Investment Watch

Spring 2019 Outlook

morgans

Welcome

The new financial year has started on a reasonable footing supported by monetary policy (reduction in the official cash rate) and fiscal expansion (tax cuts and rebates). A pick-up in consumer confidence and PMI points to a moderation of the slowdown we've seen following the Federal election. This month we update our outlook to year-end and look at sectors that will benefit from the more favourable domestic conditions including REITs and Retail. We update our Asset Allocation settings and Michael Knox explains the roots of the bond bubble.

Recently published research

AustraliaStrategy	(16/9)	Sells, Trims and Non-preferred Stocks
Consumer Discretionary	(9/9)	Post FY19 reporting season stock take
TPG Telecom HOLD PT A$5.89	(5/9)	Waiting at the cross roads
Telstra ADD PT A$4.46	(2/9)	NBN delays strike again
Oil Search ADD PT A$8.72	(3/9)	Papua gets critical approval

In this issue indicates published research available online.

Contents

Stay in touch

For breaking news, share prices, company research updates, analyst blogs, videos, podcast interviews, market updates and investment opportunities visit:

morgans.com.au or morgans.com.au/blog

youtube.com/c/MorgansFinancialLimited

@morgansAU

linkedin.com/company/morgans-financial-limited

soundcloud.com/morgans-financial-limited

Equity strategy

Updating our outlook to year-end

Morgans year-end forecasts

	Morgans (CY19)	Consensus (CY19)
GDP Growth	2.2%	1.9%
Inflation	2.0%	2.0%
RBA Cash Rate	0.75%	0.75%
AUD	$0.70	$0.68
ASX200 Target	6570	6600

Sources: Morgans, Bloomberg

The new financial year has started on a reasonable footing supported by monetary policy (reduction in the official cash rate) and fiscal expansion (tax cuts and rebates). A pick-up in consumer confidence and PMI points to a moderation of the slowdown we've seen following the Federal election. House prices appear to have bottomed and there is likely to be more support in the form of further rate cuts. The August reporting season presented evidence that the consumer is responding to stimulus so the October AGM season will be an important barometer for the health of corporate profits.

Given the strong run in the equity market (ASX +17% YTD to 31 August 2019) and valuations discounting higher levels of growth than we forecast, we do see any hiccup in the global economic outlook as a catalyst for a correction. In our view the most vulnerable parts of the market are the crowded trades of growth and income stocks. Performance in September suggests some rotation out of these positions may be on the way.

S&P500

US earnings have continued to grow at a slower but steady pace in calendar 2019. We think that fair value for the S&P500 in the final quarter of 2019 is 2,766 points. As we approach the beginning of the fourth quarter, we see that the S&P500 is trading at around 3,000 points. We expect a seasonal correction in the S&P500 in coming months. This should be followed by a normal seasonal rally in equities in December and January 2020.

Economy

Australian GDP grew by only 1.4% in the year to June 2019. This appeared to be because of weakness in private investment. A decline in capital formation reduced 0.3% from the number. A decline in inventories subtracted another 0.5%. We think this decline in private investment was primarily because of the uncertainty surrounding the Australian election in that quarter. At the time, the Opposition was expected to form government with a program of higher taxes on capital gains and higher taxes on residential investment.

We think the September quarter will show a return of business confidence. We think that year on year growth in the Australian economy will rise to 1.8%. This should rise further to 2.2% in the fourth quarter of 2019 and 2.4% in the first quarter of 2020. Growth in the Australian economy at 2.2% will therefore match the Federal Reserve outlook of 2.2% growth for the same year.

Weakness in inflation should see further declines in the Australian cash rate. Following the recent 25 basis point cut, we believe there will be a further cut to 0.5% in the first quarter next year.

S&P/ASX 200

Improvement in export commodity returns has generated a firm outlook for earnings per share in the Resources sector. This, together with a low international interest rate outlook, has generated a fair value for the ASX200 of 6,570 points. The market is currently trading near fair value. We think the ASX200 is likely to experience a seasonal correction in line with the S&P500. This should restore value to the ASX200 and set the market up for a healthy rally at year end.

Economics – How the US China trade war caused the Bond bubble

In the English-speaking world, economics is now based on the work of Maynard Keynes. In a communist economy, economics is based on the works of Marx and the works of Lenin. China is run by the Chinese Communist Party (CCP). The leaders of the CCP have learnt their economics from reading Marx and Lenin.

Marx emphasised commodities trading. He said that "a commodity, no matter how dirty or filthy, will make money of itself". As well as commodities, Marx also believed in the bond market. He talked about the "sovereignty of the bond holder". When you own the bond of another country, that puts you in a situation of power over that other country. Marx had a very high belief in gold. He said that "gold is the money of the world".

In the Chinese economy, there is a different emphasis on each of those things: commodities, the bond market and gold, compared to a Western economy. In a Western economy, we follow Maynard Keynes. Keynes said that gold is a "barbarous relic". In China, representatives of the Central Bank of China encourage people to own gold.

Understanding Marxist thinking of Chinese communist leadership allowed us to understand why China is an essentially commodities orientated country and why China built up its gold reserves. It has also built up reserves in the bonds of foreign countries, and built up an emphasis on trading commodities.

China has moved from a situation where it's basically a manufacturing economy to being predominantly a service economy, but it's still in a situation where the majority of its export revenue is gained from exporting manufactured products. This is why it has moved to find a source of services income by building ports and railways in other countries. That program is called Belt and Road.

But what China has attempted to do, to support this program, is attempt to make the RMB a reserve currency. This is because Britain, in this period of economic expansion and imperial expansion in the late 19th century, made the pound Sterling the premier reserve currency of the world. To make that possible, Britain created important financial institutions and links, which China currently lacks. The first of these was an internationally respected central bank. The Bank of England had existed for almost 200 years by the late 19th century. It was the faith in the Bank of England which generated international faith in the pound Sterling. Britain had also created an international banking network to provide services to support trade financed in the pound Sterling.

China currently lacks the financial institutions and links that Britain established in the late 19th century. Instead, what it has tried to do is go through official channels. Through the International Monetary Fund (IMF), it has had the RMB included in the basket of currencies used by the IMF, called the Special Drawing Right (SDR). In addition, it has provided through the IMF a series of currency swaps in which it has swapped the RMB with the currencies of other central banks that are part of the SDR. As a result, it has built up its international reserves and the proportion of international reserves that are denominated in RMB. Still, it was doing this from an incredibly low base.

Composition of Foreign Reserves Q1 2019

Currencies	Percent
United States Dollars (USD)	61.82
Euro (EUR)	20.24
Japanese Yen (JPY)	5.25
Bristish Pound sterling (GDP)	4.54
Chinese RMB (CNY)	1.95
Canadian Dollars (CAD)	1.92
Australian Dollars (AUD)	1.67
Swiss Francs (CHF)	0.15
All other countries	2.45

Source: IMF composition of Foreign Office Exchange Reserves

In Q1 2017, the RMB was only 1.1% of international reserves. This was a lower number than the Australian dollar had at that time. The table above shows in the most recent time period, which is the Q1 2019, the total proportion of international reserves held in RMB is still only 1.95%. This is only slightly higher than the proportion held in CAD of 1.92% and the proportion held in AUD of 1.67%.

The proportion of international reserves held in RMB is vastly lower than the overwhelmingly dominant international currency, the USD, with 61.8% of all international reserves. In spite of all its efforts, the RMB is only a minor player in international reserves and international finance.

Chart 1 – A fall in the RMB

Source: Morgans, Bloomberg

The major effects of the trade war seem not to be on trade but on financial confidence.

Refer to our recent research for more Economics coverage. Subscribe to the **Morgans Podcast** http://bit.ly/2oyOphn

What happens when you have an international confrontation over trade between the US and China? What's supposed to happen, theoretically, is the US increases its terms-of-trade and the exchange rate goes up against China, which it increased tariffs on. Back in March 2018, President Trump first increased the tariffs on imports of Chinese goods into the US.

The RMB USD exchange rate is shown in Chart 1. The RMB peaks, relative to the USD in February 2018, immediately before the US starts to put up tariffs on imports of Chinese goods into the US. The RMB has been on average falling ever since. And as it falls, international reserves and international trade finance, which is held in RMB, is being sold and used to buy US treasury bonds.

Up until March 2018, our model of US treasuries was going up, based on the rise in the US Fed funds rate. Once the capital flight from China into US treasuries began in March 2018, we have seen an unanticipated but major decline in US treasury bond yields. This decline is shown in Chart 2.

That decline in US treasury bonds has led to a decline in all of the bond yields of advanced economies. We have seen a dramatic decline in Australian ten-year bond yields, down to an all-time record low, which has happened just slightly after, but a direct result, of the decline in US treasury yields.

Our bond models, based on normal market conditions, tell us that we now have a situation where Australian and US 10-year bond yields are trading significantly below expected values, in fact our model shows a very high probability of a rise in the near term.

Chart 2 – Leads to a fall in US bond yields

Source: Morgans, Bloomberg

These very low levels of bond yields have been caused as a result of the capital flight from RMB securities into US bonds as a result of the fear engendered by the trade war. The major effects of the trade war seem not to be on trade but on financial confidence. Loss of financial confidence in the RMB is generating a flight out of RMB securities into US bonds.

Inital Public Offers and Retail Entitlement Offers

HomeCo

Initial Public Offer at $3.35 per share to raise $300m.

HomeCo is an internally managed property group focused on ownership, development and management of 30 operating retail and services centres (former Masters Home Improvement retail stores) across VIC, QLD, NSW and WA.

Latitude Financial Services

Initial Public Offer to raise between $1,244.8m and $1,400.4m at $2.00 to $2.25 per share

Latitude is a digital payments, instalments and lending platform that provides innovative products and services that support the needs of customers and merchants and other commercial partners, leveraging its technology and database of customer information.

DAMSTRA

Initial Public Offer at $0.90 to raise $49.3m

Damstra is a leading Australian provider of workplace management solutions to multiple industry segments across the globe that develops, sells and implements integrated hardware and SaaS solutions in industries where compliance and safety is of utmost importance.

superloop

Underwritten 1 for 6 Non-Renounceable Entitlement Offer at $0.82

Superloop is an independent provider of connectivity services designed, constructing and operating networks throughout the Asia Pacific metro region. SLC invest in fibre optic telecommunications infrastructure between locations of high interconnection density within markets experiencing significant growth in interconnectivity.

Recommended Asset allocations and active tilts

The global economy showed further signs of strain during the quarter, with manufacturing activity (ex the US) dipping into contractionary territory, with moderating US activity also caught in the same downdraft. These are impacts of the substantial (and simultaneous) tightening in monetary policy by various central governments in 2018, combined with ongoing "trade policy" tightening, including the stand-off between the US and China.

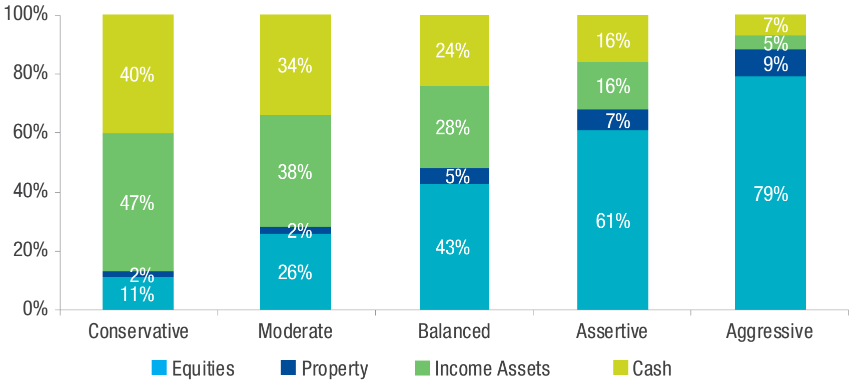
An aggressive pivot toward easier monetary policy by those same central governments stepped up during the quarter, with the cost of credit now back down. Ongoing monetary and fiscal stimulus is likely to be a feature of the investing landscape in the short term given elevated economic uncertainty, and explaining demand for safe haven assets including Gold. Government long bond yields are again at, or near record lows (many are negative), in key jurisdictions. Key equity markets continue to edge higher against this backdrop, suggesting investors in contrasting asset classes are struggling to agree on the economic outlook. Clearly these are abnormal times.

Investor expectations around growth, inflation and rates are being re-set lower for longer, and we expect further rate cuts. The yield differential in some equity sectors over bonds (particularly REITs and Utilities), rather than fundamentals, is the main driver of sector returns. Whether this can carry on much further is debatable. Parts of these sectors are clearly expensive, and we caution investors of chasing diminishing yield returns at the expense of assuming excessive portfolio risk. Our recent Equity Strategy work keeps a watch on tepid corporate profits versus dividend sustainability in this context.

Despite the abnormal environment, there are positives within the economic outlook: 1) US growth while softening is still solid at around 2%, 2) US employment remains at multi-decade highs; 3) Australian income growth (+3%) is far better than headline GDP figures imply; and 4) central bankers have begun to combat economic headwinds.

Overall, we continue to caution that investors should temper expectations of above-average returns in a low growth environment. This backdrop supports cautious asset allocation settings. We've maintained our defensive tilts noting the economic unknowns in play (Trade, China, Brexit). We apply slight negative tilts to Equities (-1%) and Property (-1%) in favour of lifting our title toward cash (+4%) as insurance against negative surprises.

Recommended asset allocations inclusive of tactical tilts



Sources: Morningstar, Morgans

Benchmark long term asset allocations and current tactical tilts

	Conservative	Moderate	Balanced	Assertive	Aggressive	Tactical Tilts
Equities	12%	27%	44%	62%	80%	-1%
Property	3%	3%	6%	8%	10%	-1%
Income assets	49%	40%	30%	18%	7%	-2%
Cash	36%	30%	20%	12%	3%	4%

Sources: Morgans

Quick views per asset class

Equities	Equity valuations look stretched relative to flattening profit growth. Clearly yield arbitrage vs bonds is in full effect, and we caution against complacency given the abnormal drivers at play.
Listed Property	Low cash rates remain supportive, as does defensive income as a hedge against economic risks. However the sector is expensive, and it's debatable as to how much further this arbitrage has to run.
Global Infrastructure	Appetite for quality yield is strong given the interest rate outlook. Global infrastructure such as toll roads, airports and utilities remain attractive for income certainty and stable growth.
Listed Fixed Interest	We expect replacement capital deals from financial institutions over the year ahead given strong capital positions, but note issuers may seek to take advantage of attractive funding and pre-fund upcoming call dates. Corporate issuers are anticipated to continue looking to wholesale markets to raise funds. Listed fixed interest trusts are growing in popularity and provide investors with immediate diversification and we expect to see further issuance in this space.
Government Bonds	We continue to recommend that conservative investors with <$250,000 stick to term deposits given the Government guarantee over direct Government bond investments.
Term Deposits	Leading term deposit rates continue to offer good risk adjusted returns at around 1.75% for six months, with deposits of 12 months sitting at 1.70%.
Cash	Despite lower returns, we maintain a higher cash weighting for capital preservation and to protect against downside risks.

Retail – Consumer bounce

The backdrop for consumer spending is better than it has been for some time with a favourable Election outcome, low interest rates, easing costs of living (excluding fuel of late), a bottoming in housing and fiscal stimulus via tax cuts/handouts. A third rate cut is broadly expected by year end, which will undoubtedly provide the biggest relief to disposable incomes this year.

Retail stocks rallied strongly in the wake of the Coalition win. FY19 results and trading updates were solid, while the prospect of fiscal stimulus drove additional buying in consumer stocks. Higher multiples have been applied to most stocks which looks sustainable to us given earnings are coming off a low base. The next wave of performance requires an earnings 'follow through'. We expect upcoming AGM trading updates will be solid, but we may have to wait until 1H20 results before management teams are confident enough to point to any earnings impact.

The health of the housing market is extremely important, and there are plenty of signs that we've seen a bottom in prices/activity. APRA's cut to the 7% serviceability rate and IR cuts have seen prices in Sydney and Melbourne show month on month growth for the first time since June 2019. Falling house prices through FY19 was a major consumer headwind, so even just a stabilisation here should release a key pressure point.

In the background, most domestic retailers still face challenges including mature store footprints, the falling AUD (input cost pressure) and rapidly increasing online sales rates which carry higher costs to serve. So while things are looking better than they have in some time, pressures also remain. The savings rate, which has been declining in recent years, provides a key headwind should consumers choose to save, rather than spend any increase in disposable income.

We maintain a preference for stocks with structural growth options, which is important if we are set for a prolonged period of low interest rates and low growth. We prefer: **AP Eagers, Baby Bunting, Beacon Lighting** and **Lovisa**.

For more refer to our reporting season wrap up 'Post FY19 reporting season stock take' published 9 September. http://bit.ly/2oGIHeI

Strategy – International diversification

The domestic economy is showing early signs of a turnaround buoyed by low interest rates and a boost to tax returns. A strong infrastructure pipeline may continue to take some pressure off over the short term, but with businesses looking to conserve capital rather than re-invest, we think the medium-term outlook for growth will remain subdued. Pockets of opportunities do exist as highlighted by our preferred sector and stock exposures but the recovery will continue to be patchy.

Meanwhile, the US economy appears more positive even against the recent trade concerns with China. Indicators of employment and corporate confidence are still all at multi-year highs. With the Australian market representing just 2% of world market capitalisation, we think it's prudent to diversify beyond the domestic market to access global themes and sectors that would otherwise be missed.

Investing offshore has never been easier with 147 ASX listed products available to choose from. The universe of global equity investment opportunities is vast, but researching and selecting the right shares to invest in is a challenging task for the typical investor.

There are numerous indirect options for Australian investors to gain international exposure, with both managed and passive opportunities. There is a significant number of exchange traded funds (ETFs) with a broad range of exposures to global equities. These are passive investments designed to track the performance of a certain index. There is also a large number of unlisted actively managed funds offering exposure to a broad range of international markets and sectors.

Our preferred global exposures include: **Magellen Global Trust (MGG), VanEck World ex Australia Quality (QUAL),** and **iShares Global 100 (IOO).**

Refer to our 'Preferred International List' for more ideas http://bit.ly/2nWUEeQ

A-REITS – Finely balanced?

A-REITs have broadly outperformed over the last year as investors seek yield in an ultra-low rates environment, and also favour defensive assets as a hedge against elevated risk. However this trend has recently broken down, and year to date the performance of the A-REITs Index at ~20% (total return) is now a touch behind the broader market (~22%).

The sector faces mixed operating conditions. The August reporting season showed that Industrial property is clearly the strongest subsector, with a number of REITs flagging intentions to increase their exposure. The Office market, particularly in Sydney and Melbourne, also looks good thanks to strong demand meeting limited short-term supply. However REITS exposed to residential housing have struggled due to falling house prices (though this outlook is now improving), and retail REIT results continue to be poor, reflecting subdued consumer spending and longer-term structural challenges.

Clearly the A-REIT yield differential over bonds, rather than operating fundamentals, is the main driver of sector returns. Whether this can carry on much further is debatable, however the sector is clearly expensive, particularly on measures such as price versus net tangible value.

The aggregate sector yield of 4.3-4.4% still compares favourably to Australian long bond yields hovering close to only 1.0%, however this gap looks like it has begun a process of narrowing. Through September, the A-REITs sector has posted a loss of 2.0-2.5% at a time when the wider market has kept appreciating. This could be an early signal that the hunt for yield is running out of puff.

Our preferred plays under research coverage are: **Aventus** Group which offers exposure to large format retail centres with AUM of +$2bn offering a distribution yield of around 7% paid quarterly; and **APN Convenience Retail REIT** owning a portfolio of 70 service stations valued at $355m and offering a c7% distribution yield paid quarterly.

Banks – Green shoots finally emerging

The most recent data points are pointing to a slight improvement in home lending activity and house prices. We expect further support from the introduction of the First Home Loan Deposit Scheme on 1 January 2020 and an ongoing easing bias from the RBA. This is comforting from a revenue growth and asset quality perspective and therefore also comforting from a dividend perspective.

While we are seeing green shoots on the credit growth and house price fronts, we remain mindful of risks to the Australian economy and therefore continue to keep a close eye on lead macroeconomic indicators such as consumer sentiment.

While further cash rate cuts from the RBA would be negative for major bank net interest margins (NIMs) if they were to be passed on to borrowers in full, then we only expect the major banks to pass on enough to keep their NIMs broadly stable.

Looking over the medium term, we expect absolute cost reduction to provide upside to major bank earnings as the banks look to increasingly digitise and automate their processes.

Westpac remains our preferred major bank for its compelling value. This is the case despite our view that there is a risk WBC will cut its nominal dividend in November. Our base case at this stage is that WBC will not cut its dividend, but we sense that institutional investor pressure is building for a cut and this may impact the decision of WBC's Board. If WBC does re-base its nominal dividend, then then we'd expect stronger nominal dividend growth over the next 3 years.

Pricing table

Rank	Stock	Rating	Share Price	Target Price	Dividend Yield	Gross Yield	12 month Forecast TSR
1	WBC	ADD	$28.50	$33.00	6.6%	9.4%	25%
2	ANZ	ADD	$27.30	$29.00	5.9%	8.4%	15%
3	NAB	HOLD	$28.00	$24.50	5.9%	8.5%	-4%
4	CBA	HOLD	$77.34	$74.00	5.6%	8.0%	4%

Sources: Morgans, Bloomberg, Data as at 3 October 2019.

Resources – Cautious around trade tensions

Uncertainty remains a feature of the outlook for the commodity complex. Prolonged US-China trade tensions are clearly dampening regional business confidence, and in turn manufacturing activity (and GDP growth) which impacts fundamental demand and pricing for commodities. Not surprisingly, market sentiment toward the sector is struggling, which is evident in the severe under-performance of junior miners relative to the majors.

Interestingly, the sector heavyweights BHP and RIO et al have been reasonably resilient through this period, helped by low cost production (supporting robust cash flows through the cycle) and capital discipline which in recent years has supported out-sized shareholder returns (dividends and buybacks).

While sentiment is also weighing on energy stocks, we're not seeing this in physical oil pricing which has actually climbed ~20% in 2019. This has been driven by the oil market reaching supply-demand balance and by heightened supply risks brought to attention by the recent attack in Saudi Arabia (impacting c5% of global supply). While the Saudis are moving quickly to restore this production, we expect oil pricing to maintain a risk premium as the oil market is reminded of its sensitivity to supply shocks. Given the disconnect between oil and oil equities, we see the best sector opportunities in **Woodside** and **Oil Search**.

The Geopolitical tensions described above have further bolstered the gold price due to its safe haven status. Global central banks have been cutting interest rates causing investors to divert funds to gold as a store of value. The RBA is one of these central banks that have recently cut rates however this has the added effect of devaluing the Australian dollar which further increases the AUD gold price.

Our key pick in the gold sector is **RED 5** due to its exposure to the AUD gold price as well as the significant growth story it is building.

Woodside
ADD, TP $34.97
Volatility yields better entry point

Oil Search
ADD, TP $8.72
Papua gets critical approval

RED 5
ADD, TP $0.50
Red means go

Recent initiations

Netwealth (NWL)
HOLD PT A$8.06

HUB24 (HUB)
HOLD PT A$13.23

NWL and HUB are specialist investment platform providers (SPPs), providing the technology platform to financial intermediaries (financial planners and wealth advisers) and their clients to administer and manage investment portfolios.

Red 5 (RED)
ADD PT A$0.50

RED 5 limited (RED) is a multi-asset gold producer with two operational mines in Western Australia.

OptiComm (OPC)
HOLD PT A$3.45

OPC builds, owns and operates fibre based open access wholesale telecommunication networks. These are predominantly for residential premises.

Infigen Energy (IFN)
HOLD PT A$0.64

Infigen owns and operates 670MW of wind farms across SA, NSW and WA and 268MW of firming generation.

Sector and stock preferences

Morgans research analysts provide an update on key dynamics, the outlook and nominate their preferred picks by sector.

Category	Sector	Sector rating	Preferred	Analyst's overview
Financials	Banks		WBC	We're positive on the major banks and expect mid-single-digit underlying profit growth over the next 3 years. We don't think one-off remediation/ regulatory costs will be large enough to threaten nominal dividends.
	Diversified Financials		LNK, KSL, GDG	Falling bond yields create headwinds for nearly all Diversified Financials stocks. The large-caps look fair-to-fully valued excluding those recovering from company specific issues, and we see better value among the small-mid caps.
Defensives	Cons. Staples		WOW	The major supermarkets continue to invest in smarter formats, online and new technologies although these are unlikely to deliver meaningful returns in the short term. Sector looks fully valued.
	Healthcare		RMD, SHL, PME	We think that Healthcare's mix of solid EPS growth combined with defensive earnings characteristics can support its premium sector rating.
	Telco		TLS, OTW	The telecommunications sector has continued its recovery off the lows this quarter, with a number of positive announcements that has seen investor sentiment improve, as well as share prices.
	Infra and Utilities		SYD, APA	The key beneficiaries of the lower bond yields are those stocks with long-term take-or-pay contracts (APA), patronage risk (TCL, ALX) or a mixture of both (SYD).
	A-REITs		AVN, AQR	A-REITs are expensive but are in favour for their yield in an ultra-low rates environment, and as defensive assets as a hedge against elevated risk. However there are early signs their appeal relative to cyclicals is abating.
Cyclicals	Cons. Discretionary		WES, APE, LOV	The consumer spending outlook has materially improved due to the Election outcome, rate cuts and fiscal stimulus (tax cuts). Structural challenges remain (falling AUD, online competition) and the housing market is critical, but we think that short-term momentum can be sustained. We prefer retailers with structural growth options.
	Industrials		ORA, CWY, PWH	For all the talk about a sluggish Australian economy (consumer, energy, sentiment), the outlook for domestic cyclicals looks more appealing versus global issues (Trade, Brexit, Hong Kong) which are now biting some offshore earners.
	Online media		IRE, FDV	We think those names with dominant brands, strong adoption, capital light business models and high ROC/ROE will continue to maintain premium ratings in a market starved of growth.
	Ag, Food & Bev		TWE	Drought conditions continue to bite. While some names are oversold, we do see further potential downside risk to earnings and are cognisant of stretched balance sheets.
Resources	Metals & Mining		OZL, RED, ORE	Commodities are battling stiff economic headwinds which have weighed on demand (manufacturing) and confidence (physical and equities pricing). A strong easing bias by key central banks through 2019 has the potential to re-stimulate activity in early 2020, as does any weakness in the abnormally strong US dollar.
	Energy		WPL, OSH	The sluggish performance in Oil & Gas equities has lagged improving fundamentals in oil prices themselves, providing opportunities in quality names.

Negative Deteriorating Neutral Improving Positive

Morgans best ideas

Our best ideas are those that we think offer the highest risk-adjusted returns over a 12-month timeframe, supported by a higher-than-average level of confidence. They are our most preferred sector exposures.

ASX 100	Ticker	Price	12 month price target	Dividend yield	Gross yield	12 Months TSR	Risk
Telstra	TLS	$3.54	$4.46	4.5%	6.5%	30%	Lower
Wesfarmers	WES	$40.19	$37.41	4.0%	5.7%	-3%	Lower
Treasury Wine Estates	TWE	$18.76	$20.60	2.3%	3.3%	12%	Moderate
Woolworths	WOW	$37.59	$34.45	2.9%	4.1%	-5%	Lower
Woodside Petroleum	WPL	$32.20	$34.97	8.0%	11.4%	17%	Lower
Oil Search	OSH	$7.19	$8.72	2.9%	2.9%	24%	Moderate
Westpac	WBC	$29.70	$33.00	6.3%	9.0%	17%	Lower
Sonic Healthcare	SHL	$28.72	$31.00	3.0%	3.5%	11%	Lower
Sydney Airport	SYD	$8.25	$8.71	4.8%	4.8%	10%	Lower
APA Group	APA	$11.45	$10.64	4.4%	5.0%	-3%	Lower
ResMed Inc	RMD	$20.20	$21.27	1.1%	1.1%	6%	Moderate
Cleanaway Waste Mgmt	CWY	$2.00	$2.31	2.1%	3.0%	17%	Lower
Link Administration	LNK	$5.76	$6.47	3.0%	3.0%	15%	Moderate
Orora	ORA	$2.91	$2.97	4.5%	5.0%	7%	Lower
OZ Minerals	OZL	$9.52	$10.95	2.3%	2.3%	17%	Moderate
Frontier Digital Ventures	FDV	$0.73	$0.94	0.0%	-	29%	Higher
PWR Holdings	PWH	$4.85	$5.30	2.1%	2.9%	11%	Moderate
Lovisa	LOV	$12.60	$13.66	2.4%	3.5%	11%	Moderate
AP Eagers	APE	$14.15	$15.55	3.5%	4.9%	13%	Moderate
Cooper Energy	COE	$0.57	$0.67	0.0%	-	18%	Higher
Kina Securities	KSL	$1.46	$1.51	9.6%	9.6%	13%	Higher
Generation Development Group	GDG	$0.65	$0.83	3.1%	3.1%	30%	Higher
Pro Medicus	PME	$29.33	$32.79	0.4%	0.4%	12%	Higher
Over The Wire	OTW	$4.89	$5.16	0.8%	0.8%	6%	Higher
IRESS	IRE	$11.74	$15.00	4.0%	4.7%	32%	Moderate
Orocobre	ORE	$2.67	$4.97	0.0%	-	86%	Higher
Red 5	RED	$0.27	$0.50	0.0%	-	84%	Higher
Aventus Group	AVN	$2.70	$2.69	6.3%	6.3%	6%	Lower
APN Convenience Retail REIT	AQR	$3.37	$3.43	6.5%	6.5%	8%	Lower

Source: Bloomberg, Morgans, Data as at 2 October 2019

Indicates published/linked Research Note

DISCLAIMER The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

REGULATORY DISCLOSURES KKC: Morgans Financial Limited is a Joint Lead Arranger and Joint Lead Manager to the initial public offer of units in KKR Credit Income Fund and may receive fees in that regard. **Home Consortium Ltd:** Morgans Financial Limited is a Joint Lead Arranger and Joint Lead Manager to the initial public offer of units in KKR Credit Income Fund and may receive fees in this regard. **DTC:** Morgans Corporate Limited is Co-Manager to the initial public offer of shares in Damstra Technology Limited and may receive fees in that regard. **Latitude Financial Group Ltd:** Morgans Corporate Limited is Co-Lead Manager to the initial public offer of shares in Latitude Financial Group Limited and may receive fees in this regard. **SLC:** Morgans Corporate Limited is a Joint Lead Manager and Underwriter to the placement and entitlement offer of shares in Superloop Limited and may receive fees in that regard. **WBC:** Morgans Corporate Limited was a Joint Lead Manager to the public offer of subordinated debt securities by Westpac Banking Corporation Limited and received fees in that regard. **CBA:** Morgans Corporate Limited was a Joint Lead Manager to the public offer of subordinated debt securities by Westpac Banking Corporation Limited and received fees in that regard. **RED:** This report was prepared solely by Morgans Financial Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Morgans Financial Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports. **OPC:** Morgans Corporate Limited is Lead Manager to the initial public offer of shares in OptiComm Limited and may receive fees in that regard. **FDV:** Morgans Corporate Limited is a Joint Lead Manager to the entitlement offer of shares in Frontier Digital Ventures Limited and may receive fees in this regard. **APE:** A Director of Morgans Holdings (Australia) Limited, the holding company of Morgans Financial Limited, is the Non-Executive Chairman of AP Eagers Limited and will earn fees in that regard. Morgans Corporate Limited acted as Financial Adviser to AP Eagers in relation to its off-market takeover bid for Automotive Holdings Group. AP Eagers paid fees for financial advisory services provided in connection with the bid as set out in the Bidder's Statement lodged with ASX on 5 April 2019. **OTW:** Morgans Corporate Limited was a Joint Lead Manager to the placement and share purchase plan for Over the Wire Holdings Limited and received fees in that regard. **GDG:** This report was prepared solely by Morgans Financial Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Morgans Financial Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

RECOMMENDATION STRUCTURE
For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

RESEARCH TEAM
For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

RESEARCH COVERAGE POLICY
For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

RESEARCH INDEPENDENCE STATEMENT
morgans.com.au/Research-Independence-Statement

STOCKS UNDER COVERAGE
For a full list of stocks under coverage, refer to our website at
http://www.morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage
http://www.morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

If you no longer wish to receive Morgans publications please advise your local Morgans office or write to Morgans, Reply Paid 202, Brisbane QLD 4001 and include your account details.

Morgans – Sydney Reynolds Securities Offices

Sydney +61 2 9373 4452
Bill Bishop
Alan Costello
Jean Findlay
Paul Ford
Adam Griffiths
Ryan Hoffman
Tony LeBrun
Ford Reynolds
John Reynolds
Julian Reynolds
Patricia Tsicalas
Grant Williams
Angus Mann

Gosford
Steve Newman +61 2 4323 3663

Gunnedah
David Heath 0418 241039

Wollongong
Ford Reynolds +61 2 4225 9955

morgans.com.au/reynoldssecurities

morgans.com.au

DISCLAIMER The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

REGULATORY DISCLOSURES KKC: Morgans Financial Limited is a Joint Lead Arranger and Joint Lead Manager to the initial public offer of units in KKR Credit Income Fund and may receive fees in that regard. **Home Consortium Ltd:** Morgans Financial Limited is a Joint Lead Arranger and Joint Lead Manager to the initial public offer of units in KKR Credit Income Fund and may receive fees in this regard. **DTC:** Morgans Corporate Limited is Co-Manager to the initial public offer of shares in Damstra Technology Limited and may receive fees in that regard. **Latitude Financial Group Ltd:** Morgans Corporate Limited is Co-Lead Manager to the initial public offer of shares in Latitude Financial Group Limited and may receive fees in this regard. **SLC:** Morgans Corporate Limited is a Joint Lead Manager and Underwriter to the placement and entitlement offer of shares in Superloop Limited and may receive fees in that regard. **WBC:** Morgans Corporate Limited was a Joint Lead Manager to the public offer of subordinated debt securities by Westpac Banking Corporation Limited and received fees in that regard. **CBA:** Morgans Corporate Limited was a Joint Lead Manager to the public offer of subordinated debt securities by Westpac Banking Corporation Limited and received fees in that regard. **RED:** This report was prepared solely by Morgans Financial Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Morgans Financial Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports. **OPC:** Morgans Corporate Limited is Lead Manager to the initial public offer of shares in OptiComm Limited and may receive fees in that regard. **FDV:** Morgans Corporate Limited is a Joint Lead Manager to the entitlement offer of shares in Frontier Digital Ventures Limited and may receive fees in this regard. **APE:** A Director of Morgans Holdings (Australia) Limited, the holding company of Morgans Financial Limited, is the Non-Executive Chairman of AP Eagers Limited and will earn fees in that regard. Morgans Corporate Limited acted as Financial Adviser to AP Eagers in relation to its off-market takeover bid for Automotive Holdings Group. AP Eagers paid fees for financial advisory services provided in connection with the bid as set out in the Bidder's Statement lodged with ASX on 5 April 2019. **OTW:** Morgans Corporate Limited was a Joint Lead Manager to the placement and share purchase plan for Over the Wire Holdings Limited and received fees in that regard. **GDG:** This report was prepared solely by Morgans Financial Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Morgans Financial Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

RECOMMENDATION STRUCTURE
For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

RESEARCH TEAM
For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

RESEARCH COVERAGE POLICY
For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

RESEARCH INDEPENDENCE STATEMENT
morgans.com.au/Research-Independence-Statement

STOCKS UNDER COVERAGE
For a full list of stocks under coverage, refer to our website at
http://www.morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage
http://www.morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

If you no longer wish to receive Morgans publications please advise your local Morgans office or write to Morgans, Reply Paid 202, Brisbane QLD 4001 and include your account details.

Queensland

Brisbane Stockbroking, Corporate Advice, Wealth Management	+61 7 3334 4888
Brisbane Edward Street	+61 7 3121 5677
Brisbane Tynan Partners	+61 7 3152 0600
Brisbane North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

New South Wales

Sydney Stockbroking, Corporate Advice, Wealth Management	+61 2 9043 7900
Sydney Grosvenor Place	+61 2 8215 5000
Sydney Reynolds Securities	+61 2 9373 4452
Sydney Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne Stockbroking, Corporate Advice, Wealth Management	+61 3 9947 4111
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Australian Capital Territory

Canberra	+61 2 6232 4999

Northern Territory

Darwin	+61 8 8981 9555

Tasmania

Hobart	+61 3 6236 9000

Western Australia

West Perth Stockbroking, Corporate Advice, Wealth Management	+61 8 6160 8700
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

050919

morgans.com.au