acquisition of REM, PGC is the Largest Independent Specialist Medical Distributor in New Zealand.
- The profile is in our view a stand out relative to the multiple at which the stock trades. The successful transformation of PGC brought about by the recent capital raise and acquisitions are now increasingly clear. It now has a larger national footprint which also extends into New Zealand. It is also building out a substantial product offering making it more relevant to a wider group of clients. Balance sheet improvement is notable and it is heading towards a more relevant market capitalistion. Businesses with these attributes, as shown by the recent acquisition of LifeHealthcare Group (LHC-AU not covered) at a PE multiple of 16.9x FY18, are worth considerably more than PGCs capitalisation which reflects a FY19 PE of 10.7x, BUY.
- Recent reiteration of FY18 guidance underpins confidence into FY19. PGC re-confirmed guidance to EBITDA of $18-19m for FY18 in May and advised that it had settled seven of its nine acquisitions with the last two due to settle during 1Q19. The guidance was an important message to the market given the 2H bias was larger this year than it had been in the past.
- More importantly the confidence it delivers goes beyond FY18, it tells the market that PGCs FY18 pro forma EBITDA forecast (ie had all 9 acquisitions, excl REM, been owned for the full 12 months) before synergies, of $32m is a reliable basis from which to forecast FY19. Our FY19F EBITDA of $36m, which includes REM and room for integration/systems improvements, puts PGC on a PE of 10.7x.

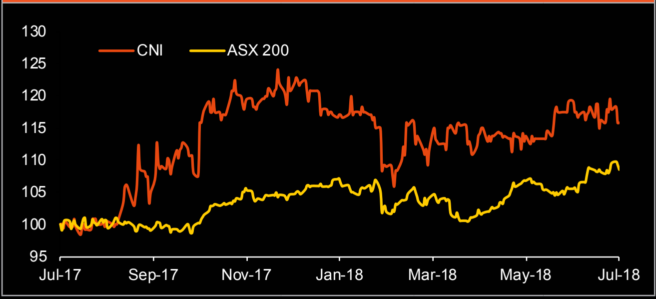
Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	6.4	5.7	7.5
Dividends (AUD) cps	4.1	3.5	4.5
PE x	12.0	14.3	11.0
Yield %	5.4%	4.2%	5.5%
Franking %	100%	100%	100%

Centuria Capital (CNI)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$1.42
Target Price	$1.59
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.4%	2.9%	17.4%

* Relative Performance is compared to the S&P/ASX 200 Index

- FY18 earnings will benefit from a strong performance fee of ~$26m realised on the sale of its 10 Spring St, Sydney asset. Stripping this out, we still expect attractive growth in "recurring earnings" in FY19.
- In part, this is due to continued growth in external assets under management (AUM). Over FY18 alone, AUM has grown to $4.7b from $3.6b as at 30 Jun 2017. This AUM growth, along with cornerstone investments in its managed Centuria Metropolitan REIT (CMA) and Centuria Industrial REIT (CIP) funds, as well as a strategic stake in listed REIT Propertylink Group (PLG) should see continued growth CNI's annuity style income.
- CNI's strong retail investor base continues to support its unlisted Real Estate funds platform. In FY18, CNI launched ~$250m of new unlisted fund initiatives, with all offerings oversubscribed. This has facilitated both one off establishment fees as well as ongoing annuity income from management fees.
- While not a yield play, CNI offers a forecast FY19 DPS yield of 6.2% based on an estimated 76% payout ratio. Again, we see CNI as being able to keep generating DPS growth in FY19 even if (for whatever reason) earnings fall below our expectations.

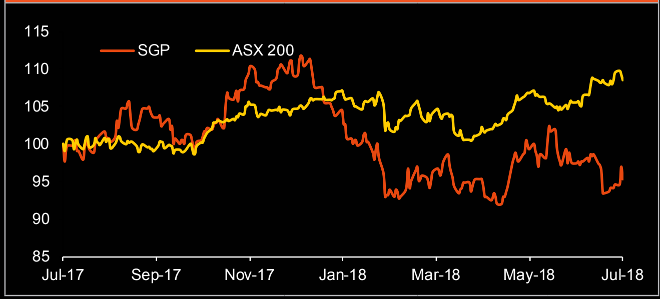
Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	10.3	16.1	11.3
Dividends (AUD) cps	7.5	8.2	8.5
PE x	12.0	8.8	12.6
Yield %	6.1%	5.8%	6.0%
Franking %	40%	40%	40%

Stockland (SGP)

Recommendation	Buy
Risk	Low
Share Price (as at 13 July 2018)	$4.13
Target Price	$4.70
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.0%	3.2%	-2.6%

* Relative Performance is compared to the S&P/ASX 200 Index

- While there is no doubt SGP is suffering from negative sentiment surrounding the Retail, Residential and Retirement Living sectors, we remain comfortable with its ability to keep generating earnings growth over our forecast period.
- Its Retail portfolio remains close to 100% full, and improved retail sales reported in the March 2018 quarter give us comfort that SGP can keep delivering growth in its commercial portfolio.
- The Residential business has contract on hand of 6,367 lots as at 31 Mar 18 which gives solid read-through for SGP's FY19 outlook. It has minimal exposure to the "foreign buyer", with ~75% of buyers typically owner occupiers and 25% investors. We suggest cancellations would have to increase significantly relative to historic averages for SGP residential divisional earnings to suffer meaningfully in FY19 – noting that we conservatively already assumed a lower divisional result relative to FY18 in our estimates.
- Its attractive forecast FY19 DPS yield of ~6.9% is based on an estimated 75% payout of funds from operations (FFO) per share. We suggest that even if earnings come in lower than our forecast growth of ~4.2% in FY19, SGP should be able to hit our DPS forecast. In a bear case scenario where earnings are flat relative to FY18, a forecast yield of 6.6% would still be attractive in our view.
- At current pricing ($4.13), SGP is trading at a ~4% discount to last stated NTA of $4.18 meaning the market is (1) not only discounting the value of its Commercial portfolio, but (2) also suggesting it cannot sell its Residential land at a profit. Given that inventory is held at the lower of cost or realisable value, not current market value, this seems a bit incongruous to us.

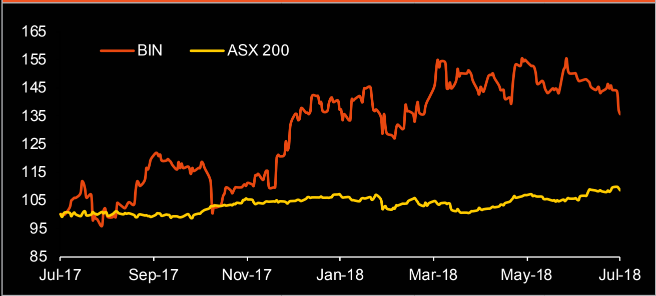
Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	30.5	30.6	32.1
Dividends (AUD) cps	25.5	26.5	27.6
PE x	14.3	13.5	12.9
Yield %	5.8%	6.4%	6.7%
Franking %	0%	0%	0%

Bingo Industries (BIN)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$2.57
Target Price	$2.90
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-10.0%	-7.0%	35.0%

* Relative Performance is compared to the S&P/ASX 200 Index

- The appointment of the ex-Chairman & CEO of the NSW EPA is a major positive, given BIN are currently in the midst of upgrading 11 of their 14 facilities. Capacity uplift remains on track, with 3 of the 11 redevelopment projects already delivered.
- Most significant takeaway is that the 2H18 and beyond will generate a positively widening 'jaws' impact – that is, BIN (1) implemented a two-pronged price increase of 3-5% in Bingo Bins, and ~5% in gate fees (both Shaw and Partners estimates) from 1-Feb-18 to offset rising compliance, regulatory, tipping, fuel, tolls, and power costs, and this will have a positive impact, in addition to (2) a stabilisation of employee costs, which we now expect to moderate to around +10%. Both these developments will impact positively in 2H18.
- Reiterate FY18 EBITDA of $93m a positive – plus a targeted increase in waste capacity from 1.7mt pa to 3.4mt by FY20.
- BIN will also be a major beneficiary of any QLD Levy implementation.
- Balance Sheet robust despite a number of acquisitions and capacity expansions with net debt of $73.0m or 0.8x leverage (net debt / EBITDA) – and still on target for $135m or 1.5x by end FY18, below the 1.5x to 2.0x target.
- 18x FY19 PE for >25% EPS growth in FY19 and FY20 is cheap. In short, the twin macro themes of buoyant infrastructure spend and rising recycling demand put BIN in an enviable position to grow.

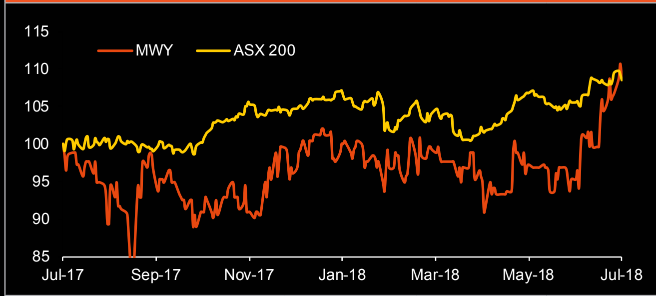
Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	9.2	11.0	13.7
Dividends (AUD) cps	0.0	4.7	6.0
PE x	20.2	23.5	18.8
Yield %	0.0%	1.8%	2.3%
Franking %	0%	100%	100%

Midway Ltd (MWY)

Recommendation	Buy
Risk	High
Share Price (as at 13 July 2018)	$2.74
Target Price	$3.00
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	13.7%	14.2%	8.3%

* Relative Performance is compared to the S&P/ASX 200 Index

- Demand/supply imbalance now favourable as industry forecaster RISI forecasts higher prices for Australian E. globulus woodchip exports to Japan over the next 5 years and MWY has just secured a significant increase of 8% in the hardwood woodchip export price to Japan for CY18 to $US164.50 per Bone Dry Tonne back-dated to 1 January 2018 – this rise follows similar price increases negotiated with MWY's Chinese customers in 1H18. Japanese sales, representing ~35% of total MWY export woodchip sales, reflect not only the strong market price for hardwood pulp globally but continued growth in demand from China and tightening of fibre supply in the Asia-Pacific region.
- Australia's largest vertically integrated producer of high quality woodchips with total export volumes >3.0mt p.a.
- Strengths: 1. Conservative exposure to FX (short term hedging); 2. Security of timber supply out to 2025 with contracts ranging from 1-10 years; 3. Continued focus on operational efficiency; and 4. Strong addressable markets, driven by China and Japan (biomass) demand rising.
- Trades at a significant 40-70% discount to domestically exposed agricultural peers – the majority of MWY's closest Australian peers are on average FY19 PEs of 18x (median 15x; MWY 10x) and EV/EBITDA of 10x (MWY 6x).
- MWY is an attractive Australian story with a large addressable market, impressive forecasted 5-year EBITDA CAGR of 13%, double-digit EPS and profit growth for each of the next 2 years, increasing free cash flow and high returns (ROIC >25%/ROE >15%) despite being in a fragmented and highly capital intensive industry.

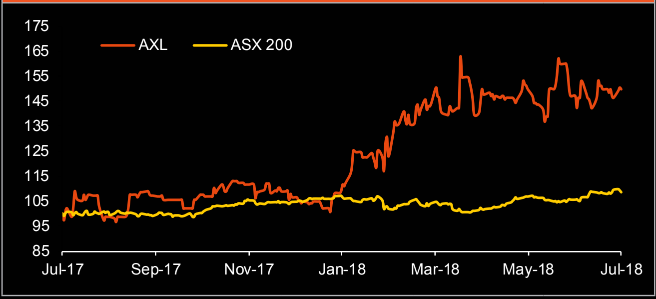
Forecasts

30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	19.9	22.0	24.6
Dividends (AUD) cps	18.0	18.0	19.0
PE x	12.6	12.4	11.2
Yield %	7.2%	6.6%	6.9%
Franking %	100%	100%	100%

Axsesstoday (AXL)

Recommendation	Buy
Risk	High
Share Price (as at 13 July 2018)	$2.18
Target Price	$2.86
Analyst	Jonathon Higgins

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	1.9%	0.0%	49.7%

* Relative Performance is compared to the S&P/ASX 200 Index

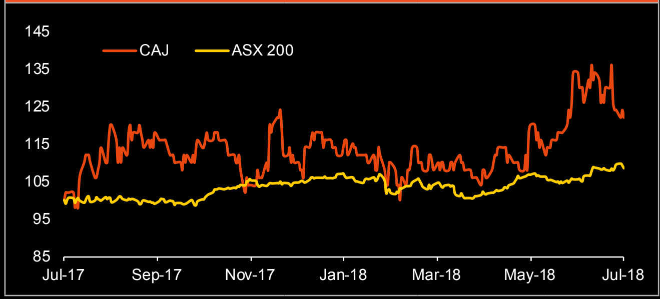
- Axsesstoday (ASX: AXL) is a specialist provider of equipment financing solutions and leases to SME businesses predominantly within the Australian marketplace. Representing access to the only ASX listed fintech with lease and equipment exposure, AXL brings a best in breed product with applications at the point of sale in minutes, versus incumbent solutions in hours and days.
- AXL has continued its strong momentum into FY19 with recently announced securitisation and funding deals that are expected to materially decrease the costs of funding for the business and underwrite strong receivables book growth.
- Although starting to appear on the market's exposure radar, we see further material upside to the current share price as the company continues its positive trajectory since listing and a track record of exceeding expectations.
- AXL has three essential components to engender a higher market multiple and these include:
  1) Receivables book with long duration, recurring earnings and underwritten growth profile;
  2) Operating leverage across a fin-tech platform exceeding incumbents offering products; and
  3) Tailwinds from a structural shift from mainstream lenders to the alternative finance sector.

Forecasts			
30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	10.6	13.3	18.0
Dividends (AUD) cps	2.2	6.1	7.1
PE x	13.4	16.4	12.1
Yield %	1.5%	2.8%	3.3%
Franking %	100%	100%	100%

Capitol Health (CAJ)

Recommendation	Buy
Risk	Medium
Share Price (as at 13 July 2018)	$0.30
Target Price	$0.41
Analyst	Jonathon Higgins

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-9.0%	13.0%	22.0%

* Relative Performance is compared to the S&P/ASX 200 Index

- Capitol Health (ASX: CAJ) is one of the leading providers of diagnostic imaging services within the Australian marketplace providing a range of services including, X-Ray, MRI's, Ultrasounds and other diagnostic tests across the Victorian, Tasmanian and Western Australian regions.
- Investors are continuing to bear the fruit from Capitol Health's recapitalisation and new management team and the company is currently executing on an organic greenfields clinic expansion and inorganic bolt on clinic acquisitions strategy which should see strong EPS growth over the medium term.
- Industry tailwinds remain accommodative within the diagnostics sector with 5%+ industry growth in service rates and a positive demand outlook for services, being driven by an ageing population, population growth, increasing disposable incomes and access to care for Australian patients.
- The hostile takeover bid for IDX seems like a distant memory now and the stock price in our opinion is still not fully representative of the opportunity and flexibility of CAJ as a real force in growing organically and consolidating an industry that's growing at more than 2x GDP. There's a real optionality in CAJ's dry powder, global investments (Enlitic AI technology and China CITIC JV) and an increasingly diversified clinic footprint, priced at a 15% discount to health and medical peers.

Forecasts			
30 Jun-18	FY17A	FY18E	FY19E
Earnings cps	0.9	1.5	2.1
Dividends (AUD) cps	0.0	0.7	0.9
PE x	29.2	20.4	14.7
Yield %	0.0%	2.2%	3.1%
Franking %	0%	100%	100%

RECOMMENDATION DEFINITIONS

RATING CLASSIFICATION

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

DISCLAIMER

Shaw and Partners Limited ABN 24 003 221 583 ("Shaw") is a participant of ASX Limited, Chi-X Australia Pty Limited and holder of Australian Financial Services licence number 236048.

ANALYST CERTIFICATION

The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. The Research Analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report.

DISCLAIMER

This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ("personal circumstances"). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client advisor. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence. This publication has been prepared in accordance with Shaw's Research Policy. A copy of the Policy can be found at www.shawandpartners.com.au.

DISCLOSURE

Shaw will charge commission in relation to client transactions in financial products and Shaw client advisors will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously, or may in the future earn, fees and commission from dealing in the Company's financial products.

RISK STATEMENT

Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

ShawandPartners

Sydney | Head Office

Level 15, 60 Castlereagh Street
Sydney NSW 2000

Telephone: +61 2 9238 1238
Toll Free: 1800 636 625

Melbourne

Level 20, 90 Collins Street
Melbourne VIC 3000

Telephone: +61 3 9268 1000
Toll Free: 1800 150 009

Brisbane

Level 28, 111 Eagle Street
Brisbane QLD 4000

Telephone: +61 7 3036 2500
Toll Free: 1800 463 972

Adelaide

Level 23, 91 King William Street
Adelaide SA 5000

Telephone: +61 8 7109 6000
Toll Free: 1800 636 625

Perth

Level 14, 197 St Georges Terrace
Perth WA 6000

Telephone: +61 8 6188 7643
Toll Free: 1800 636 625

Canberra

Level 7, 54 Marcus Clarke Street
Canberra ACT 2600

Telephone: +61 2 6113 5300
Toll Free: 1800 636 625