ShawandPartners
an EFG company

The Research Monitor

December Quarter 2019

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Q3 2019 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, recorded another positive quarter following in the footsteps of a 7.5% in price terms (8.0% including dividends) return in the June quarter. The September quarter saw returns of 1.2% in price terms and 2.6% including dividends, making up in excess of 20% accumulation returns since the start of the year.

The Australian market was more volatile in the September quarter than in previous periods this year, being up 2.96% in July, down 2.97% in August before recovering to be up 1.34% in September.

Bond yields continued to fall to record lows, with the Australian 10-year bond ending the quarter at 1.00%, down from 1.32% at the end of March and having been as low as 0.875% at one stage in August - and a full 1.3% below where they were at the start of the year.

Among Australian equity sectors, Energy, Materials and Capital Goods all posted negative returns during the quarter. Leading the charge to the upside were the Retail and Food and Staples Retailing sectors in somewhat of a triumph of the optimists over the realists due to expectations of an improvement in Australian consumer spending following a cocktail of stimuli including a lower dollar, higher export prices, tax cuts, lower interest rates and easier credit.

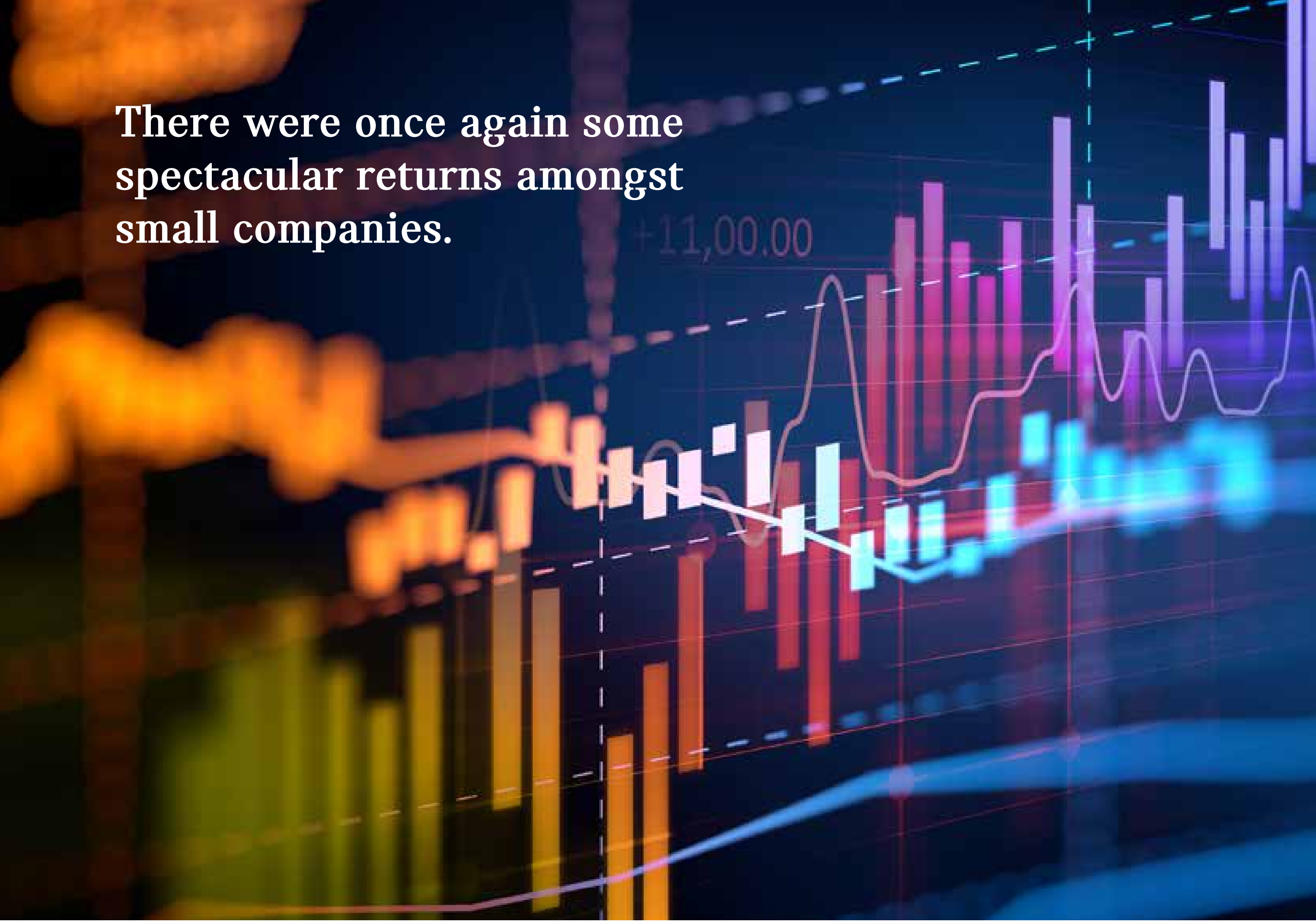
Telecommunication Services was a poor performer for the quarter, falling 8.6% in price terms, as the Australian Competition and Consumer Commission threatens to derail the proposed TPG Telecommunications merger. **The four sectors to post negative returns comprise 28% of the Australian share market and collectively detracted 1.2% from returns.**

Given the continued fall in 10-year government bond yields and also the easing stance of the Reserve Bank, it was not surprising to see those stocks considered as “bond proxies” continue to do well.

Food and Staples Retailing stocks that are exposed to consumer non-discretionary spending were the best performers (Woolworths (WOW) up 12.2% and Coles (COL) up 15.4%), whereas those companies exposed to Energy prices did poorest (Woodside Petroleum (WPL) down 10.9% and Worley Parsons (WOR) down 11.6%).

The largest component of the S&P/ASX 300 Index is the Banks Sector (23.1% index weight), which rose 2.2% in price terms and 3.3% including dividends, building on the strong relative returns in the June quarter and extending the period over which banks have outperformed the index. **Most of this performance came immediately post the Federal Election outcome as both clarity around the treatment of franking credits** and a move by bank regulator APRA to lower the stress test interest rates on loans signalled more accommodative macroprudential controls on credit growth.

	Sector	Performance	Market Cap
↗	Food & Staples Retailing	15.2%	69,141
↗	Retailing	14.8%	64,252
↗	Pharmaceuticals, Biotech & Life Sciences	8.9%	110,012
↗	Media & Entertainment	7.8%	17,021
↗	Software & Services	5.8%	47,457
↗	Food Beverage & Tobacco	5.4%	38,016
↗	Health Care Equipment & Services	4.2%	57,473
↗	Diversified Financials	4.0%	91,506
↗	Transportation	3.5%	88,938
↗	Banks	3.3%	424,577
↗	Consumer Services	3.2%	52,983
↗	Insurance	2.7%	68,862
↗	Utilities	1.6%	34,015
↗	Real Estate	1.1%	131,431
↗	Energy	0.1%	92,942
↘	Commercial & Professional Services	-2.4%	44,640
↘	Materials	-3.5%	319,421
↘	Capital Goods	-6.0%	14,832
↘	Telecommunication Services	-6.8%	48,781



There were once again some spectacular returns amongst small companies.

The second largest sector, Materials (17.4% index weight) fell 3.5% including dividends, with bellwether BHP down 10.8%.

There were dramatically different outcomes in the September quarter between two stocks which were often compared against each other, Lend Lease (LLC) and CIMIC (CIM). LLC rose 35.1% in the quarter as investors stopped assuming the worst from the company's construction and engineering business, whereas with CIMIC the opposite took place. Investors became increasingly nervous about the profitability of the company's engineering work and marked the stock down 29.8%.

There were once again some spectacular returns amongst small companies, even as the broader Small Ordinaries Index rose only 3.11%, with gold miner Dacian Gold (DCN) up 160% and healthcare products distributor BWX Group (BWX) up over 110% in three months!

Global equity markets performed somewhat more modestly than Australian markets in the September quarter, with the MSCI World ex Australia Index in Australian dollars up only 0.6%. World share markets also moved in an "up-down-up" pattern in the quarter as the market oscillated between focusing on lower interest rates and then on trade war between the United States and China.

Bond markets rallied on the back of lower long-term interest rates with the Bloomberg AusBond Composite (0+Y) index up 2.0% and Bank Bills returning 0.3%.

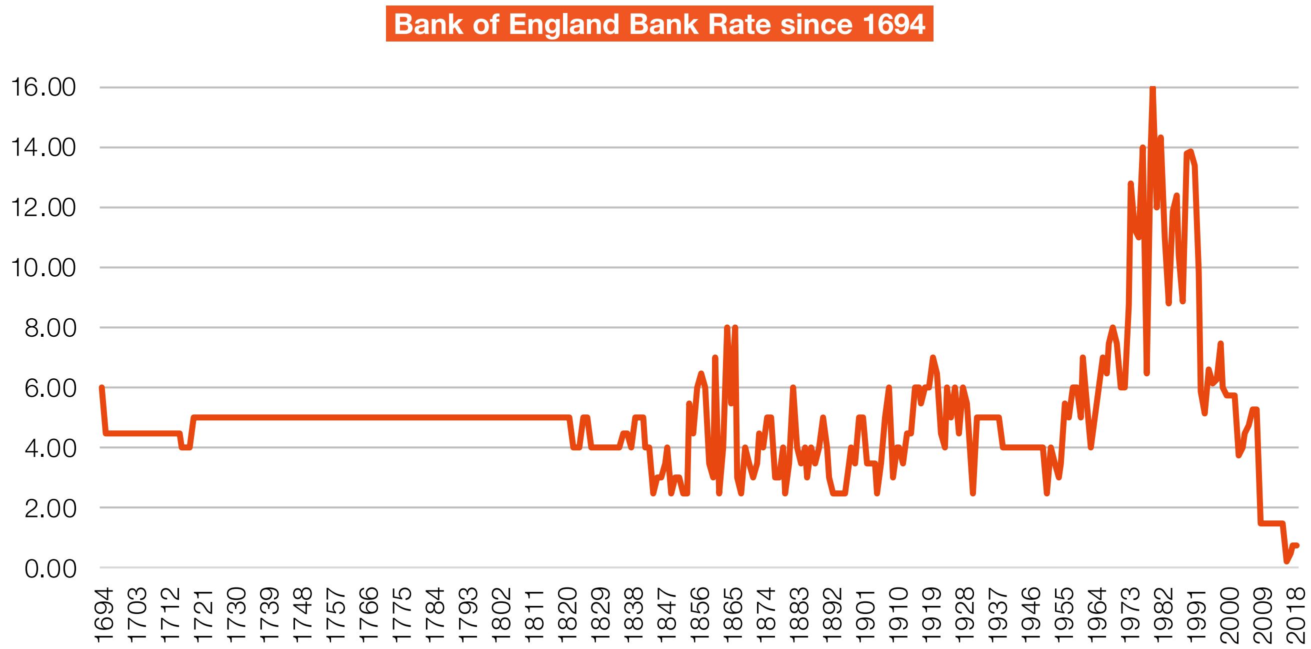
The spread between 90-day bank bills and cash remained at negative 5 points at the end of September – a strong sign of easing credit conditions and expectations that the RBA will continue to cut rates. **Long term interest rates in Australia hit a record low of 0.875%.**

Market measures of risk or volatility, rose sharply in August and have subsequently retreated to June levels, suggesting investors have become less uncomfortable with the likely path of inflation, interest rates, growth and trade.

Martin Crabb

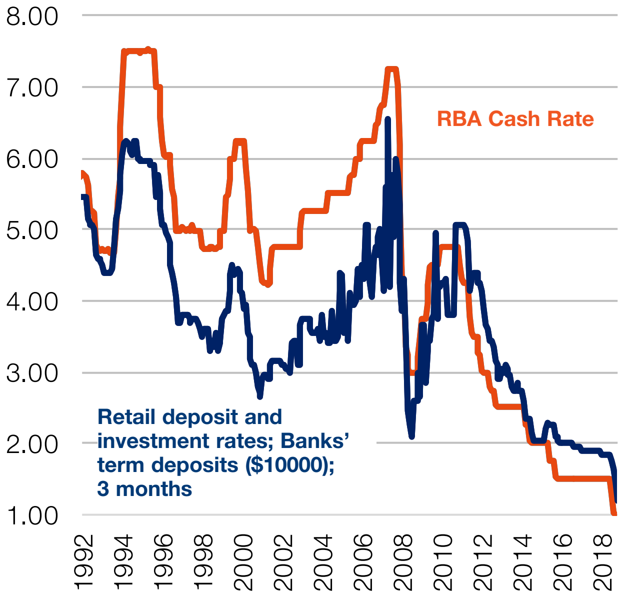
Chief Investment Officer

Investing in a low interest rate environment



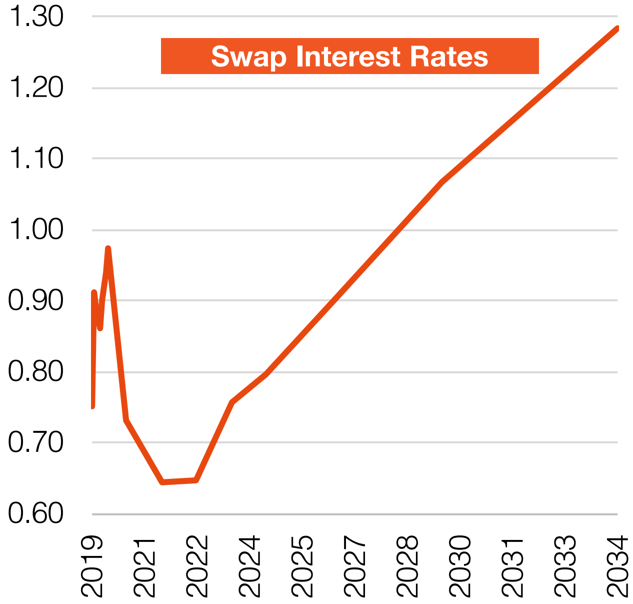
Bank of England Bank Rate since 1694

Investors need to face a harsh truth: “Carry” (another name for the cash yield) is dead. As this chart from the Bank of England shows, interest rates are the lowest in history and markets are suggesting that they will stay low for quite a while.



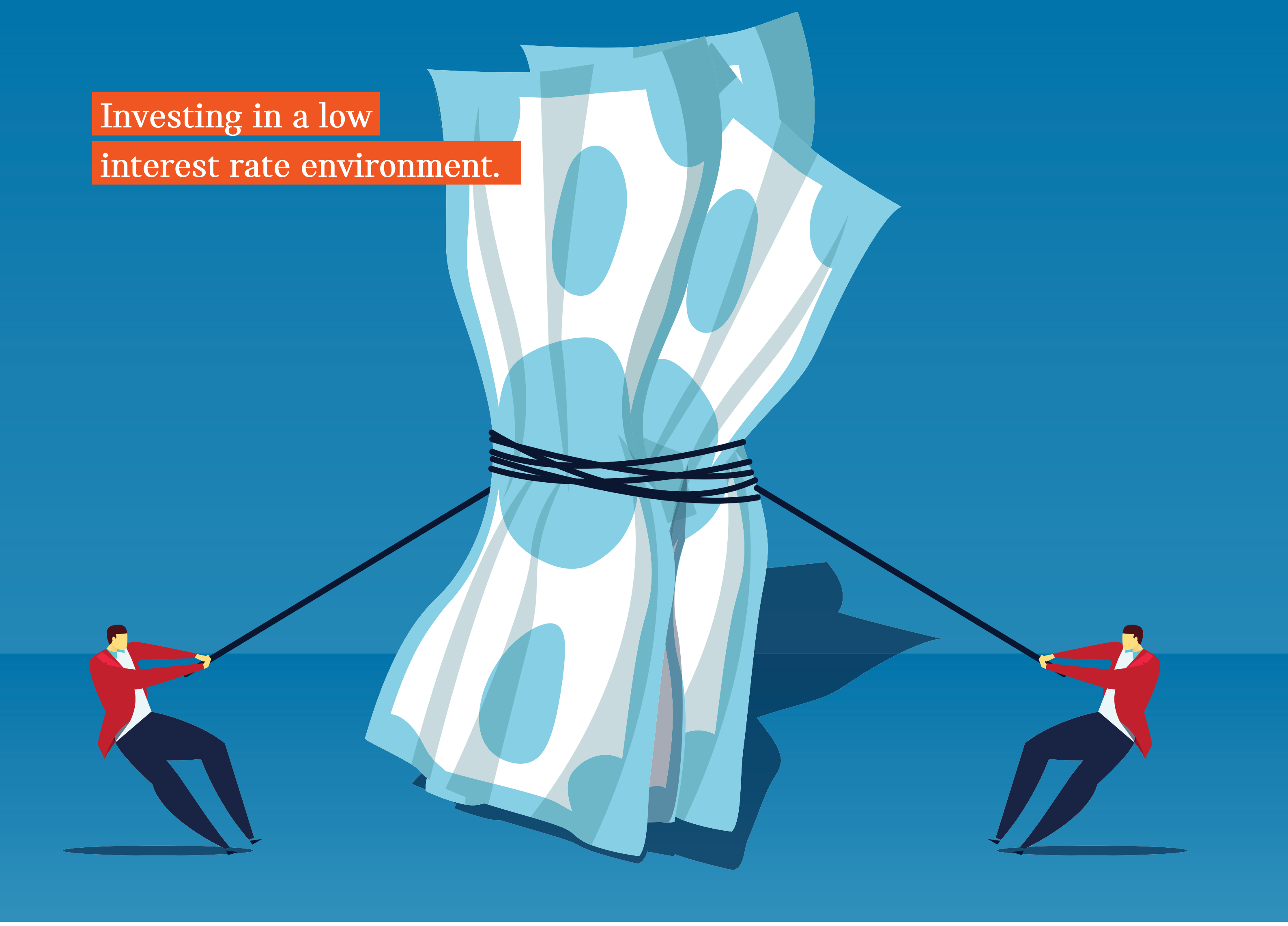
Typically, investors try to do better than cash by investing in “duration” – or having your money tied up for a period of time. In recent years, specifically since the GFC, term deposits have offered a return in excess of the cash rate. But historically, this is not the case.

With term deposit rates likely to fall below 1%, perhaps investors can invest for longer periods of several years and pick up some interest that way? Unfortunately not, as the longest tradeable government bond of ten year’s duration is also yielding less than 1%. Even as far as fifteen years from now, interest rates are only just above 1%.



Swap Interest Rates

Investing in a low interest rate environment.



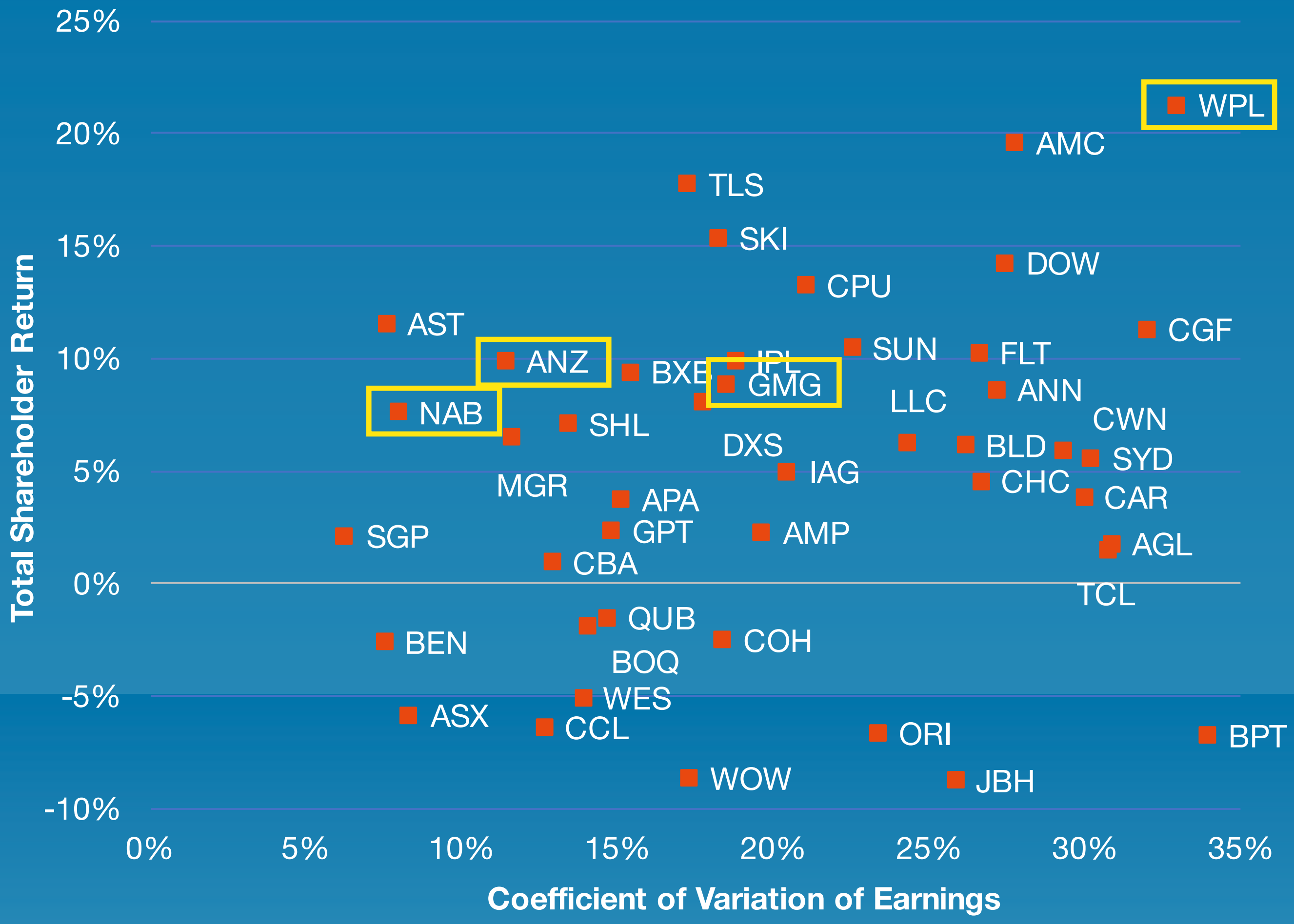
In order to generate income, investors will have to seek higher risk sources of return notably “credit” and “equity”. This involves buying investments which derives part of their return via the premium investors demand to give up certainty of return.

In credit markets, as an example we look to the Bank Hybrid market where Shaw and Partners have significant expertise and where we manage many hundreds of millions of dollars on behalf of our clients. A well-diversified portfolio of bank hybrids is currently expected to deliver a yield to call of approximately 3.25% including franking.

It should be stressed, however, that investing in hybrids is not without risk and readers are encouraged to read the disclosure of this report which pertains to investing in hybrid securities.

If this potential return from bank hybrids fails to excite investor interest, investors can seek equity for income.

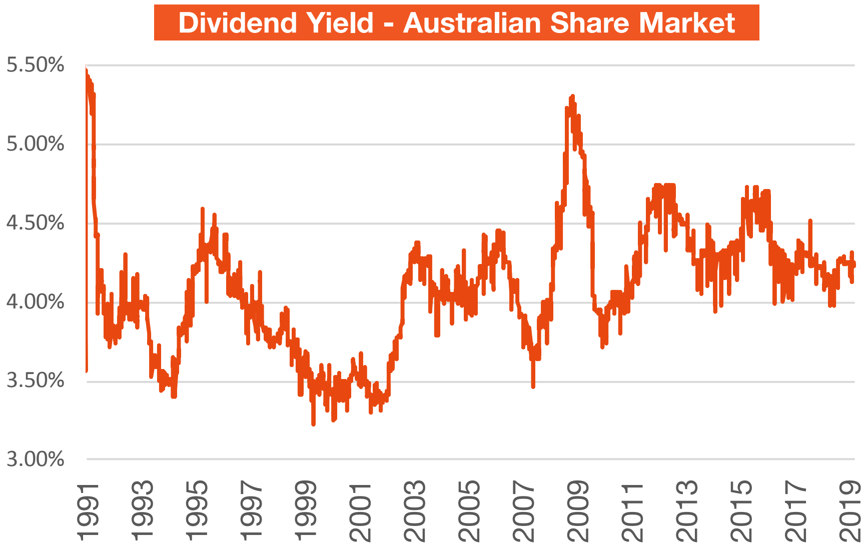
They key here is not just the dividend yield and franking credits on the shares, but the expected total shareholder return (including capital gains or losses) and the degree of certainty investors have about the cash flows supporting the dividend payments.



As an exercise, we have looked at those Top 100 Australian companies that have a ten-year profit history, looked at the variability of that profit history and compared this to the consensus view about the expected 12-month return from holding the shares to their expected twelve-month target price and receiving forecast dividends along the way. This screen is illustrated above (with outliers removed).

From this group of stocks, we are attracted to ANZ Bank (ANZ), National Australia Bank (NAB), Goodman Group (GMG) and Woodside Petroleum (WPL) as examples. We think other "lower risk" stocks such as Woolworths (WOW) and Wesfarmers (WES) are too expensive.

Generally speaking, the degree of variation of dividend payments is much lower than the degree of variation in earnings – so a portfolio that is predominantly "yield" stocks will have lower volatility than one which relies of capital growth. **Dividend yield of the Australian share market is remarkably stable, typically yielding around 4.5%.**

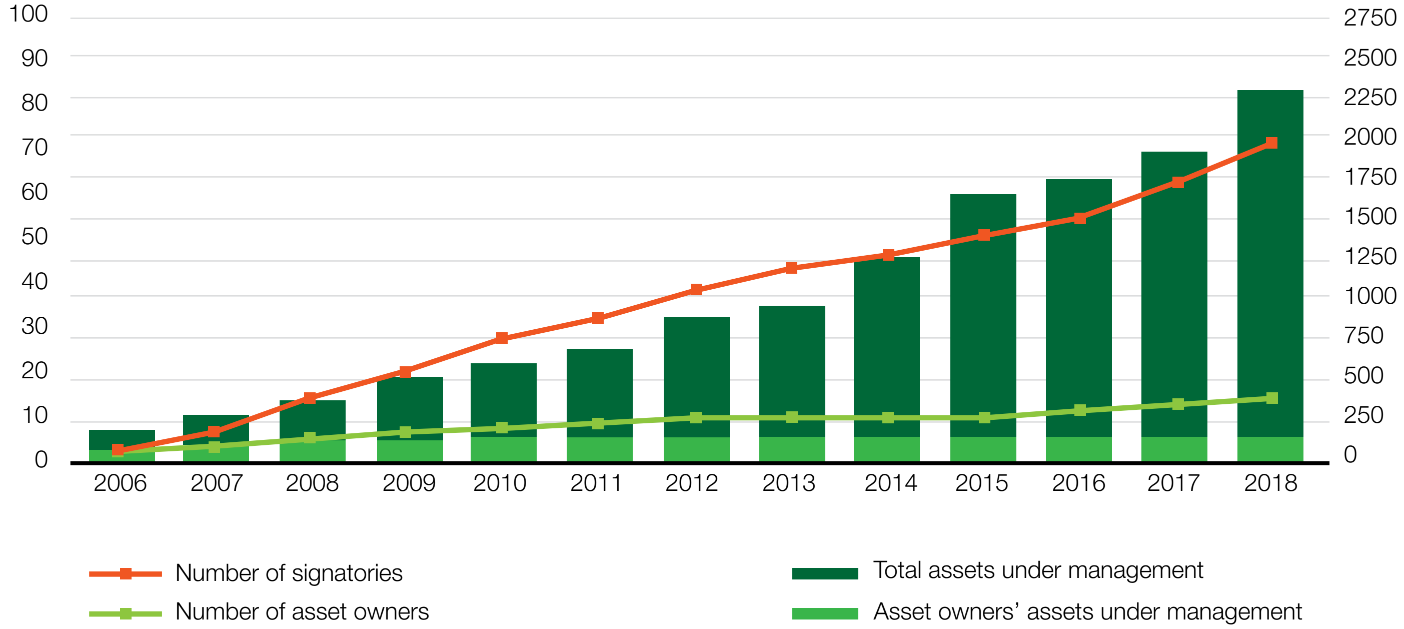


Future Leaders Panel

EFG International

ESG investing gathers increasing interest

Signatories to the Principle for Responsible Investments (PRI)



ESG (Environmental, Social and Governance) investing or sustainability/responsible investments have gathered increasing interest from asset managers, their clients, shareholders and society at large.

Shaw and Partners is part of EFG International, a global private banking group headquartered in Zurich. www.efginternational.com

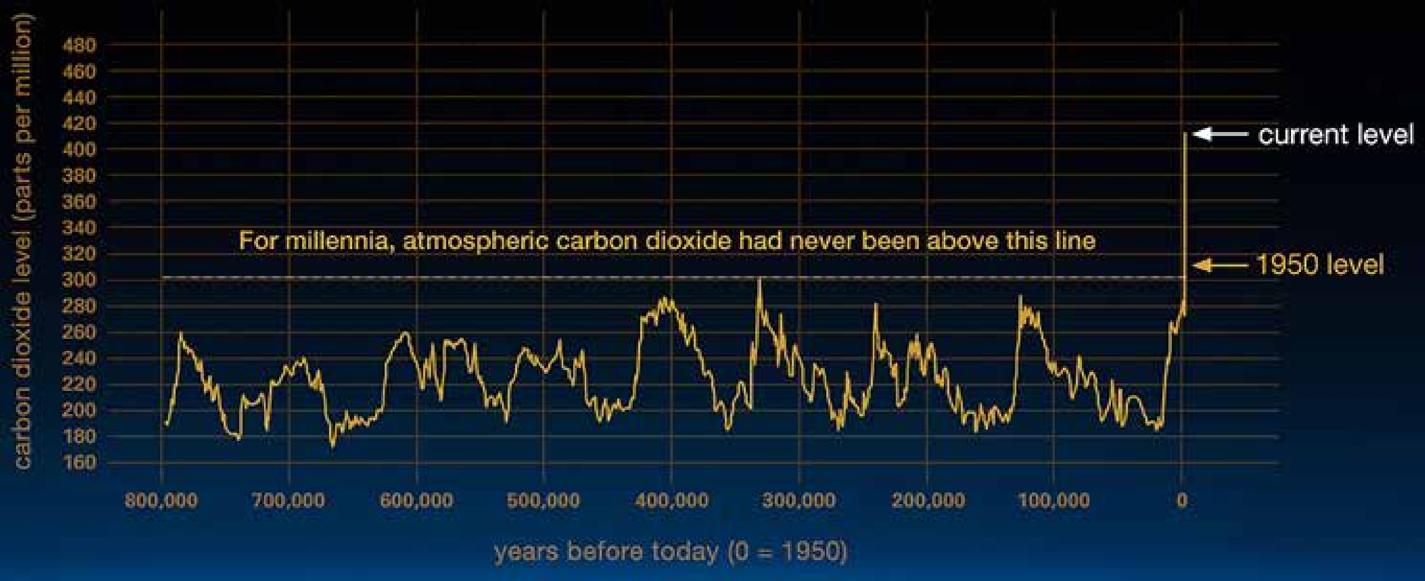
EFG Asset Management (EFGAM) has been committed to integrating ESG considerations into its investment approach, as evidenced by the fact we are signatories to the PRI, as well as being involved with Swiss Sustainable Finance and CDP (Carbon Disclosure Projects). We believe that it is worthwhile to explain the reasoning behind our approach.

Investing is a question of risk and reward and one of the duties of every investor is to consider all the available information before making investments. By adding an ESG approach to traditional financial analysis, it can help to better evaluate opportunities and mitigate the risks associated with the investments. On the one hand we believe companies are in a better position to prosper when their activity creates value for all stakeholders, not only for shareholders. It's our responsibility to accompany them in this direction. On the other, their stronger "licence to operate" improves the resilience to risks such as reputational, governance, social or operational ones.

When thinking about particular risks, it is difficult not to consider the changing climate. For the last few decades the scientific community has been increasingly highlighting this danger, comparing its outcome with a nuclear conflict. Ignoring the warning is neither sensible nor correct.

As a consequence of human activity, CO2 in the atmosphere has substantially increased, causing temperatures to rise. Through a series of concatenated events this risks decimating biodiversity, putting our food supply at risk, exacerbating conflicts for water, land and forcing hundreds of millions of people to migrate with incalculable social and economic consequences.

CO2 IN THE ATMOSPHERE



The risks at stake are so high that, with a few notable exceptions, governments around the world are starting to recognize them and tighten legislation and requirements.

Europe in particular is at the forefront of this new push with a new range of incoming legislation, dubbed "the EU action plan on sustainable finance", that will redesign the financial chain in the next few years. Asia will be among those locations that will feel the biggest impact and pain with a relatively poor population and many cities and agricultural production situated on deltas or coastal areas.

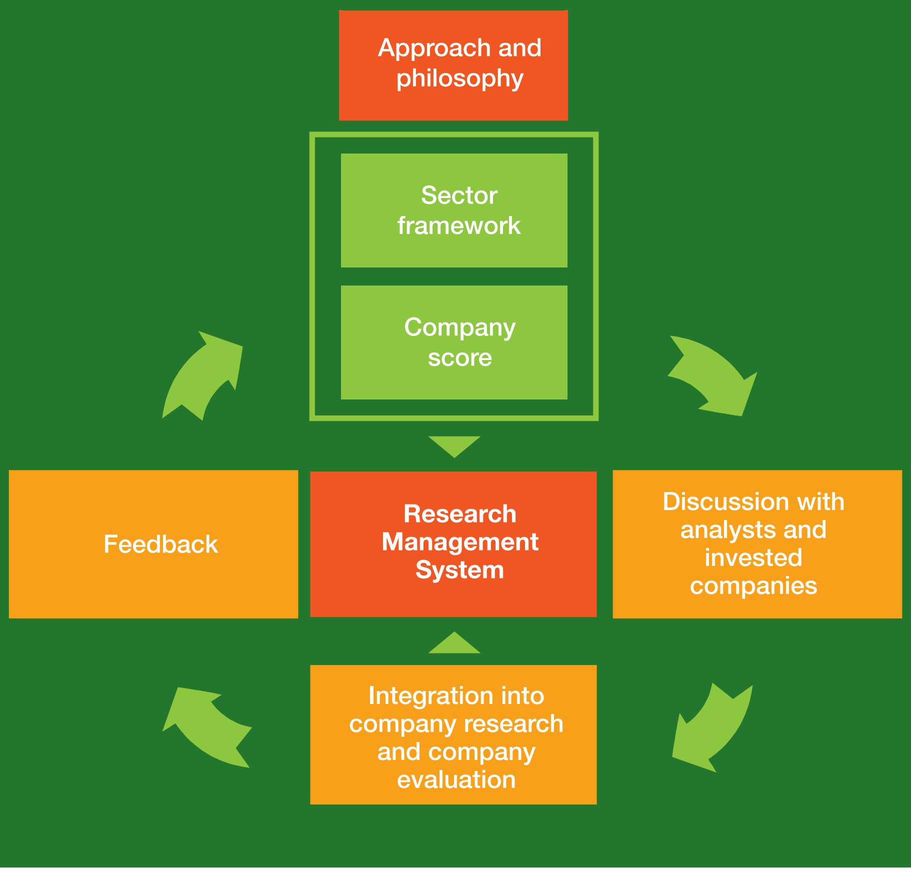
The pressure for change is building up rapidly and starting to affect companies and industries, whether it comes from the consequences of the warming, from legislative and regulatory action, or from both.

Conceptually the idea of integrating ESG considerations to obtain a more holistic understanding of a company's strengths and weaknesses seems therefore a logical and even an essential feature of fiduciary duty. However, the game gets tougher: integrating ESG still presents some hurdles and it's a process that requires continuous commitment and learning.

The first obstacle relates to mental models and confusion with ethical considerations. Even if the business case for ESG investing is empirically very well founded and roughly 90% of studies find a non-negative ESG–financial performance relationship, many still see ESG integration as an ethical approach and fear worsened financial performance. It's not a question of contrast between ethical and unethical behaviours, but of understanding that the companies are able to conjugate profits AND value for all stakeholders have a much higher probability of prospering. Our ESG analysis, built around the concept of materiality, aims to identify these opportunities.

Another source of reticence is with regard to the realistic impact that can be achieved. Some asset managers exclude a big portion of the investable universe on the basis of ESG considerations or remove them when issues arise. We prefer to limit this approach. While we do exclude some companies with the intention of communicating that lack of transparency and short-termism are not acceptable, we definitely prefer to engage with them positively by pushing for improvements. Active ownership at AGMs with a sustainability overlay, asking for transparency and accountability is also part of our process.

EFGAM ESG INVESTMENT SELECTION PROCESS


Approach and philosophy

Sector framework

Company score

Feedback

Research Management System

Discussion with analysts and invested companies

Integration into company research and company evaluation

Our framework is based on the main reporting standards in the ESG space, meaning it can easily adapt to any regulatory changes.

The biggest issue is linked to the quality of data and to the lack of mandatory ESG reporting standards. ESG analysis has room to improve, but we think it is important to make the effort to include, rather than ignore, these factors, knowing that if we do not start, we will never progress.

Recently, research conducted by the MIT Sloan School of Management[1] assessed the modest correlation among ESG rating providers. The research suggests that instead of using ESG "aggregate data as it is provided, researchers may consider constructing their own measures." This is precisely what we decided to do at EFGAM. Years ago we started building our own rating framework. Doing so, irrespective of whether we have full transparency and a complete understanding of the underlying ESG issues, has additional advantages:

- Our framework is based on the main reporting standards in the ESG space, meaning it can easily adapt to any regulatory changes.
- The control we have on the framework allows us to clearly define what the material aspects or the ethical considerations we want to include in our assessment for every industry are.
- Given we control the weights and KPIs for different industries, we can easily integrate inputs from our colleagues around the world and adapt our scoring system to more accurately capture the nuances between industries or the emergence of new risks/opportunities.

Our rating is however not the final judgment on a company; it is a starting point to better assess the risk of the investment and when needed to start an engagement process with companies we invest in.

The sustainability journey is no easy task, yet there is an important and growing demand for sustainable investing. This makes perfect financial sense and can contribute to speed up the solutions we all need. Although it will be a long journey, it will no doubt also be an exciting one.

[1] *MIT Sloan School of Management, Aggregate Confusion: The Divergence of ESG Ratings, Florian Berg, Julian F. Koelbel, and Roberto Rigobon, August 2019*

ShawandPartners

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Shaw and Partners is one of Australia's preeminent investment and wealth management firms. With a national presence and over $18 billion of assets under advice, Shaw and Partners offers the intimacy of a boutique investment firm, backed by the resources and scale of a major financial group, EFG International.

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Perth office has moved to
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30+

YEARS
IN THE MAKING

$18bn

OF ASSETS UNDER
ADVICE

6

OFFICES IN
SYDNEY
MELBOURNE
BRISBANE
ADELAIDE
CANBERRA
PERTH

300

STAFF
AUSTRALIA WIDE

180+

INVESTMENT ADVISERS
& FINANCIAL PLANNERS
IN AUSTRALIA

ShawandPartners
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has the pleasure of inviting you to a global economic and market outlook

“Investing in a world with low interest rates.”

Developments in global capital markets, key convictions and themes for the coming months.

Please join Shaw and Partners for an evening of insights and thought provoking investment opportunities with our expert Research Analysts: Martin Crabb CIO, Peter O’Connor, Leanne Truong and Brett Le Mesurier.

Sydney CBD
30th October 2019
6:00pm – 9:00pm

Melbourne CBD
31st October 2019
6:00pm – 9:00pm

Adelaide CBD
7th November 2019
5:30pm – 8:45pm

Perth CBD
13th November 2019
6:00pm – 9:00pm

Brisbane CBD
14th November 2019
6:00pm – 9:00pm

CLICK HERE TO REGISTER YOUR INTEREST TO ATTEND

LIMITED SEATS AVAILABLE

Places are not guaranteed unless confirmed by your Shaw and Partners adviser.
For any enquiries please contact us at www.shawandpartners.com.au/contact/email-us

Shaw Managed Accounts

Portfolio Performances – September 2019

		3 Mth	6 Mth	1yr	2yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	**2.22%**	**6.94%**	**8.87%**	**8.77%**	**8.80%**
Objective: RBA Cash +3%	Portfolio Objective	1.00%	2.10%	4.36%	4.39%	4.39%
Inception: Sep-17	Excess v Objective	1.22%	4.84%	4.51%	4.38%	4.41%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	**2.34%**	**7.44%**	**8.97%**	**10.11%**	**10.22%**
Objective: RBA Cash +4%	Portfolio Objective	1.24%	2.58%	5.36%	5.44%	5.44%
Inception: Sep-17	Excess v Objective	1.10%	4.86%	3.61%	4.67%	4.78%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	**4.61%**	**11.03%**	**9.58%**	**14.50%**	**14.40%**
Objective: RBA Cash +5%	Portfolio Objective	1.49%	3.08%	6.36%	6.37%	6.37%
Inception: Sep-17	Excess v Objective	3.12%	7.95%	3.22%	8.13%	8.04%
Debt Securities Income Portfolio	**Total Portfolio Return**	2.08%	4.19%	8.00%	5.51%	5.27%
	Inception: Sep-17					
Hybrid Income Portfolio	**Total Portfolio Return**	1.22%	4.50%	7.20%	6.50%	7.62%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	**Total Portfolio Return**	4.71%	13.67%	18.04%	13.87%	13.56%
	Inception: Sep-17					
Australian Equity (Large Cap) - Growth	**Total Portfolio Return**	7.78%	16.44%	16.59%	20.46%	19.82%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	**Total Portfolio Return**	3.94%	13.18%	18.41%	15.59%	15.12%
	Inception: Sep-16					
Australian Equity - Small and Mid Cap	**Total Portfolio Return**	5.62%	15.99%	8.14%	12.40%	12.51%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	**Total Portfolio Return**	0.18%	1.94%	1.03%		0.68%
	Inception: Aug-18					
AB Concentrated Global Growth	**Total Portfolio Return**	3.79%	13.55%	16.63%		10.50%
	Inception: Jan-15					
EFG US Future Leaders Portfolio	**Total Portfolio Return**	-7.84%				-10.60%
	Inception: Jul-19					

Shaw Managed Accounts

Click on the images below to download the marketing brochure and SMA Portfolio Factsheets. Download the marketing brochure here.

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GOAL BASED PORTFOLIO

Shaw Income Goal Portfolio

MODEL PORTFOLIO CODE SP0009

Shaw Income Goal

Shaw Managed Accounts ShawandPartners

GOAL BASED PORTFOLIO

Shaw Balanced Portfolio

MODEL PORTFOLIO CODE SP0008

Shaw Balanced Goal

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GOAL BASED PORTFOLIO

Shaw Growth Goal Portfolio

MODEL PORTFOLIO CODE SP0010

Shaw Growth Goal

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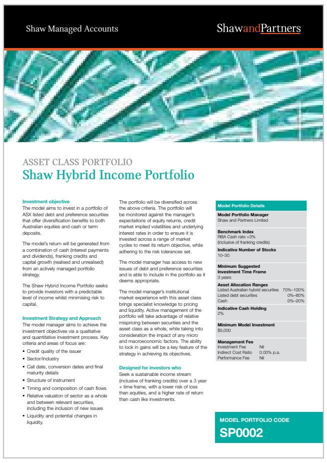
ASSET CLASS PORTFOLIO

Shaw Debt Securities Income Portfolio

MODEL PORTFOLIO CODE SP0003

Shaw Debt Securities Income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ASSET CLASS PORTFOLIO

Shaw Hybrid Income Portfolio

MODEL PORTFOLIO CODE SP0002

Shaw Hybrid Income

Shaw Managed Accounts ShawandPartners

ASSET CLASS PORTFOLIO

Shaw Australian Equity (Large Cap) Income

MODEL PORTFOLIO CODE SP0004

Shaw Australian Equity (Large Cap) Income

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ASSET CLASS PORTFOLIO

Shaw Australian Equity (Large Cap) Core

MODEL PORTFOLIO CODE SP0001

Shaw Australian Equity (Large Cap) Core

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ASSET CLASS PORTFOLIO

Shaw Australian Equity (Large Cap) Growth

MODEL PORTFOLIO CODE SP0005

Shaw Australian Equity (Large Cap) Growth

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ASSET CLASS PORTFOLIO

Shaw Australian Equity (Small and Mid-Cap) Growth

MODEL PORTFOLIO CODE SP0006

Shaw Australian Equity (Small and Mid-Cap) Growth

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ASSET CLASS PORTFOLIO

Shaw Liquid Alternatives Portfolio

MODEL PORTFOLIO CODE SP0011

Shaw Liquid Alternatives

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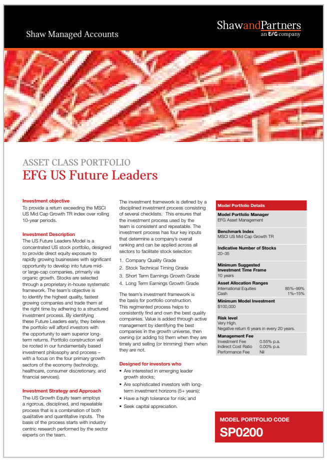
ASSET CLASS PORTFOLIO

AllianceBernstein Concentrated Global Growth

MODEL PORTFOLIO CODE SP0012

AllianceBernstein Concentrated Global Growth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ASSET CLASS PORTFOLIO

EFG US Future Leaders

MODEL PORTFOLIO CODE SP0200

EFG US Future Leaders

Australian Large Cap Model Portfolio

Our Large Cap Model Portfolio performed well in both an absolute and relative sense in September. Benchmarked against the S&P/ASX100 index, the portfolio returned 3.9% for the month, outperforming the index by 2.1%. This month we position the portfolio for a continued slowdown in global growth momentum and dial back a few of our overweights. We add Goodman Group (GMG) and Oil Search (OSH) to the portfolio.

The Australian share market – as measured by the ASX100 index, rose 1.83% in September, led by solid returns from technology stocks such as Afterpay Touch (APT) up 15.8% and double digit returns from selected materials and cyclicals such as Boral (BLD), Iluka Resources (ILU), James Hardie (JHX), Oil Search (OSH) and Fortescue Metals (FMG). Dragging the chain were the Telecommunications and Healthcare sectors, as 10-year government bond yields rose from 0.88% to 0.94% but were as high as 1.15% midmonth.

SECTOR HIGHLIGHTS

Energy Boost. This month we significantly increase our weighting to Energy names. Although the attacks on Saudi Arabian oilfield infrastructure seems to have only briefly impact world oil supply, the potential for further escalation in the Gulf cannot be ruled out and this represents a real and present "tail risk" to world markets. Given the relatively attractive valuations of energy stocks, (~10x PE), we see this is a prudent portfolio hedge and add Oil Search (OSH) back to the portfolio and top-up our Santos (STO) and Woodside (WPL) exposures as well.

CHANGES

Out with WES. Following our analyst, Danny Younis' downgrade of Wesfarmers (WES) from hold to sell, our portfolio rules stipulate that we remove the stock from the portfolio. We also trim Lend Lease (LLC) after a period of strong performance and dial back our macro-play on shopping centres as it seems unlikely that even zero interest rates and tax cuts will spur the Aussie consumer. Following a strong upward price move in anticipation of better performance under incoming CEO Ross McEwan, we trim our NAB position by 2%, remaining overweight the stock and sector.

The slowdown in global growth is likely to remain front and centre of investor's minds for the next month as we head into the last quarter of the year. The apparent weakness in global trade activity is unlikely to be reversed in the short term and this will keep some downward pressure on the earnings expectations of the miners and other industrial cyclical stocks. We pare Rio Tinto (RIO) and add the more defensive and attractively priced growth stock Goodman Group (GMG) following our recent initiation report.

Additions		Reductions	
GMG	5.00	LLC	(1.36)
OSH	3.00	RIO	(2.00)
STO	1.50	VCX	(2.00)
WPL	1.00	NAB	(2.00)
		WES	(3.14)
	10.50		**(10.50)**

RECOMMENDATION

It is hard to get excited about the prospects for the overall Australian share market, but once we dig into the weeds we can find enough compelling ideas to build a well-diversified portfolio capable of generating reasonable returns (10.9% on our estimates). We remain underweight Australian shares in a balanced portfolio setting and look for a pull-back in the market to put more capital to work. In the meantime, our portfolio should generate reasonable income returns (5.2%, 70% franked on our estimates).

MARKET PERFORMANCE

More sectors outperformed in September than underperformed, with only the large defensive sectors (REITs, Telcos, Healthcare) dragging the market down. Clearly there was rotation amongst investors who started to bid long term bond yields higher over the month, both in Australia and globally. At the start of September, US 10-year bonds were yielding 1.45% and by September 13th they had exceeded 1.9%. This sharp selloff in bonds spilled over into equity markets, causing interest-rate sensitive defensive stocks to perform poorly.

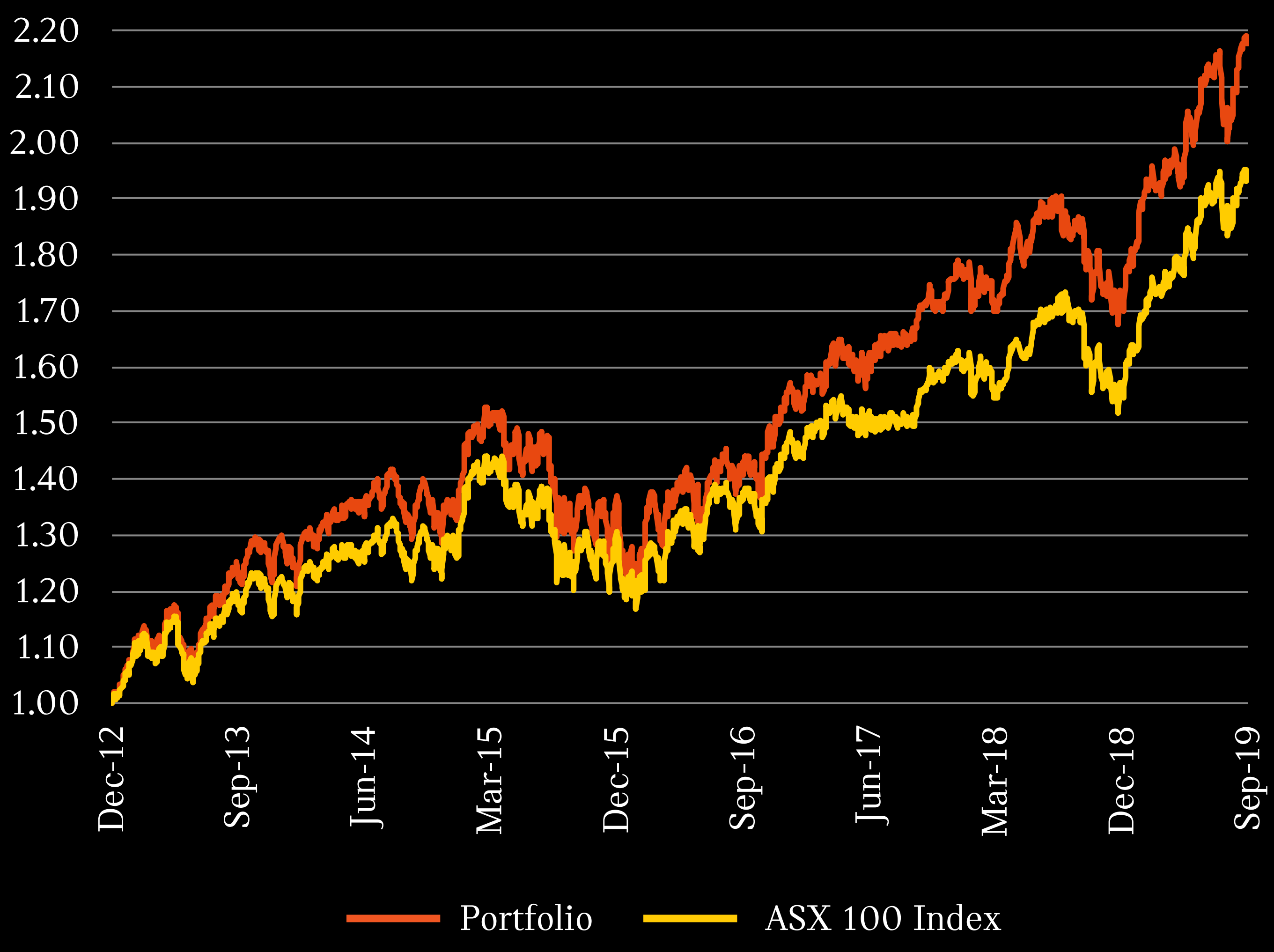
September was also a big month for dividends, with 38 of the top 100 stocks trading exdividend. We estimate that these 38 stocks paid $10.2bn in dividends in September, and another $3.4bn in franking credits. This equates to a yield for the month of 0.58% (0.77% including franking). The largest cash dividend was paid by BHP, at $3.35bn.

PORTFOLIO PERFORMANCE

The absolute and relative portfolio returns were exceptional in September at +4% and +2%. We would not expect to repeat this performance every month, particularly in current market conditions. Sector allocations (overweight banks, underweight healthcare and telco) added 90 basis points to returns and stock selection (banks, food, materials, real estate) added 125 points.

> This month we position the portfolio for a continued slowdown in global growth momentum and dial back a few of our overweights.

Portfolio Performance (Accumulation Basis)



Model Portfolio at September 2019

WBC	Westpac Banking	9.7%	MQG	Macquarie Group Limited	4.2%
BHP	BHP Group Ltd	8.3%	COL	Coles Group	3.7%
NAB	National Australia Bank	7.8%	FMG	Fortescue Metals Group	3.3%
ANZ	ANZ	6.8%	OSH	Oil Search Limited	3.0%
WPL	Woodside Petroleum Ltd	6.6%	SUN	Suncorp Group Limited	2.9%
SCG	Scentre Group	5.4%	EVN	Evolution Mining Limited	2.8%
GMG	Goodman Group	5.1%	NST	Northern Star Resources	2.8%
STO	Santos Limited	5.0%	RIO	Rio Tinto Limited	2.5%
LLC	Lendlease Group	4.8%	SGP	Stockland	2.4%
CBA	Commonwealth Bank	4.5%	VCX	Vicinity Centres	2.3%
FLT	Flight Centre Travel Group	4.5%	ILU	Iluka Resources Limited	1.6%

Stock recommendations

Macquarie Group (MQG) offers banking, financial advisory, investment and funds management services. The company offers financial advice, cash management, wealth management and private banking, life insurance, securities brokerage, corporate debt financing, real estate funds management, real estate development financing, investment funds management and foreign exchange services.

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.

Alumina (AWC) owns 40% of the world's largest alumina business, Alcoa World Alumina and Chemicals (AWAC) the recognised industry leader. The JV partner Alcoa manages the day-to-day operations of AWAC. AWAC is a low-cost producer and many of its operations are positioned in the lower-cost quartiles.

Fortescue Metals Group (FMG) operates as an iron ore production and sea-borne trading company. It is engaged in the mining of iron ore from its Cloudbreak and Christmas Creek mine sites; and the operation of an integrated mine, rail and port supply chain. The company's projects include Chichester Hub, Solomon Hub, Herb Elliott Port and Rail Expansion.

Santos (STO) is an Australian oil and gas exploration company. Its key operations are onshore SA Cooper Basin, PNG LNG, Gladstone LNG , Darwin LNG and various gas and oil fields offshore WA.

Woodside Petroleum (WPL) explores for and produces oil and gas from offshore and onshore facilities located in Western Australia and the Northern Territory. The Company operates numerous oil and gas fields and pipelines throughout Australia, the United States and Mauritania. Its products include liquefied natural gas, domestic gas, condensate, crude oil and liquefied petroleum gas.

Centuria Industrial REIT (CIP) operates as a property investment, which acquires and manages industrial properties within Australia. It owns a portfolio of industrial real estate assets delivering stable and predictable rental income with opportunities for value uplift through diligent asset management and repositioning strategies.

Goodman Group (GMG) engages in the development, owning, and management of industrial property and business space. The company involves in the investment in directly and indirectly held industrial property, investment management, property services, and property development. It operates through the following geographical segments: Australia and New Zealand, Asia, Continental Europe, United Kingdom and America.

Shaw and Partners provides coverage on 100+ listed companies across a range of sectors, specialising in Australian mid-cap and emerging companies.

Cynata Therapeutics (CYP) is a stem cell and regenerative medicine company, which develops a therapeutic stem cell platform technology, Cymerus™, using discoveries made at the University of Wisconsin-Madison. The company IPO'd in November 2013 and is headquartered in Carlton, Australia.

National Veterinary Care (NVL) engages in the provision of veterinary services. Its portfolio includes 99 clinics based in the following locations: Victoria, Queensland, New South Wales, Tasmania, South Australia and New Zealand. The company was founded on October 9, 2013 and is headquartered in Australia.

Audinate Group (AD8) engages in the development and commercialization of audio visual software and hardware. Its products include chips, modules and cards with embedded software; reference designs and software to enable network configuration and management under the Dante brand.

Washington H. Soul Pattinson & Co. Ltd. (SOL) engages in the ownership of shares; coal mining; distribution and retail of pharmaceutical products; and manufacture of building products. The company operates through its wholly owned subsidiaries through the following segments: Brickworks, New Hope Corp., Investing Activities, Round Oak Minerals and TPG Telecom; and Property. The Investing Activities segment invests in cash, term deposits, and equity investments.

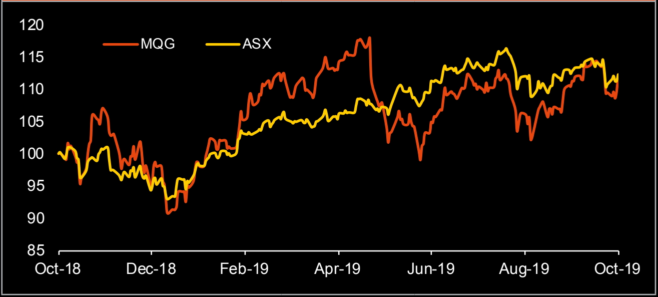
Probiotec (PBP) is one of the largest integrated pharmaceutical and OTC manufacturers within Australia. The company was founded in 1997, listed on the ASX in 2006 and is headquartered in Laverton Victoria. PBP offers a full suite of manufacturing services from formulation, sourcing, packaging and distribution. The company has long term contracts with a range of multi-national companies.

Rhipe (RHP) provides software licensing, subscription management tools and cloud computing services. Its software vendors include Microsoft, Citrix, Datacore, McAfee, Red Hat, Trend Micro, Veeam, Zimbra and VMware. The company was founded in 2003 and is headquartered in Melbourne, Australia.

Macquarie (MQG)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$129.39
Target Price	$130.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.7%	1.9%	12.0%

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

Heading towards lower growth

- The implementation of the new capital treatment on unmargined derivative exposures from 1 July this year has increased MQG's capital requirements by $600m. This has coincided with MQG making significant new investments in windfarms in East Anglia, southern Norway and Taiwan. In total, MQG's capital requirements have increased by $1.6bn in 2Q20 but its internal capital generating capability is approximately $250m per quarter, hence the capital shortfall.
- MQG said that it had $5bn of group surplus capital at 30/6/19 and yet an additional $1.6bn capital requirement in 2Q20 has led to a $1bn capital raising. It would appear MQG's definition of surplus does not include the concept of freely available to invest in the growth in the business. This suggests it's only available to support the existing business.
- The additional capital requirements in 1H20 are only slightly larger than 1H19. MQG said that they had surplus capital of $4.2bn at the start of 1H19 compared to $6.1bn at the start of 1H20. There was no ordinary equity raising in 1H19 and the starting capital position was weaker for 1H19 than 1H20. Perhaps, they knew that large asset sales were likely to occur in 2H19, whereas that appears not to be the case for 2H20. This is consistent with the guidance which says that 1H20 profit is to be approximately 10% higher than 1H19 but FY20 profit is likely to be slightly lower than FY19.

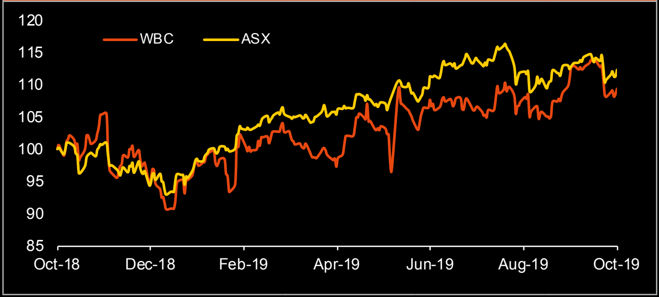
Forecasts

YE 31-Mar	FY19	FY20E	FY21E
Earnings cps	883.3	889.1	908.7
Dividends (AUD) cps	575.0	598.5	631.1
PE x	14.7	14.6	14.2
Yield %	4.4%	4.6%	4.9%
Franking %	45%	45%	45%

Westpac (WBC)

Recommendation	Buy
Risk	Medium
Share Price (as at 11 Oct 2019)	$28.75
Target Price	$29.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.9%	2.8%	9.4%

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

Heading into stable waters

- The following factors impact net interest income growth: 1% loan growth is expected from 31/3/19 to 30/9/19, which includes similar rates of low growth from home and business loans; and NIM is forecast to be stable from 1H19 to 2H19, excluding customer remediation, because the decline in the cash/bill spread should offset higher discounting and more switching from interest only to P&I loans.
- Commissions and lending fees are forecast to decline from 1H19 to 2H19. There should be a rebound in the insurance result since 1H19 was adversely affected by weather events but wealth income should decline by $45m as a result of the exit from advice which was announced at the end of 1H19.
- WBC has a target of a 1% reduction in business as usual expenses from 1H19 to 2H19. Customer remediation expenses are likely to continue as WBC finds the task is more expensive than initially hoped.
- WBC's net write-offs for corporate, business and specialised lending totalled $39m in the first 9 months of FY19 against exposure of $274B. Specific provisions are $276m for this category which represents 49% of impairments.
- Consumer exposures are more problematic. Australian home loan 90+ day delinquencies increased from 82 bps of loans at 31/3/19 to 90 bps of loans at 30/6/19. Unsecured consumer 90+ day delinquencies increased from 1.87% at 31/3/19 to 1.91% at 30/6/19. The bad debt charge is forecast to be $400m in 2H19 compared to $333m in 1H19.

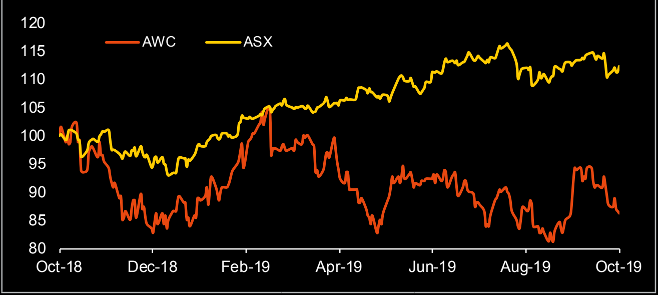
Forecasts

YE 30-Sep	FY18	FY19E	FY20E
Earnings cps	236.2	211.3	236.4
Dividends (AUD) cps	188.0	187.6	187.9
PE x	11.8	13.6	12.2
Yield %	6.7%	6.5%	6.5%
Franking %	100%	100%	100%

Alumina (AWC)

Recommendation	Sell
Risk	High
Share Price (as at 11 Oct 2019)	$2.25
Target Price	$1.99
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-5.9%	-2.2%	-13.8%

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

Negative share price divergence vs commodity price

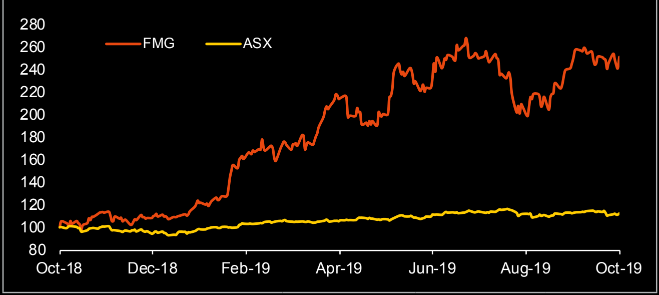
- AWC's 1H19 result commentary included several points that piqued our interest;
- The tight Western world alumina market conditions of 2018 have subsided in the first half of 2019 as curtailed supply came back on stream and new refineries ramped up. Against this backdrop AWC reduced production costs which contributed to cash margins in the half of over $150 per tonne despite lower alumina prices.
- We expect a modest alumina surplus for the rest of 2019. At the current alumina price of around US$300 per tonne AWC's low cost assets generate a cash margin of about $80 per tonne. 1H19 alumina margin was US$157/t a decline of $32/t from 2018 at ~$200/t"
- AWC share price vs alumina conversion margin highlights a handy correlation. Not surprising really given commodity company share prices follow the underlying commodity price (typical Rsq >+0.9x), which correlates to spot EBITDA trend and spot NPV trend ... so no surprises that the cash margin should follow suit.
- We applied an arbitrary cash cost over the time period (~US$220/t). We have made some allowances for notional cost changes – AUD depreciation is picked up in A$/t margin, caustic coda price decline not factored in but would modestly close the gap, energy (swings and roundabouts really).
- A GAP has opened between the share price (staying/going higher) and the conversion margin heading lower. Using our KISS principle analysis suggests (i) Alumina price needs to be US$500-550/t ((spot ~$290/t) or (ii) AWC share price should be heading for A$1.50/sh.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	24.0	12.4	9.6
Dividends (AUD) cps	30.4	10.2	9.2
PE x	6.8	12.3	16.0
Yield %	14.0%	4.6%	4.1%
Franking %	100%	100%	100%

Fortescue (FMG)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$8.81
Target Price	$9.50
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.5%	0.5%	151.0%

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

The journey continues ... debt deleveraging and growth

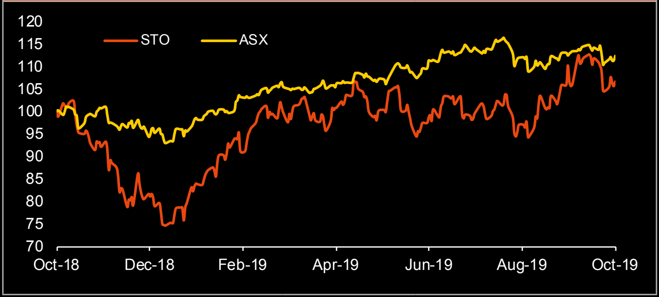
- An evolutionary and sometimes revolutionary journey that has been underscored by the stewardships of two different CEO/CFO teams – highlighting that beyond the personalities there is a culture that runs deep. Culture can't be acquired it is developed and fostered.
- The debt reduction, refinancing journey continues at FMG taking gross debt to the lowest since the latest expansion phase. FMG announced the successful completion of the US$600m offering of Senior Unsecured Notes at an interest rate of 4.5%, maturing 15 September 2027. Proceeds will be applied to the partial repayment of US$600m of the outstanding US$1.4bn 2022 Syndicated Term Loan.
- Improves tenor & reduces annual instalments. FMG has a financing runway which remains clear to CY2022 and spreads the debt portfolio over the five year period to 2027. FMG will have no debt retirement >US$750m in any one year 2022-27.
- Cost of debt expected to be broadly similar – FMG's current weighted average cost of debt is ~5% and we expect minimal change post the current refinance. But as mentioned above the key benefits of the current rejig are (i) extension of maturities (ii) reduce annual retirements to <US$750m and (iii) current capex plans (Eliwana and Ironbridge) to be essentially cash funded over the next few years.
- Fortescue is spending $US3.37bn on new mines over the next three years and, although it has no debt repayments due next year or in 2021, it was facing $US2.15 billion of repayments in 2022 before Friday's refinancing. That is now just $750m.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	103.5	125.1	81.1
Dividends (AUD) cps	114.7	119.2	77.9
PE x	6.1	4.8	7.4
Yield %	13.0%	13.6%	8.8%
Franking %	100%	100%	100%

Santos (STO)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$7.43
Target Price	$8.40
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.0%	7.2%	6.6%

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

Entering a strong growth phase

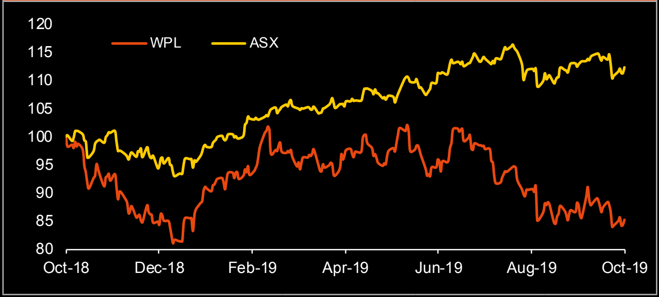
- Santos has entered a growth phase, and is expanding exploration and drilling activity in a number of locations, without compromising renewed balance sheet strength.
- It is generating premiums for domestic crude oil production and LNG sales over spot prices and we expect upcoming quarterly reports could surprise positively.
- From a qualitative perspective, Santos production portfolio is well diversified by region and products and all key assets are generating FCF at less than US$40/bbl.
- Free cash flow expansion is forecast to continue at current oil and gas prices and in the absence of another major acquisition, will drive a gradual de-gearing. We see Santos financial capacity as improving and it could pave the way for another significant acquisition and with oil and gas equity prices still in the duldrums, there are opportunities.
- Beyond 2020, there are some major new projects which should enable STO to achieve its ~2025 aspiration of >100 MMboe of annual production. The largest and likely most valuable is the Doradda oil project offshore WA, but others being framed are PNG LNG expansion, the Barossa gas field offshore NT, and ongoing incremental growth in Cooper Basin and onshore QLD volumes.
- There is longer term upside from substantial frontier exploration acreage offshore WA and onshore in the Northern Territory Beetaloo and Amadues Basins.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	35.0	39.0	47.6
Dividends (AUD) cps	13.4	19.6	28.0
PE x	11.0	12.9	10.6
Yield %	2.6%	2.7%	3.8%
Franking %	100%	100%	100%

Woodside (WPL)

Recommendation	Buy
Risk	Medium
Share Price (as at 11 Oct 2019)	$31.22
Target Price	$42.00
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.0%	-13.4%	-14.8%

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

Quality assets unloved

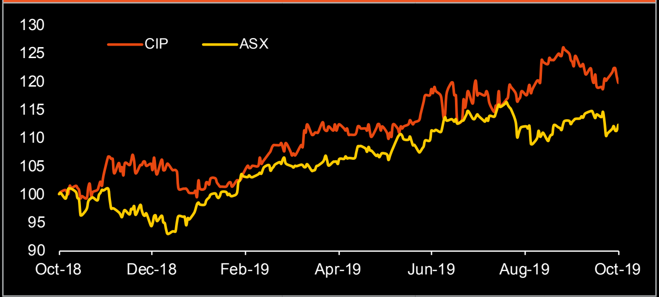
- WPL is underperforming in the market mostly for lack of obvious news flow, which is a consequence of its focus on delivering a small number of very large LNG developments, and these take years to come together. Investor apathy is no surprise at this time. In addition, there is a media and investor fixation on meaningless spot prices and little real understanding of longer term LNG prices to WPL's detriment.
- WPL has a world class, low cost assets generating substantial cash flows. The balance sheet is very strong and able to with-stand the multi-billion capex phase that lies ahead, in the event that WPL can secure the LNG customers it needs to launch Pluto2 and Scarborough LNG project. These will take ~5 years to build.
- In the intervening years there will be production growth, from the newly commissioned Greater Enfield oil project, and after 2022, the Senegal SNE oil development. Combined volumes are significant, margins are high and the impact at the NPAT level will be significant.
- Exploration results in recent years have been disappointing and a weakness in the WPL armory is a lack of depth and maturity of exploration phase projects. Acquisition of assets which offer greater exploration exposure would be advantageous.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	146.1	153.4	249.4
Dividends (AUD) cps	192.6	175.7	230.4
PE x	15.1	13.8	8.5
Yield %	6.5%	5.8%	9.4%
Franking %	100%	100%	100%

Centuria Industrial REIT (CIP)

Recommendation	Hold
Risk	Low
Share Price (as at 11 Oct 2019)	$3.25
Target Price	$3.30
Analyst	Leanne Truong

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.0%	1.9%	19.7%

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

Initiating on the Centuria Industrial REIT with a Hold recommendation

- We initiated coverage on CIP with a Hold recommendation and target price of $3.30/share. We believe CIP represents an attractive investment opportunity for investors seeking a sustainable distribution yield on a stock that is likely to benefit from the growing e-commerce sector. However, we believe the upside is already priced in.
- We forecast a TSR of 6.4%, comprised of a dividend yield of 5.7% and capital growth of 0.7%.
- CIP is Australia's only pure play industrial REIT. CIP is an externally managed ASX listed property trust that is valued at more than $1.2 billion.
- CIP is exposed to a diversified and growing portfolio of industrial assets (currently 46). Although CIP has a strong national presence, it remains focused on the East Coast of Australia (accounts for 84% of the investment portfolio); a region that continues to outperform.
- CIP seeks to grow its portfolio organically and through acquisitions. We expect like-for-like (LFL) rental growth of between 2% and 3% p.a over the next 3 years. We also believe earnings growth will be supported by acquisitions.
- We believe CIP offers an attractive dividend yield to investors, in particular when compared to REITs with an industrial exposure. However, when taking into account its EPS growth profile (2.5% vs peer average of 2.8%); we believe the upside has already been priced in. The stock trades at a 20% premium to NTA which is above its peers such DXS and ADI.

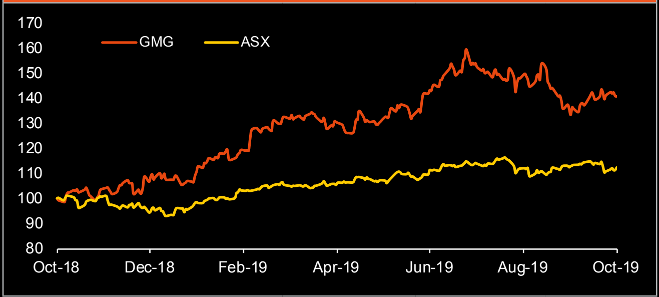
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	19.3	19.8	20.4
Dividends (AUD) cps	18.4	18.7	19.2
PE x	15.8	16.4	16.0
Yield %	6.0%	5.8%	5.9%
Franking %	0%	0%	0%

Goodman Group (GMG)

Recommendation	Buy
Risk	Medium
Share Price (as at 11 Oct 2019)	$14.18
Target Price	$15.25
Analyst	Leanne Truong

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.5%	-8.6%	40.7%

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

Initiating on Goodman Group with a Buy recommendation

- We initiated coverage on GMG with a Buy recommendation and target price of $15.25/share. We believe GMG represents an attractive investment opportunity for investors looking for a stock with 1) an attractive EPS growth outlook; 2) strong balance sheet and 3) which will continue to benefit from the growing e-commerce sector.
- We expect GMG to deliver over 9% p.a. operating EPS growth over the next 3 years. This is an attractive growth profile when compared to its real estate peers (median 3%) and the broader equities market (ASX20 median 4%). Moreover, we forecast GMG's gearing to remain below 10%.
- While e-commerce continues to grow at a strong pace, we believe emerging trends such as fresh food and same day delivery will additionally support the demand for industrial real estate, in particular those in urban locations. In Australia alone, we expect the number of dark stores to more than double. We also expect the rising demand for cheaper and faster delivery to positively impact the demand for industrial property.
- We believe there is NTA upside from conversion opportunities given GMG's focus on gateway cities. GMG has identified over 35,000 potential apartment sites. We estimate this could realise $2.4b of valuation uplift for GMG at the headstock level, which equates to $1.33/share. There are also opportunities to convert some of GMG's existing industrial warehouses into data centres, particularly in Hong Kong. Data centre rents in Hong Kong are typically double that of industrial warehouse rents.

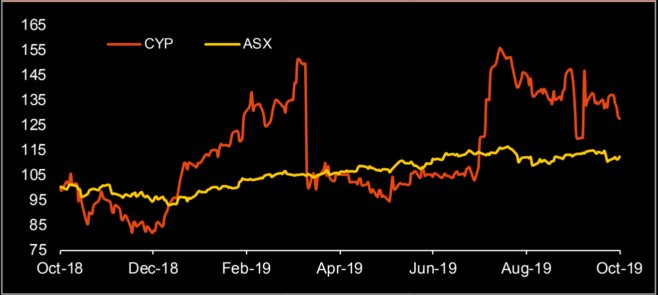
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	51.6	56.8	61.9
Dividends (AUD) cps	30.0	30.0	32.2
PE x	29.1	25.0	22.9
Yield %	2.0%	2.1%	2.3%
Franking %	0%	0%	0%

Cynata Therapeutics (CYP)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$1.51
Target Price	$3.00
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-9.0%	17.5%	27.4%

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

Unique Tech, an Indicatve Takeover Offer & Licensing Success

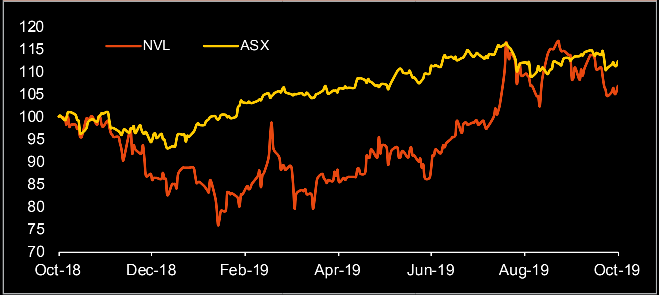
- CYP is in a unique position having secured all the patents covering the key silo of iPSC uses – Mesenchymal stem cells (MSC). We believe iPSC derived MSCs are the most commercially prospective stem cells currently coming to market and CYP has secured the key patents around their manufacture which is now fuelling takeover and licensing interest.
- **Takeover dialogue continues.** In July CYP received an indicative, non-binding proposal regarding a possible acquisition of all of the shares in CYP at a price of A$2.00 per share or A$200m for the company from Sumitomo Dainippon Pharma Co. Sumitomo is currently set to pay US$3bn (A$4.3bn) upfront to buy Roivant's stake in five of its startups which have multiple late-phase assets.
- **Recent licensing success.** In September CYP announced that it has granted Fujifilm an exclusive, worldwide license to develop and commercialise CYP's lead mesenchymal stem cell (MSC) product, CYP-001, for the prevention and treatment of GvHD in humans. The licensing of CYP-001 to Fujifilm, one of the major global participants in the growing regenerative medicine sector, is clear commercial validation of CYP's Cymerus platform for manufacturing MSCs at scale. This is a significant de-risking that gives us increased confidence that further licensing is likely. CYP currently has interest in three indications going into clinical trials with a further 11 indications currently of interest and others likely to be possible.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-8.9	3.0	-1.7
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-14.0	50.6	-86.7
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

National Vet. Care (NVL)

Recommendation	Buy
Risk	Medium
Share Price (as at 11 Oct 2019)	$2.35
Target Price	$3.00
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.3%	7.8%	6.8%

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

Delivering on All Fronts

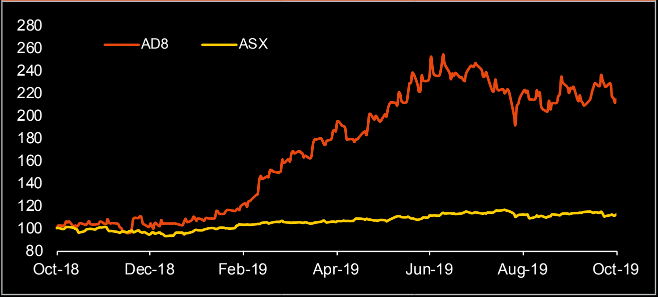
- **Strong track record.** NVL has a strong track record with regards to operational delivery (organic sales and margin growth) acquisitions (number, timing, multiples paid and integration) and clear disclosure to the market.
- Acquisitions are expected to deliver significant growth over the next two years. Over FY19 NVL acquired 32 clinics at an average multiple of 5x EV/EBITDA. There is little pressure on acquisition pricing or availability. We understand NVL has a solid base of potential acquisitions and ~$43m of available acquisition funding (as at June 30) which we expect it to deploy over the next two years adding ~$8m of EBITDA, leveraging the platform NVL has put in place delivering scale benefits and further cost outs.
- GPO is emerging as an exciting driver of long term growth. NVL's procurement business has four key levers to pull, each of which it has been successfully ramping up including: member numbers, number of suppliers it signs to volume based discount schemes, size of discounts and the % of discounts NVL keeps for itself.
- **Outlook.** NVL has guided to FY20 underlying revenue at $140m (growth of 20% on FY19) and an underlying EBITDA margin between 15.5-16.0%. The revenue forecast includes an expected $10m of acquisitions and low single digit growth. Given NVL delivered 2H19 margins of 15.6% its margin guidance looks achievable and we expect even stronger margins over FY21 and FY22. This is the basis for us expecting ongoing double digit EPS growth and for NVL to carry its FY20 PE forward over the prospective 12 months.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	12.4	14.2	17.4
Dividends (AUD) cps	3.5	4.5	5.5
PE x	17.6	16.6	13.5
Yield %	1.6%	1.9%	2.3%
Franking %	100%	100%	100%

Audinate (AD8)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$7.21
Target Price	$8.50
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.4%	-12.9%	114.6%

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

Another Solid Year of +30% Growth in FY20

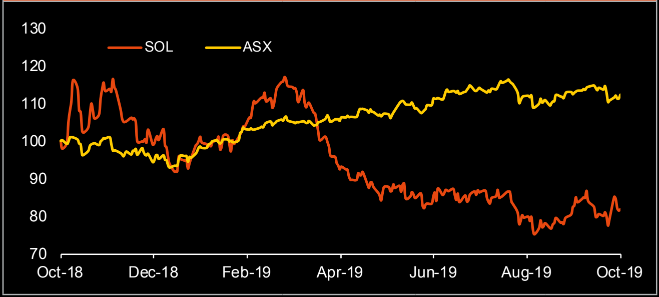
- AD8 again surprised the market to the upside with a solid 'beat' on not only its guidance but sales, EBITDA and cashflow on the back of a strong 4Q19. Impressively, AD8 is now profitable on all fronts (EBITDA, EBIT, NPAT, cashflow).
- In our view, the significant out-performance for the 'beat' was due to three key catalysts: (1) the core chips business again achieving its historical ~30% volume growth (Brooklyn / Broadway / Ultimo); (2) AVIO adapters continuing strong demand; (3) Software revenues improving 39% on the back of DDM getting into stride and IPCore doing well (high ASP); and (4) lower AUD.
- Number of Dante-enabled products on market continues to grow, increasing from 925 in 2017 to 2,134, or now >6x the market adoption of its closest competitor, CobraNet – at the end 1H19, the number of OEM customers also rose from 310 in 2016 to 459.
- When we think of impressive Australian tech companies, it is usually the three members of the 'A-Team' that are held up as exemplars (Altium, Appen, Atlassian). Shaw and Partners believe AD8 should be included amongst this August group given its significant addressable market, its position as the global standard in digital audio networking (with no peers within cooee), profitability with sound (and increasing) underlying fundamentals (gross margins ~74% and exiting sales growth ~44% in AUD terms).

Forecasts			
YE 30-Jun	**FY19**	**FY20E**	**FY21E**
Earnings cps	1.0	3.9	10.9
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	66.0
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Washington H Soul Pattinson (SOL)

Recommendation	Buy
Risk	Medium
Share Price (as at 11 Oct 2019)	$21.49
Target Price	$26.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.2%	-5.2%	-18.2%

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

Impeccable Track Record of Outperformance

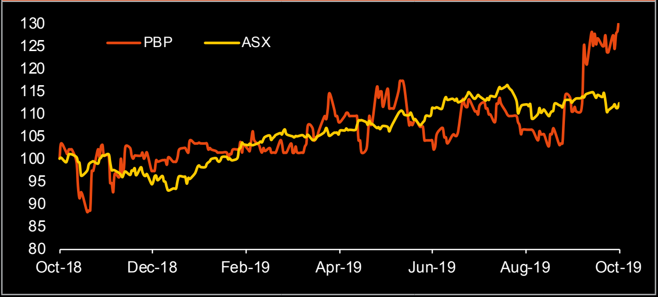
- Consistent investment outperformance for over 40 years – notably over the last 15 years, SOL has achieved an enviable TSR of 11.6% p.a., outperforming the All Ords Accumulation Index by 2.6% p.a.
- Superlative dividend track record with SOL one of just two listed companies (Ramsay Health Care) that has increased its DPS annually for the last 18 years.
- Key catalyst: Round Oak Minerals set for profitability in FY20 after two years of losses.
- Key regulatory event #1: securing approval for New Acland Coal Mine Stage 3 Project continues to be in abeyance as NHC waits for final approvals (expected soon) – additional production from Bengalla/Lenton partly offsets potential Acland declines.
- Key regulatory event #2: securing Federal Court approval for the TPG and Vodafone merger (expected before Xmas) – the ACCC's preliminary view is that the proposed merger will substantially lessen competition.
- Benefits of 40-year cross shareholding with BKW has historically – and clearly – outweighed the negatives (vindicated by Federal Court of Australia ruling) – positives include earnings stability, longer term management focus and dividend support vs. pitfalls of inflexibility, illiquidity, entrenching underperforming Board / management, perceived conflicts of interest, and complexity (may hinder valuation).

Forecasts			
YE 30-Jun	**FY19**	**FY20E**	**FY21E**
Earnings cps	128.3	129.5	134.6
Dividends (AUD) cps	58.0	60.0	62.0
PE x	17.1	16.6	16.0
Yield %	2.6%	2.8%	2.9%
Franking %	100%	100%	100%

Probiotec (PBP)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$1.95
Target Price	$2.07
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	19.3%	20.0%	31.8%

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

Uknown and undervalued with strong organic growth and net cash

- PBP is one of the largest vertically integrated manufacturers of OTC pharmaceutical products within Australia. The company delivers a range of services which range from IP, formulation, supply chain, packaging and distribution across many products including cough liquids, analgesics, tablets, vitamins and others.
- PBP delivers the majority of revenues via leverage to a diverse range of large multinational pharmaceutical and OTC companies including JNJ, BKL and others across long term contracts with a high visibility to earnings. PBP is currently delivering $100m+ in revenues, is highly profitable, is in a net cash position and delivering double digit organic growth.
- PBP is relatively unknown within the Australian market and has undergone a strategic refresh divesting non-core assets/ brands and reinvesting in supply chain initiatives to drive a competitive advantage and presence in OTC manufacturing. Divestment initiatives have totalled over $60m at attractive multiples, which have partly been recycled into strategic acquistions at 4.5x multiples.
- We expect PBP to demonstrate continued double digit organic growth underwritten by structural tailwinds driving onshore growth to speciality OTC manufacturers. We also expect the company to be an active consolidator within the Australian market and see further accretive acquisitions as likely.
- PBP currently trades at a discount to the overall market with net cash, a strong DPS profile and growing free cash flow.

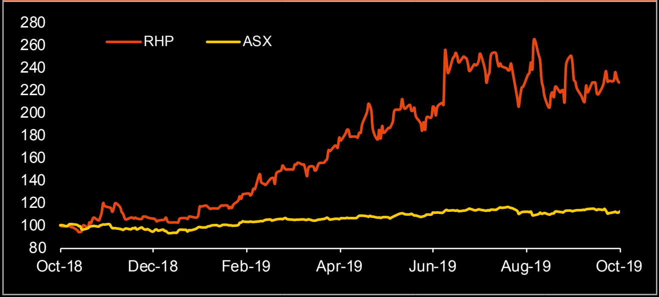
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	6.2	11.7	13.9
Dividends (AUD) cps	8.5	4.7	5.6
PE x	25.4	16.6	14.0
Yield %	5.4%	2.4%	2.9%
Franking %	100%	100%	100%

Rhipe (RHP)

Recommendation	Buy
Risk	High
Share Price (as at 11 Oct 2019)	$2.65
Target Price	$3.30
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.12%	-7.99%	126.50%

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

Recent pullback and Japan create opportunity

- RHP is the leading wholesaler of cloud based products within APAC and is one of only 11 globally managed account partners for Microsoft globally and the smallest by market capitalisation. RHP was born in the cloud and derives the majority of revenues via a recurring monthly billable model that due to strong growth trajectory and platform like costs is more profitable each month as operating leverage grows across the business.
- RHP is a an ASX listed turbocharged option on MSFT's growth within the fastest growing markets globally (Asia).
- Multiple growth levers are evident across RHP's business and this underwrites our confidence and investment thesis. Private cloud took 10 years to grow to FY19 gross margin levels, O365 CSP (public cloud) took 4 years and Azure (infrastructures as a service) is currently 30% ahead of CSP at a similar time since launch.
- RHP stock has pulled back upon the announcement of the launch into Japan and associated market expectations regarding the growth resources (expenses). We see management as having the track record of delivering multiple product and geographical growth targets previously and see the company as being successful in time within Japan. Japan is the second largest market for MSFT products globally and should buoy future growth prospects alongside public cloud.
- We like net cash, recurring earnings, operating leverage, global business models and leading management - All these are all available through RHP exposure.

Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	6.6	7.7	10.5
Dividends (AUD) cps	3.0	4.0	5.2
PE x	43.5	34.6	25.3
Yield %	1.0%	1.5%	2.0%
Franking %	100%	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.

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