ShawandPartners

The Research Monitor

December Quarter 2018

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September Quarter 2018 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, rose only 0.2% on a price basis and by 1.5% including dividends in the September 2018 quarter.

Strong Q2 GDP growth figures published in early September failed to shrug off the global trade concerns for Australia's share markets. Among Australian equity sectors, the newly created Communication Services sector stood out with a stunning 25.3% return for the quarter, thanks mostly to a recovery in Telstra (TLS) shares, which were up 21.8%. Other stand-out sectors were Commercial and Professional Services, up 14.5% - lead by index heavyweight Brambles (BXB) which rose 22.75% and the Capital Goods sector, which was dominated by strongly performing CIMIC (CIM) up 21.4%, rose 7.8% during the quarter.

The largest component of the S&P/ASX 300 Index is the Banks Sector (22.9% index weight), which fell 1.5% in price terms and -0.4% including dividends, extending the period over which banks have underperformed the index. Similarly, the second largest sector, Materials (17.9% index weight) fell 1.2% including dividends, with bellwether BHP up 2.1%.

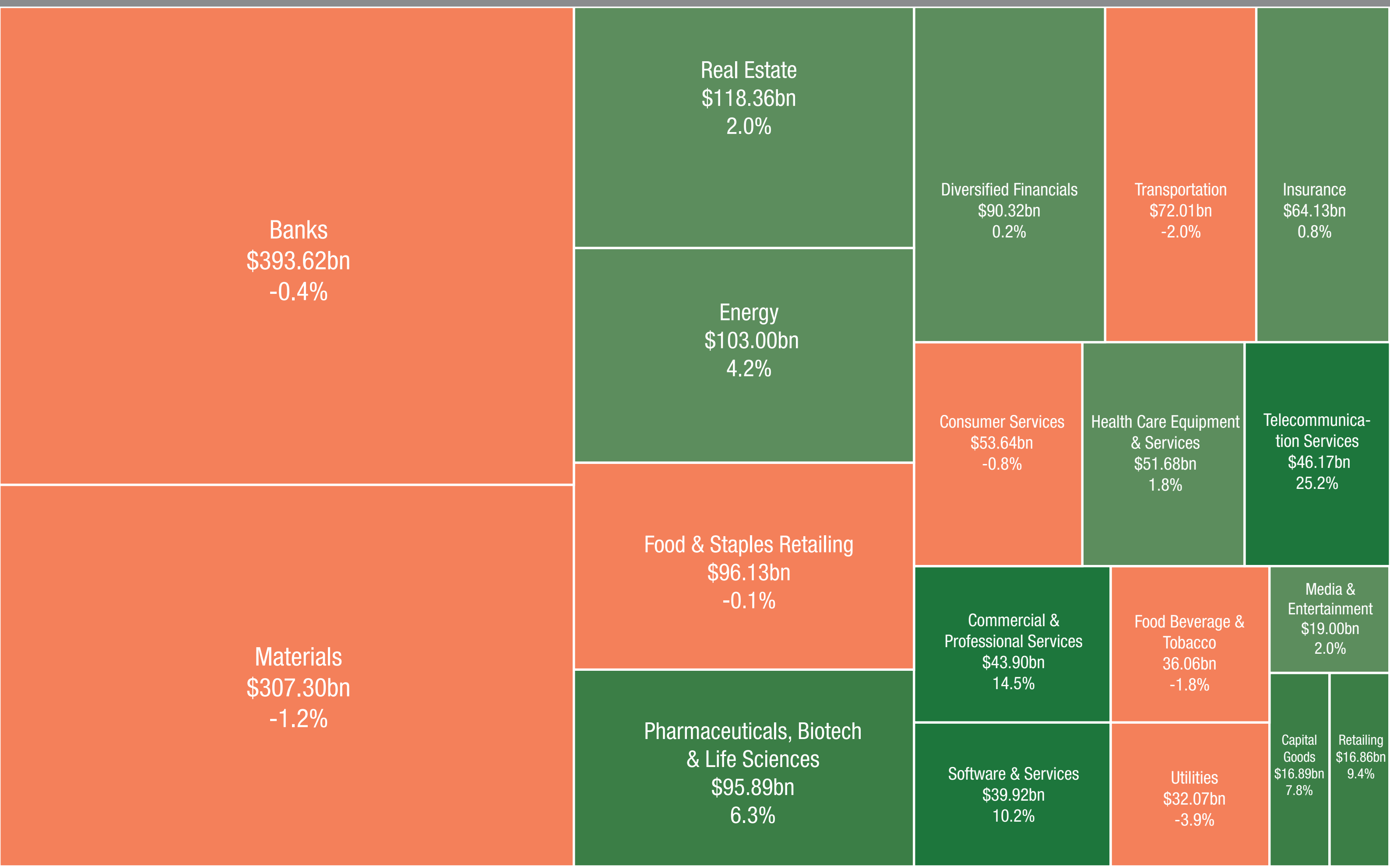
The market fell 1.3% in September mostly on the back of concerns about rising interest rates in the United States and about the potential for a damaging trade war between the US and China breaking out.

The September quarter is typically a period where companies trade "ex-divided" as full year dividend payments are made to shareholders – which keeps pressure on prices. This quarter was no different with the accumulation return exceeding the price return by 1.3% across the All Ordinaries Index.

The spread between 90 day bank bills and cash fell from 61 basis points at the end of June to 44 basis points at the end of September – a sign of moderating credit conditions. The same spread was 29.5 points at the start of the year, however. Measures of housing activity continued to show weakness, suggesting the broader economy is coming off the boil somewhat, although a lower currency is likely to provide some inflationary pressures. The Australian dollar has fallen for five consecutive quarters. Value stocks outperformed growth stocks in the September quarter for the first time in a long time, but both classes were negative in the month of September. Growth has outperformed value 9.5% to 2.4% year to date, but in the September quarter, value rose 2.1% versus growth only 1.0%. Equal weighted portfolios outperformed market cap weighted portfolios by 1% in the quarter.

Market measures of risk or volatility, remain very low suggesting that investors are comfortable with the likely path of inflation, interest rates, growth and trade.

Heat map legend: Size of box: market cap of sector. Colour of box: Quarterly performance (green positive, orange negative).



The Hayne Report

The interim report from the financial services Royal Commission was released on Friday 28 September.

Brett Le Mesurier

Senior Banking and Insurance Analyst

Group of issues identified

- Do all Australians have sufficient access to banking services?
- For whom do financial intermediaries act and how should they be remunerated?
- How should the responsible lending standards be defined and applied?
- Have the regulators fulfilled their duties?

Causes of poor conduct identified

- Conflict of interest and duty
- Remuneration structures
- Culture and governance
- Regulatory response

Responses to the causes of misconduct

- Potential changes to the law
- The role of ASIC and APRA
- Should an intermediary be allowed to sell any financial product of the intermediary's employer or provider of its licence?

Potential outcomes for wealth management, financial planning and life insurance companies

- The reduction or elimination of grandfathered commissions
- The end of vertical integration

Potential outcomes for banks

- Changes to remuneration structures to remove sales incentives
- Mortgage brokers to disclose the commissions they receive and the amount of the commission to no longer be linked to the size of a loan. There is also the possibility that commissions will be banned
- More questions to be asked about the suitability of a loan and the ability to repay that loan
- Agriculture specialists to deal with loans to the agriculture sector

Financial advice and FoFA

The more significant issues involve conflicted advice, remuneration and grandfathering. Commissioner Hayne has highlighted the problem clearly and the solution will undoubtedly follow.

Those companies who have business relying on intermediaries who are continuing to put their interests ahead of their clients; and/or are not offering superior outcomes for their clients are facing the greatest consequences.

AMP

The biggest loser appears to be AMP. Their business model is based on vertical integration, grandfathered commissions and allows for a substantial risk of conflicted advice.

The sooner grandfathering of commissions is terminated, the quicker the higher margin wealth management products become lower margin new products issued by another provider and the sooner their intermediaries are not allowed to sell AMP products, the less the company is worth. Banks have already substantially modified their approach to lending but the executives may find an unwelcome and adverse impact on their remuneration.

The potential further damage to banks appears to be coming from a wounded ASIC with a point to prove. Their fines and penalties are likely to be higher now. Intermediaries of all types are likely to be losers as well. The concepts of money for nothing and too much money for doing too little will be part of history with little future.

Martin Crabb

Chief Investment Officer

Late Cycle Investing

Despite two pull-backs that did not qualify as bear markets (more than 20% fall), the Australian share market has been in a bull market since March 2009 – the bottom of the GFC – and has risen three-fold including dividends since that time. Whilst bull markets do not die of old age, there is only a finite amount of time that the market can go up without having a bear market.

Economically, we are clearly in the "late cycle". Unemployment rates are falling all over the world and the US has run out of workers; there are 7 million job openings for only 6.2m unemployed. Output gaps have all closed and production is running above capacity in many industries, fuelling the need for more workers, more materials and more investment. Wages are starting to rise, commodity prices – especially energy – are rising and the introduction of tariffs on imported goods all add to inflationary pressure.

As a result, central banks are removing accommodation by increasing interest rates and winding back bond purchases. Recently, the United States hiked cash rates and this follows rate hikes in the UK, Sweden, Canada, Indonesia, India and Mexico amongst others – all since June. The removal of policy accommodation also has the impact of reducing liquidity in the financial system and making credit more expensive and difficult to attain. This explains the recent mortgage interest rate hikes by Australia's domestic banks.

In order to help investors navigate the "late cycle", we have undertaken a study of previous late cycles and looked at strategies that have benefited investors and helped to cushion their portfolios from tightening monetary policy, rising inflation and slowing growth – all of which are bad for bonds and equities (which comprise the vast majority of investment portfolios). Here is an example of a strategy that performs well "late cycle".

Unemployment rates are falling all over the world and the US has run out of workers.

Resources versus Industrials

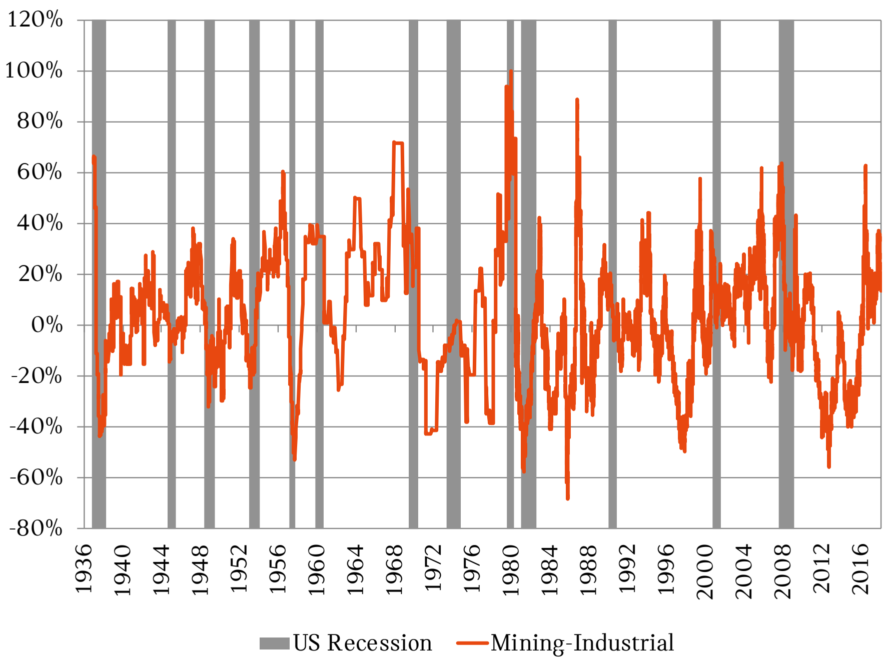
Since the 1940's, if one had invested in resources over industrials two years prior to the onset of a US recession and unwound the position one year after the US recession had begun, you would make on average 25%.

This historical phenomenon makes sense since many cyclical peaks are accompanied by inflation in commodity prices and the share prices of those companies that produce them.

Resources do very well in the late cycle and as a result, our Large Cap Core Equity portfolio is well positioned in the Mining and Energy sectors.

Resources outperform Industrials by an average of 25.8% in the "late cycle" – from two years prior to the onset of a US recession to one year after.

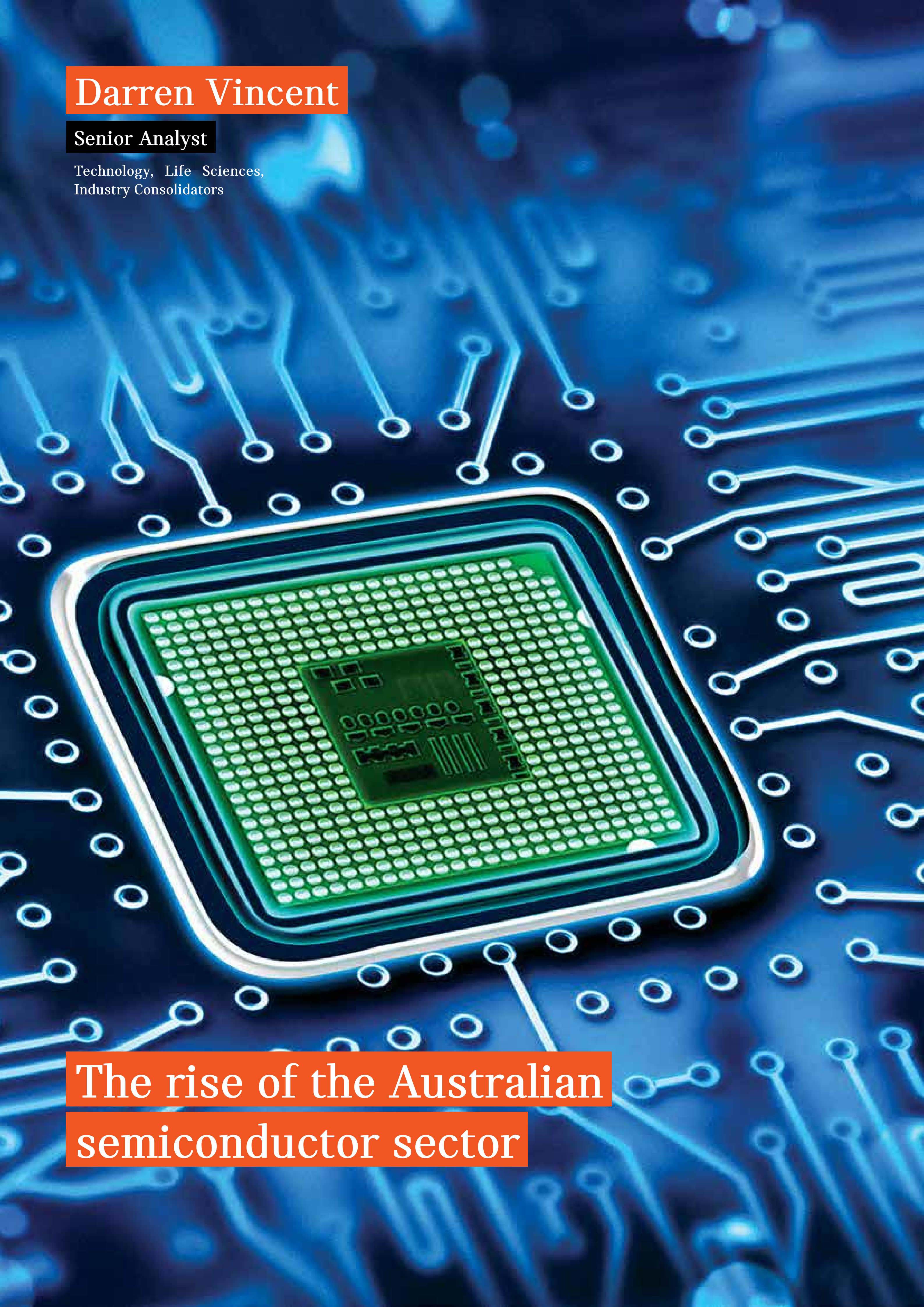
2 years before date	Mining/ Industrial	1 year into date	Mining/ Industrial	Return
Feb-43	0.0481	Feb-46	0.0486	1.05%
Nov-46	0.0466	Nov-49	0.0621	33.28%
Jul-51	0.0520	Jul-54	0.0649	24.81%
Aug-55	0.0783	Aug-58	0.0851	8.65%
Apr-58	0.0828	Apr-61	0.1265	52.75%
Dec-67	0.4167	Dec-70	0.8299	99.15%
Nov-71	0.4394	Nov-74	0.4693	6.79%
Jan-79	0.4515	Jan-82	0.4118	-8.78%
Jul-88	0.2319	Jul-91	0.2604	12.26%
Apr-99	0.1558	Apr-02	0.1873	20.20%
Jan-06	0.3350	Jan-09	0.4482	33.76%
Average				**25.81%**



Darren Vincent

Senior Analyst

Technology, Life Sciences,
Industry Consolidators



The rise of the Australian semiconductor sector

Following Shaw and Partners' listing of Pivotal Systems in June 2018, there are now 10 ASX listed semiconductor (SC) companies that Shaw and Partners tracks.

We expect further semiconductor ASX listings over the next 12 to 24 months – including additional U.S. based semiconductor companies electing to list on the ASX, rather than taking VC funding or listing on the NAZDAQ, both of which are relatively expensive options.

With the likely growth of semiconductor investment opportunities in mind, we discuss the sector's outlook and the importance of selecting appropriate underlying exposures.

OUTLOOK

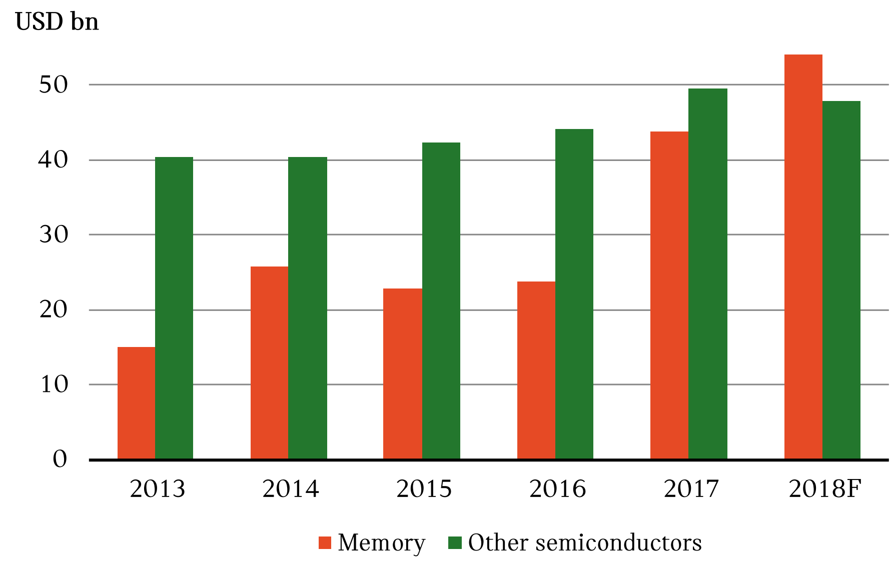
The outlook for the semiconductor sector is strong with a number of interrelated long term structural factors driving the growth in semiconductor demand. They include:

- semiconductors are being incorporated into an increasingly larger number of products,
- more semiconductors are being incorporated into each generation of new product, and
- advanced wafers are being demanded and achieved through increased capital intensity.

These thematics are evident in the strong industry numbers. Semi, the global semiconductor equipment industry body, forecasts semiconductor capex growth to be 15% this year up from 7% expected earlier in the year. Similarly all the big semiconductor and semiconductor equipment companies continue to step up their level of investment in the sector.

Samsung, the largest semiconductor equipment investor, announced in August that it will invest US$161bn over the next three years in R&D and capex. This is approximately a 20% pa increase for three years on the US$44bn it spent in 2017. Applied, Intel, Hynix and others have announced similar increases in investment. In total there are 19 announced new multi-billion dollar semiconductor fabrication plants (commonly called fabs) which are expected to begin construction in 2019 and 2020 for memory and other semiconductor devices.

Memory's growing share of semiconductor capex



Source: IC Insights

CYCLICALITY

There are of course significant risks that play into share prices every day. For example the semiconductor capex cycle has traditionally been cyclical and the industry is not immune to the tariff war. Tariffs have impacted semiconductor companies, especially those heavily exposed to importing components from China. Additionally, technology transfer is on the minds of investors. China will top the rest of the world in fab investment in 2020 with more than $20bn in spending on 25 new fab construction projects either underway or in planning. Much of the equipment that will be required for these fabs will be sourced from the U.S.

Cyclicality has also recently been impacting semiconductor share prices, with concerns that the memory cycle is maturing. We expect the industry to be less cyclical going forward due to the ever widening number of products that require different semiconductors, many of which are being developed and coming to market in staggered waves. Memory has been on a steep growth trajectory for a number of years. Other semiconductor categories such as Artificial Intelligence (AI), the internet of things (IoT), machine vision and autonomous vehicles are now coming into growth.

Samsung for example recently announced it would spend US$22bn in AI and 5G, areas it has not previously invested so heavily in.

Samsung, the largest semiconductor equipment investor, announced in August that it will invest US$161bn over the next three years in R&D and capex.

OUR SELECTION

Despite the positive long term drivers that will play into a stronger for longer semiconductor sector, the timing of sales is everything and concerns about tariffs and a maturing memory capex cycle has recently hit the share prices of some U.S. semiconductor companies, while others continue to appreciate. This makes understanding the underlying exposures and stock selection crucial, especially as Australian investors are given more opportunities to invest in semiconductor conductor companies in the future.

With this in mind the underlying drivers of Shaw and Partners' preferred semiconductor companies, **Pivotal Systems** and **Audinate**, are discussed on page 20 and 21 respectively.

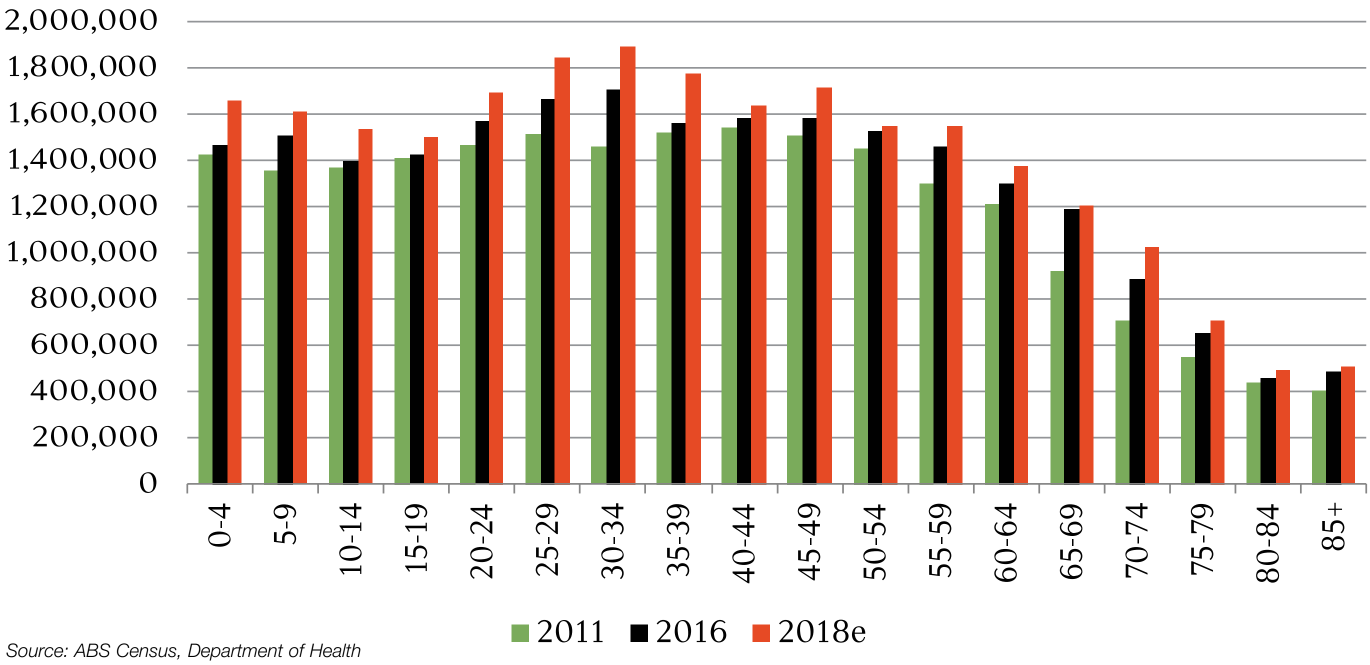
Peter Zuk
Senior Analyst, Real Estate

The increasing demand for aged care

Australia's population as at 30 June 2018 was estimated at 25.25 million, representing growth of almost 1.85 million persons since the 2016 Census. Interestingly, the "over 70" age cohort continues to grow and is now at 2.73 million persons, representing 10.8% of Australia's total population. There are now 242,530 more "over 70's" than there were in 2016, and 637,323 more than there were in 2011.

The Australian government is forecasting that the percentage of people aged 85 or older will be nearly 5% of the population by 2055. Against this backdrop, it is unsurprising that there has been an increase in demand for Aged Care services in Australia, with this demand expected to increase.

Australian Population by Age



Source: ABS Census, Department of Health

SUPPLY OF AGED CARE

Per the Australian Government Department of Health, there were 210,815 places across Australia as at 30 Jun 2018. This represents a ratio of 77.2 places for every 1,000 people aged 70 years and over. In addition, there were 865 Home Care places, being 0.3 places per 1,000 people over the age of 70.

AGED CARE PROVIDERS

Aged care services are managed by not-for-profit organisations, government organisations, or private companies. Not-for-profit organisations manage more than 50% of residential aged care. In most cases, the Australian Government contributes towards the costs of care.

GOVERNMENT SPENDING ON AGED CARE

Aged care services in Australia are funded by governments (federal, state, territory and local governments), non-government organisations (charities, religious and community groups), and personal contributions from those receiving care. Governments subsidise the cost of care and recipients contribute through fees and payments.

Per the "Sixth report on the Funding and Financing of the Aged Care Sector July 2018" issued by Australian Government, total Australian Government expenditure on Aged Care was $17.1bn in 2016-2017 up from $16.2bn in the previous year.

The majority of this expenditure went towards residential aged care - roughly $12.1 billion versus $4.4 billion on home care and support. This expenditure is expected to be $18.6 billion in 2017-2018, increasing to $22.2 billion by 2020-21

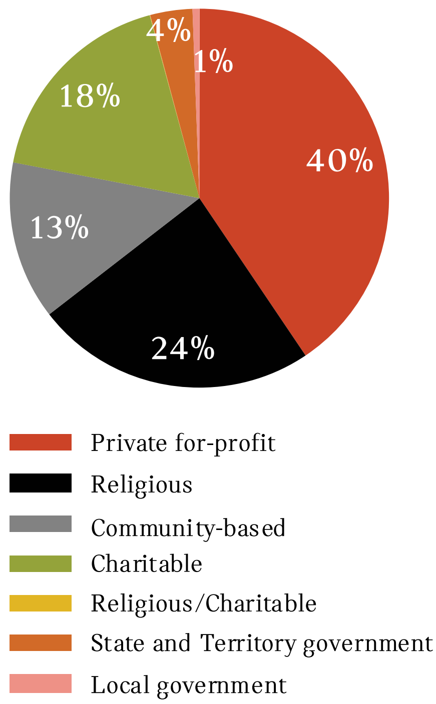
THE ROYAL COMMISSION INTO AGED CARE IN AUSTRALIA

On 16 September 2018, Prime Minister Scott Morrison announced a Royal Commission into Australia's aged care system following cases of abuse of elderly people and non-compliance by a number of operators in Australia.

Clearly the debate will involve tackling important issues like regulations, care of residents, staffing levels, training and funding to ensure aged care residents get the appropriate level of care. The inquiry will also look at what can be done to prepare for the increasing demand on aged care as the baby boomers age.

ASX-listed "for profit" operators like Estia Health (EHE) and Japara Healtcare (JHC) welcomed the Royal Commission into the Aged Care industry. However they, along with peer Regus Healthcare (REG) saw their share prices tumble post the announcement of the Royal Commission due to market concerns over industry headwinds and potential margin pressure for these listed operators.

RESIDENTIAL AGED CARE PROVIDERS – OWNERSHIP TYPES



Source: Department of Health

Shaw Managed Accounts

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

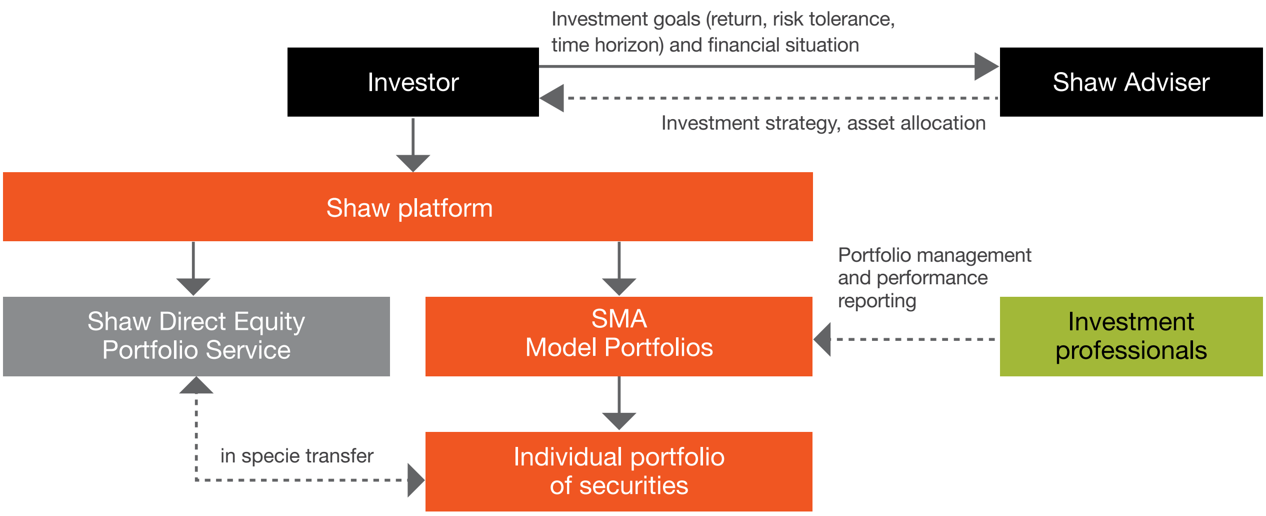
Shaw Managed Accounts are established and offered within the registered managed investment scheme known as the Separately Managed Accounts. Each investor has a separate "account" to which their investments are allocated.

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

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

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

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



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

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

Shaw Managed Accounts

Portfolio Performances – September 2018

Portfolio		1 Mth	3 Mth	6 Mth	1yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	-0.42%	2.17%	6.42%	8.60%	8.71%
Objective: RBA Cash +3%	Portfolio Objective	0.37%	1.14%	2.28%	4.59%	4.91%
Inception: Sep-17	Excess v Objective	-0.79%	1.04%	4.14%	4.01%	3.80%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	0.01%	1.92%	7.43%	11.24%	11.40%
Objective: RBA Cash +4%	Portfolio Objective	0.45%	1.39%	2.79%	5.64%	6.03%
Inception: Sep-17	Excess v Objective	-0.44%	0.53%	4.64%	5.60%	5.38%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	-1.13%	2.61%	10.88%	19.6%	19.12%
Objective: RBA Cash +5%	Portfolio Objective	0.53%	1.65%	3.30%	6.70%	7.16%
Inception: Sep-17	Excess v Objective	-1.66%	0.97%	7.57%	12.90%	11.96%

Portfolio		1 Mth	3 Mth	6 Mth	1yr	Inception
Debt Securities Income Portfolio	**Total Portfolio Return**	-0.09%	0.81%	1.75%	3.04%	2.74%
	Inception: Sep-17					
Hybrid Income Portfolio	**Total Portfolio Return**	1.33%	1.46%	2.69%	5.25%	5.65%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	**Total Portfolio Return**	-1.71%	0.97%	8.60%	9.72%	9.41%
	Inception: Sep-17					
Australian Equity (Large Cap) - Growth	**Total Portfolio Return**	-2.78%	1.80%	13.40%	24.40%	22.93%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	**Total Portfolio Return**	-0.48%	-0.73%	8.97%	12.80%	13.77%
	Inception: Sep-16					
Australian Equity - Small and Mid Cap	**Total Portfolio Return**	-0.28%	1.47%	9.09%	16.79%	16.77%
	Inception: Sep-17					
International Equity Portfolio	**Total Portfolio Return**	0.99%	6.41%	10.72%	16.87%	18.40%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	**Total Portfolio Return**	-0.46%	N/A	N/A	N/A	-0.28%
	Inception: Aug-18					

Australian Large Cap Model Portfolio

After a "horrible" August, our Australian Large Cap Model Portfolio rebounded well in September, rising in a falling market, outperforming the market by 1.7% and improving the annual return to 13%. Stellar performance from new portfolio addition Northern Star (NST) and being generally underweight growth stocks helped performance.

SECTOR HIGHLIGHTS

Only four sectors posted gains in September, which saw the ASX100 index fall 1.3% in accumulation terms. With the exception of the Telecommunications sector – which continues to catch a bid from corporate activity – all other sectors were driven by macroeconomic factors; namely rising US interest rates and better than expected opening trade war salvos from China and the United States. Energy, Materials and Capital Goods sectors all posted 3-5% rises.

PORTFOLIO POSITIONING

Our portfolio was positioned well for the change in sentiment toward cyclical stocks, albeit we had trimmed exposure at the end of August as a precautionary measure against a much more severe trade war. The risk/reward is worth reconsidering as we don't really think we have "lost" much by reducing the risk profile of the portfolio, but we were going to lose a lot if things got worse. Portfolio management is all about managing the risk/reward. Now in it's 9th year, the Australian Large Cap Model portfolio has compounded just shy of 10% per annum, before franking credits, with an average alpha of 1.8% and a tracking error of 2.9%.

Sector weights added 126 basis points to performance in September; stock positions added another 33 basis points. 55 basis points came from overweight Energy and 54 basis points from being (passively as we have no coverage) Pharmaceuticals. Our better stock selection calls were in the Materials (+59 basis points) and Banking sectors (+17 basis points).

CHANGES

We have tweaked the portfolio further this re-balance by switching NST to Evolution Mining (EVN) - a cheaper gold play, exiting war-torn IOOF Holdings (IFL) in favour of Macquarie Group, reducing the significant overweight Woodside Petroleum (WPL) to below our 5% threshold in favour of Oil Search (OSH) and trimming bank sector exposure in favour of more BHP. We exit Alumina Limited (AWC) as we see a turn for the worst in Alumina prices in favour of Oz Minerals (OZL).

RECOMMENDATION

With valuations in the "goldilocks zone" at around 9.5% TSR including dividends, it is only in a low risk environment that this return makes sense and so we don't see a huge need for investors to be overweight the market as a whole. In sector terms, however, we see Energy and Resources stocks as providing a very attractive risk/reward way to hedge portfolios against rising inflationary pressures, which we see evident in many measures. We build up portfolio beta this month after being "spooked" last month by the potential for things to get much worse on the trade front.

PORTFOLIO PERFORMANCE

The Australian Large Cap market – as measured by the S&P/ASX100 Accumulation Index – fell 1.3% in September. The majority of sectors posted losses, with only the cyclical sectors (and Telcos) moving forward.

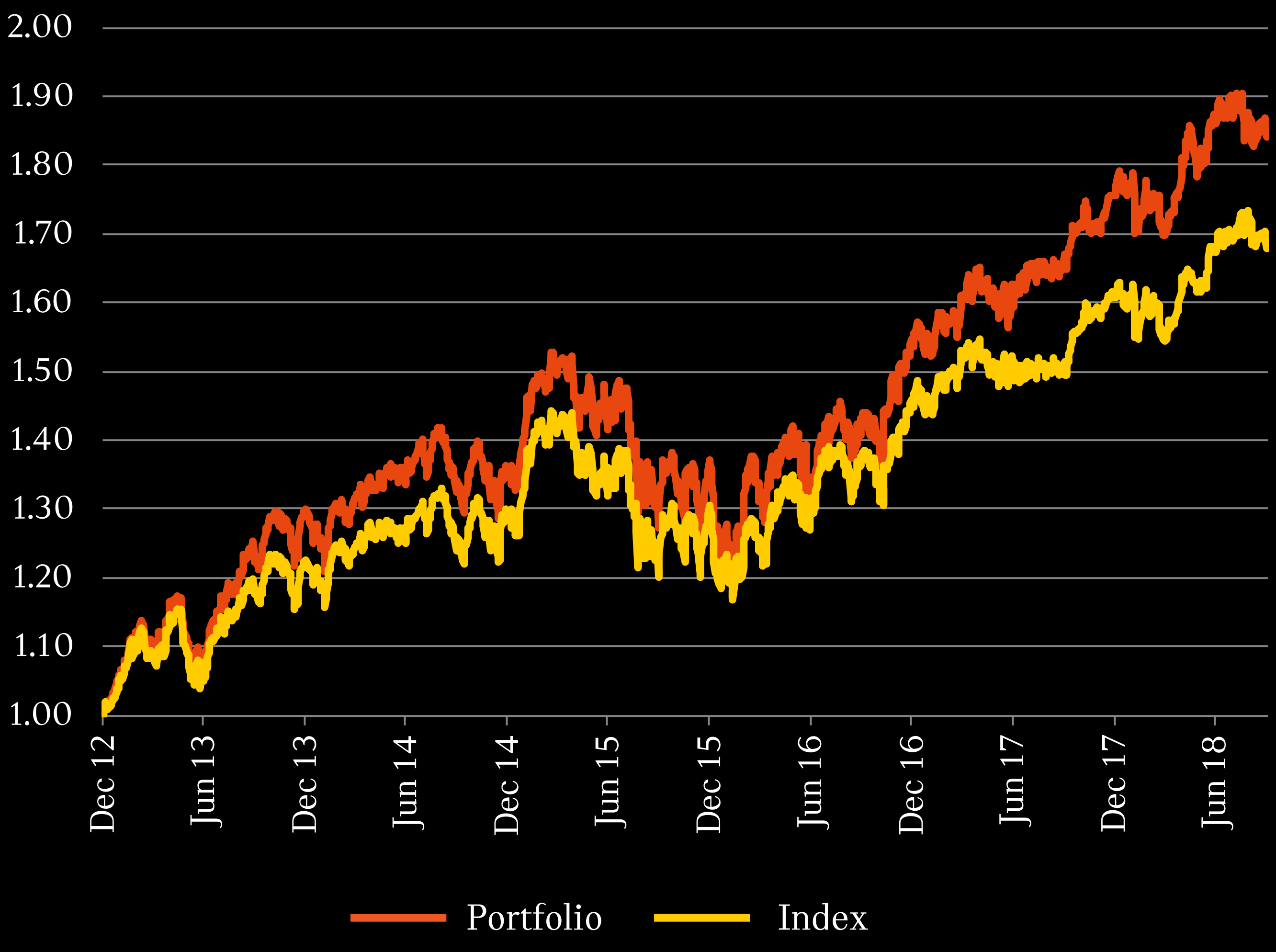
33 of the top 100 stocks traded ex-dividend during the month, and the difference between the price (no dividends) and accumulation (with dividends) indices was 0.51%. We estimate that we generated 0.39% income return in the portfolio in September.

September saw a recovery in relative performance of the Australian Large Cap Model portfolio via a combination of sector selection (overweight Energy and Materials) and stock selection (NST, no CSL). We have taken the opportunity to switch from high-flying Northern Star (NST) into Evolution Mining (EVN), maintaining our overweight position to the Aussie gold sector.

We think the tailwinds for Alumina (AWC) in the form of higher commodity prices and earnings upgrades will turn into headwinds going forward and favour the commodity outlook for copper and hence replace AWC with Oz Minerals (OZL) and a bit more BHP. We drop IOOF Limited (IFL) as we think it stays in the naughty corner post Banking Inquiry despite apparent value and consider Macquarie Group (MQG) as better placed in the Diversified Financials sector.

Lastly, we maintain a preferred maximum relative weight to any stock of +/- 5% and Woodside (WPL) is now above this so we trim by 1.5% in favour of Oil Search (OSH).

Portfolio Performance (Accumulation Basis)



Model Portfolio at 30 September 2018

BHP	BHP Billiton Limited	11.7%
CBA	Commonwealth Bank	10.7%
WBC	Westpac Banking Corp.	9.6%
NAB	National Aust. Bank	7.7%
WPL	Woodside Petroleum Ltd	7.1%
MQG	Macquarie Group Ltd	6.3%
SGP	Stockland	4.9%
RIO	Rio Tinto Limited	4.8%
OSH	Oil Search Limited	4.7%
SUN	Suncorp Group Limited	4.5%
EVN	Evolution Mining Limited	4.2%
CTX	Caltex Australia Limited	3.9%
WES	Wesfarmers Limited	3.5%
MGR	Mirvac Group	3.3%
FLT	Flight Centre Travel	3.2%
OZL	OZ Minerals Limited	3.0%
SCG	Scentre Group	3.0%
BOQ	Bank of Queensland	2.1%
VCX	Vicinity Centres	1.9%
	Total	**100%**

Our Preferred Stocks

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. The company was founded in 1969 and is headquartered in Sydney, Australia.

Suncorp Group (SUN) is a financial services company, which engages in the provision of banking, wealth, insurance products and services. The company operates through the following segments: Insurance, Banking and Wealth, Suncorp New Zealand and Corporate. The company was founded in 1996 and is headquartered in Brisbane, Australia.

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

OZ Minerals (OZL) is an Australian based mining company with a focus on copper. The company owns and operates the Prominent Hill copper-gold mine and the Carrapateena copper-gold project located in South Australia and has a number of equity interests in listed resource companies. The company was founded in 1988 and is headquartered in Parkside, Australia.

Caltex Australia (CTX) is a transport fuel supplier, convenience retailer and an integrated oil refining and marketing company. The company operates through the following segments: Supply & Marketing and Lytton. Caltex Australia was founded in 1900 and is headquartered in Sydney, Australia.

Woodside Petroleum (WPL) is an Australian based oil and gas exploration and production company. Key assets are the Pluto, North West Shelf and Wheatstone LNG projects offshore WA. Oil is produced from the Enfield and Vincent FPSO's. Exploration is underway internationally offshore West Africa, Myanmar, and onshore Canada. The company was founded in 1954 and is headquartered in Perth, Australia.

Stockland (SGP) is a diversified Australian property group. The Group develops and manages Retail centres, Residential Communities and Retirement Living assets with a focus on regional centres and outer metropolitan. Stockland also owns a portfolio of Office and Industrial assets. The company was founded in 1952 and is headquartered in Sydney, Australia.

Vicinity Centres (VCX) is a Real Estate Investment Trust (REIT) that engages in the development, operation and management of shopping centres in Australia. Vicinity Centres was created on 11 June 2015 following the merger of Federation Centres and Novion Property Group.

Apiam Animal Health (AHX) operates as a veterinary practice and products supplier. The company practices across the pig, dairy, feedlot, sheep, equine, and companion animal sectors. Apiam Animal Health was founded in 1998 and is headquartered in Bendigo, Australia.

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

Pivotal Systems (PVS) provides the best-in-class gas flow monitoring and control technology platform for the global semiconductor industry. The company's proprietary hardware and software utilises advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes. Pivotal Systems was founded in 2003 and is headquartered in Fremont, CA.

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. The company was founded in 2006 and is headquartered in Ultimo, Australia.

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

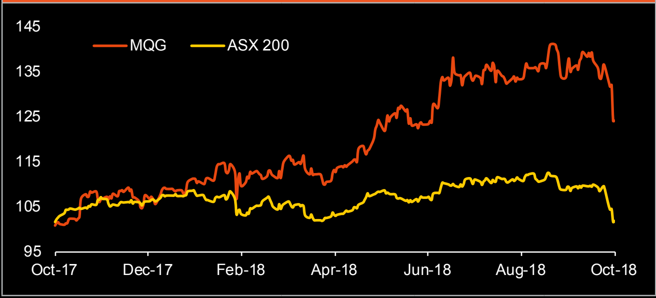
Capitol Health (CAJ) is a leading provider of diagnostic imaging and related services with Australia. CAJ operates primarily across the geographies of Victoria and Tasmania, where the company currently offers services through 48 clinics. The diagnostic imaging services include MRI, Ultrasound, CT, Echocardiography and X-Ray amongst a host of treatments. The company has grown through a combination of both organic and acquisitive growth and operates in an industry with a sustained and positive industry outlook.

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 Group (MQG)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$115.53
Target Price	$130.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.7%	-5.8%	24.0%

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

- MQG's revenue growth has been reliant on continued strong profits from their investments over the past few years. If the markets allow, this should continue as MQG has increased those investments. The recent sale of Quadrant Energy is an example of the gains from the sale of investments that can be achieved by MQG in FY19.
- The lack of growth in net interest income highlights the issue faced by the major and regional banks. It's not such an issue for MQG as it represents less than 20% of its income.
- MQG's revenue growth is linked to the growth in the equities market. There are many contributing factors to this: base fees, performance fees, trading income, capital markets and gains from asset sales. Strong equity markets are consistent with strong capital markets generally which support asset prices and provide liquidity for asset sales.
- While the correlation is strong, it's imperfect which reflects the timing of asset sales, the realisation of performance fees and the timing of transaction fees. MQG can dampen this volatility through expense management and it can leverage the relationship between revenue and the capital markets by continuing to achieve a declining cost to income ratio.
- MQG's capital requirements react to the health of the market. The timing in the relationship between the increasing market and the increase in capital is immediate.

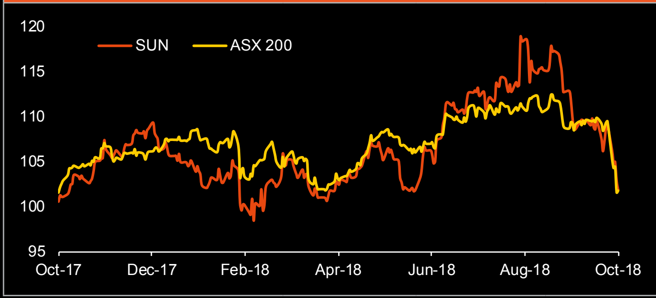
Forecasts

YE 31-Mar	FY18	FY19E	FY20E
Earnings cps	758.1	839.6	888.3
Dividends (AUD) cps	525.0	585.3	617.7
PE x	16.2	14.6	13.8
Yield %	4.3%	4.8%	5.0%
Franking %	45%	45%	45%

Suncorp Group (SUN)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 October 2018)	$13.59
Target Price	$16.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-6.4%	-9.1%	1.8%

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

- SUN is finalising the sale of its Australian life insurance business for $600m (after transaction costs) and should be able to return the entire proceeds to shareholders. This will probably come as a share buy back in view of their relatively tight franking credit position. This will be down to a balance of $150m after the payment of the final dividend of 40 cps and a special dividend of 8 cps.
- We have allowed for a $800m share buy back once the sale of the life insurance business is completed at the end of this calendar year.
- The general insurance margin increased from 8% in 1H18 to 16.3% in 2H18. Lower peril costs in 1H18 provided 3.3% of the improvement, larger reserve releases provided 1.7% and a reduction in risk margins provided 2%. 2.3% was attributed to business improvement from 1H18 to 2H18.
- As a result of the operational improvement from 1H18 to 2H18, there is some basis for thinking that the incremental benefits of approximately $150m from the Business Improvement Program could materialise.
- Growth in home and motor premiums was offset by a decline in compulsory third party (CTP) premiums as a result of the reforms to the NSW scheme.
- Bank income declined by 4% from 1H18 to 2H18 and its pre-tax profit fell by 3%. From FY17 to FY18, there was 3% income growth but profit fell by 5%. This was because bad debts increased by $20m over the period.

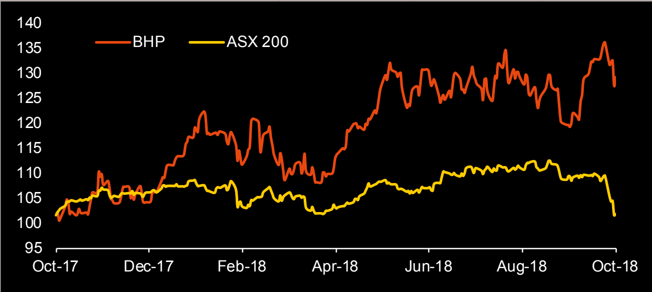
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	85.2	105.1	109.5
Dividends (AUD) cps	81.0	79.0	82.0
PE x	17.1	13.3	12.8
Yield %	5.6%	5.6%	5.9%
Franking %	100%	100%	100%

BHP (BHP)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 October 2018)	$33.84
Target Price	$40.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	8.8%	0.8%	29.1%

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

- Divestment update – In late July BHP announced the long awaited sale of the US onshore shale oil and gas business. BP agreed to acquire the majority of the portfolio for a consideration of $10.5bn with 50% due in (late) October 2018 and then balance in 6 monthly installments. An additional $300m gas portfolio sale completes the deal. Total transaction proceeds of US$10.8bn was a very good outcome and should have met/exceeded most expectations.
- **Shareholder rewards.** In the words of the CFO in February 2018, "The proceeds won't touch the sides" suggesting shareholders will enjoy the spoils. Moreover, the latest commentary reads "BHP expect to return the net proceeds from the transactions to shareholders. Will confirm how, and when, at the time of completion of the transactions."
- Capital management update - BHP's "big" capital return is now much closer. Likely distributions options include:

  Buy back – Australian off market a key option. With this option delivering a ~14% buy back price discount afforded by the tax effective credits (utilises BHP's store of tax credits).

  UK on market – Second ranking to and Australian Buy back – unless the spread is >14% discount to BHP-UK – this is still likely as a matching action to shareholders in the UK.

  Special dividends – Not preferred given they are typically not capitalised in long term dividend growth projections.

  Ordinary dividend top up – This is already well covered by current high levels of free cash flow so whilst the ordinary could be topped up we think it more likely to be left reflecting operational/business performance.
- This asset sale and the mechanics of subsequent capital management should help deliver BHP towards our $40/share target price.

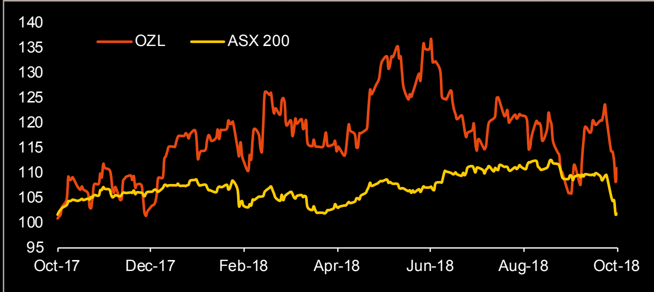
Forecasts

YE 30-Jun	FY17	FY18E	FY19E
Earnings cps	126.4	167.8	154.5
Dividends (AUD) cps	110.1	152.2	127.0
PE x	14.1	14.6	15.8
Yield %	4.6%	4.8%	3.8%
Franking %	100%	100%	100%

OZ Minerals (OZL)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$8.79
Target Price	$13.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	6.4%	-1.6%	10.8%

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

- OZL is now advancing growth options across four separate provinces – Prominent Hill, Carrapateena, Brazil and West Musgrave. The latter is looking very interesting. Recently, JV partner Cassini Resources (CZI) announced a second significant intersection of nickel and copper mineralisation at the Yappsu Prospect which lies within the West Musgrave Project (WMP) in Western Australia.
- OZL and Cassini are advancing WMP on several fronts. The program is funded as part of the Earn-in/JV Agreement with OZ Minerals. The JV Partners are currently undertaking a Pre-feasibility Study (PFS) on the more advanced Nebo-Babel Deposits as well as a regional exploration program.
- WMP adds to growth from ~2022. The WMP has the potential to lift OZL's top line from ~2022 as the West Musgrave province kicks in, adding the fourth province to OZL portfolio. Importantly, this doesn't include contribution form Yappsu, the source of the latest WMP discovery/announcement.
- Sirius look-alike. Very early indications suggest that WMP may have some of the attributes of the Nova project operated by peer, Independence Group. Pretty impressive leverage for OZL and more importantly junior Cassini Resources.
- OZL has a long term valuation tail that the market hasn't yet fully grasped, let alone valued – top line growth could hit ~150% over the period to 5 year 2024. Do the math, that's a CAGR (%) of 18% vs. RIO and BHP at ~3% and pretty much internally funded to boot. So in the near term copper price tribulations will whip-saw the share price but long term the company valuation will grow with future cash flow.

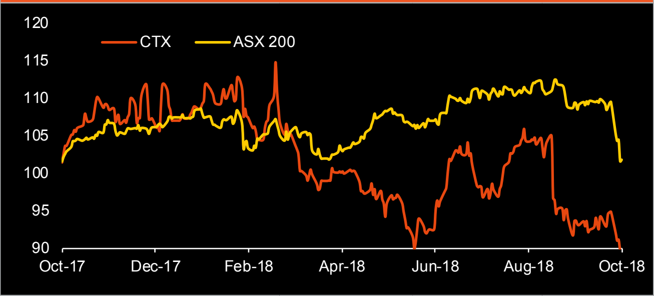
Forecasts

YE 31-Dec	FY17	FY18E	FY19E
Earnings cps	61.2	58.2	47.7
Dividends (AUD) cps	20.0	20.0	20.0
PE x	15.0	15.5	19.0
Yield %	2.2%	2.2%	2.2%
Franking %	100%	100%	100%

Caltex Australia (CTX)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$29.16
Target Price	$35.00
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.9%	-6.4%	-11.3%

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

- Caltex is Australia's market leader in import, production and supply of refined products with approximately 30% share of the national market.
- The refined product market is mature offering CTX little scope to grow volumes or expand margins from the current level, hence the company is diversifying into new geographic markets such as New Zealand and The Philippines to date.
- CTX is increasing its investment in convenience store and food retailing, and in July 2018 CTX extended its long term supply agreement with Woolworths which will benefit both CTX's wholesale fuel supply and grocery supply.
- CTX expects material earnings growth from a multi-year new store roll-out and in addition is transitioning all the franchised retail sites to company owned.
- CTX targets operatorship of >88% of its sites by year end 2020. We expect full impact on profits from retail growth and the end of franchising will become more evident after 2020.
- PE and EV/EBITDA multiples are not high for CTX's high quality, relatively stable earnings and appear to discount the company's growth strategy. Dividend yield is reasonable and CTX has a very large franking balance, which could be addressed via a future buy-back, once the current investment phase gives way to strong cash flow growth.

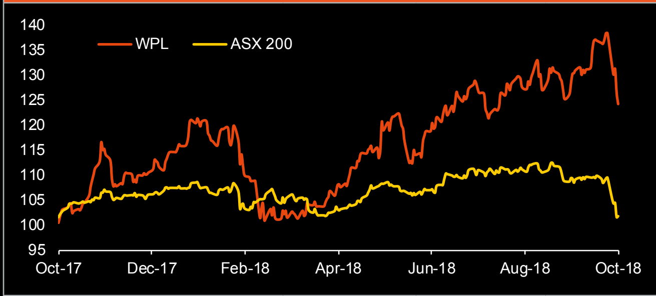
Forecasts

YE 31-Dec	FY17	FY18E	FY19E
Earnings cps	238.0	229.7	222.1
Dividends (AUD) cps	121.0	115.4	111.1
PE x	14.3	13.0	13.5
Yield %	3.6%	3.9%	3.7%
Franking %	100%	100%	100%

Woodside Petroleum (WPL)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$36.00
Target Price	$46.00
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.9%	0.5%	24.2%

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

- Woodside is differentiated from domestic and global peers by its low-cost, long life production and strength of balance sheet. It navigated the oil price collapse without having to sell assets, hedge oil at low prices or change strategic direction which is predominantly focused on developing up to three world scale oil and gas projects.
- Strong LNG demand growth, driven by China and the new Asian customers, underpins a planned Scarborough-Pluto LNG project, while the prospect of development of Browse Basin gas to the Karratha gas plant has risen, as a result of USA-China trade war and tariffs on USA LNG exports. Woodside's competitive advantage has just improved and apart from proposed expansion in PNG, there appear to be few rivals to meet surging China & Asian demand.
- In oil, WPL has immediate growth from the Greater Enfield development in 2019 and the SNE oil development offshore Senegal ~2022.
- Higher oil prices flow through to EPS with around 96% of all production oil-linked. The dividend payout ratio is 80% of EPS and as a result, WPL's dividend yield is superior compared to peers. On a DCF valuation basis, WPL is undervalued.
- There are significant earnings, dividend and valuation and price target upside if the current oil price rally holds.

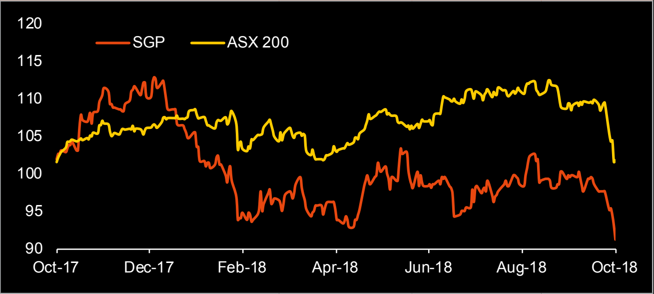
Forecasts

YE 31-Dec	FY17	FY18E	FY19E
Earnings cps	121.5	163.6	244.2
Dividends (AUD) cps	127.8	181.8	276.4
PE x	21.3	16.3	10.9
Yield %	3.8%	5.2%	7.3%
Franking %	100%	100%	100%

Stockland (SGP)

Recommendation	Buy
Risk	Low
Share Price (as at 12 October 2018)	$3.94
Target Price	$4.69
Analyst	Peter Zuk

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-6.0%	-4.6%	-8.8%

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

- Stockland's stated return on assets (ROA) has trended up over the past 4-5 years from 6.8% in FY14 to 9.1% in FY18 – largely due to the performance of the Residential division.
- Despite negativity surrounding the Retail landscape and SGP's Retail investment portfolio, we note that its portfolio is 99.4% occupied, sales growth remains positive at +1.6% on a comparable basis, specialty sales per square metre continue to trend upwards and occupancy costs are relatively low at 14.9%.
- We note that development inventory (mainly residential land) is held at the lower of cost or net realisable value – and not at current market prices. As such, if you take the view that SGP can generate a positive return on this capital employed – which we do – then implicitly SGP should trade at a premium to book value (all other things being equal).
- On 6 September 2018, SGP announced it an on-market buy-back for up to $350m of Stockland securities on issue, as part of its active approach to capital management. Given the stock is trading at a discount to its stated net tangible asset (NTA) backing of $4.18 per share, we see the buy-back as a sensible move.
- The balance sheet is in good shape with gearing of 22.2% (as at 30 Jun 2018). Its attractive forecast DPS yield is based on a fairly conservative 74% payout of funds from operations (FFO).

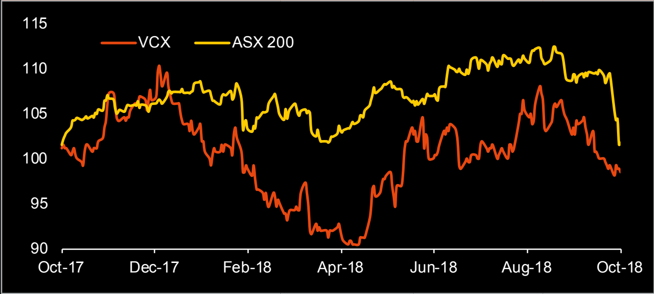
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	31.6	32.8	33.7
Dividends (AUD) cps	26.5	27.6	28.6
PE x	12.5	12.6	12.2
Yield %	6.7%	6.7%	7.0%
Franking %	–	–	–

Vicinity Centres (VCX)

Recommendation	Buy
Risk	Low
Share Price (as at 12 October 2018)	$2.61
Target Price	$2.98
Analyst	Peter Zuk

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.0%	-1.9%	-1.5%

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

- Like most REITs that have retail-sector exposure, VCX's share price is suffering from negative sentiment. We are not arguing that the retail landscape in Australia is easy – it is not – but we do believe the market is undervaluing the equity value of VCX.
- Looking at fundamentals, the portfolio is almost full with occupancy of 99.7%. Comparable retail sales growth was modest at +1.2%, but importantly, specialty sales per square metre was up 7.5% to $10,133 across the portfolio in FY18. Occupancy costs were up slightly to 14.7% (vs. 14.6% in FY17).
- Our earnings estimates reflect management's planned disposal of $2.0bn of assets, a strategy that we think makes sense. We see the trade-off of short term earnings dilution more than being offset by the impact of "validating" VCX's portfolio values – on the assumption that asset sales achieve at least book value in aggregate. Press reports suggest there are interested parties who have submitted bids for these assets, so we now wait for a formal announcement from VCX.
- In the meantime, the stock is trading at a discount to its NTA backing of $2.97/share. The market continues to (1) discount the book value of VCX's retail portfolio and (2) ascribe no value to its management business which currently has over $11.0bn of funds managed on behalf of 3rd parties.
- Whilst management highlight redevelopment opportunities with change of use potential, we ascribe no value to such opportunities due to uncertainty over timing, pricing, etc.

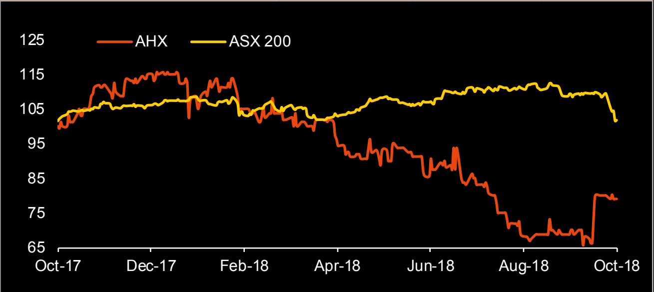
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	17.7	17.6	17.8
Dividends (AUD) cps	16.3	15.8	16.3
PE x	14.6	15.0	14.8
Yield %	6.3%	6.0%	6.2%
Franking %	–	–	–

Apiam Animal Health (AHX)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 October 2018)	$0.64
Target Price	$1.00
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	14.3%	-3.8%	-21.0%

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

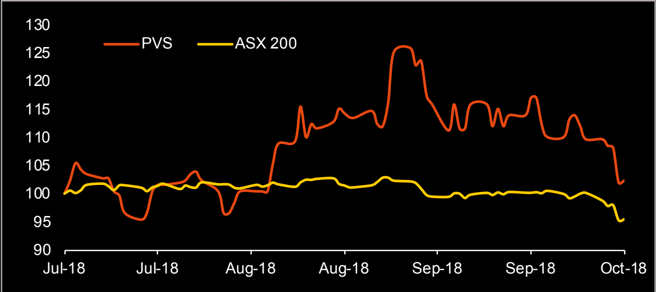
- Shaw and Partners recently conducted a site visit to AHX's head office and main distribution centre at Bendigo. The key takeaway was that its product initiatives are more advanced than we previously understood and could play into FY20 earnings. Our forecasts, TP and buy recommendation remain unchanged.
- Two years of investment has given AHX a platform was ready to be leveraged. It has a broader animal footprint, upgraded systems, staff capability and improved service levels to underpin the offering, all of which is currently ready to be leveraged by overlaying high margin product sales onto it.
- Implementation of the initiatives has taken longer to put in place than management first thought, which has contributed to the slide in AHX's share price, but more importantly the platform is now ready to support >2x current sales.
- AHX has moved into the product expansion phase of its strategy. It has recently employed a senior executive (ex MSD and Norbrook), to head up its new product initiatives and has a number of new products from exclusive brands, through to exclusive distribution rights and private label products that it intends to bring to market over the next 3-24 months. These product initiatives are at various stages of development – some in registration, some require trials, and others AHX will wait to see Australian commercial traction prior to taking into the US market. Initiatives include: i) Private Label, ii) Distributorships, iii) Apiam Solutions- a JV with Swine Vet Center in the U.S., and iv) further development of genetics products and services for export.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	4.3	5.6	7.3
Dividends (AUD) cps	1.6	1.4	2.2
PE x	17.5	11.5	8.9
Yield %	2.1%	2.2%	3.4%
Franking %	100%	100%	100%

Pivotal Systems (PVS)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$2.65
Target Price	$3.12
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.3%	2.7%	N/A

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

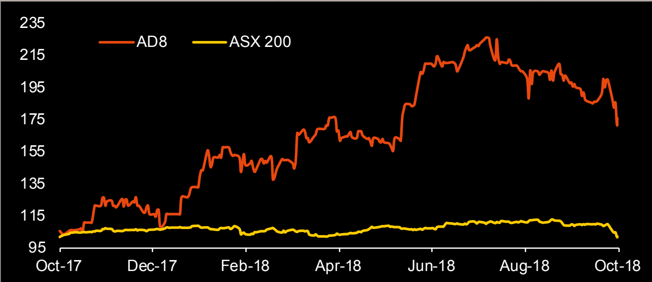
- Since PVS was listed by Shaw and Partners in June 2018, risk to the company's outlook has been significantly reduced by increased expectations about global long term semiconductor capital equipment expenditure, PVS's new product initiatives and the leverage that was evident in its 1H18 results.
- SC industry cap ex - stronger for longer. Global fab equipment spending is forecast to increase 15% this year to US$62.8bn and 7.5%, to US$67.5bn, in 2019. Longer term industry forecasts tail off, but the biggest investors such as Samsung look set to grow capex at even greater rates going forward.
- PVS has announced three new product initiatives since listing all of which were led by client requests and involve client participation in their development. We see this increase PVS's market relevance and the likelihood of significant market share gains.
- Leverage was evident in PVS's 1H18 result de-risking Shaw and Partners' longer term forecasts. PVS's 1H18 GM was 37% up from 17% pcp which suggests margins are likely to strengthen again over 2H18 as increased volumes are realised. This puts risk to Shaw and Partners' forecasts to the upside.

Forecasts			
YE 31-Dec	FY17	FY18E	FY19E
Earnings cps	-2.9	1.0	7.1
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	27.9
Yield %	nm	–	–
Franking %	–	–	–

Audinate Group (AD8)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$3.44
Target Price	$5.20
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-7.3%	-17.9%	75.5%

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

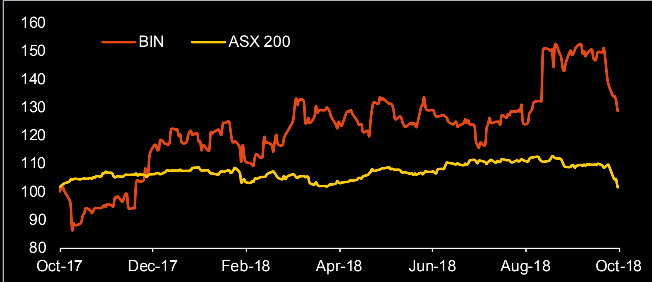
- Impressively, AD8 is now profitable (EBITDA, NPAT) one year ahead of forecast. AD8 exceeded Prospectus forecasts in FY18 (revenue, EBITDA, operating cash flow, number of hardware units shipped). The revenue generated in FY18 of $19.7m is predicated on only 221 or 50% of OEMs shipping, with another 50% yet to contribute!
- New product launch of analog adaptors ahead of Shaw and Partners' expectations with 50 resellers onboarded, as was the number of Dante Domain Manager (DDM) units shipped with growth of 58% from 95k to 150k.
- Number of Dante-enabled products on market continues to grow, increasing from 925 in 2017 to 1,367 at end of February 2018, to now 1,639, or now ~5x the market adoption of its closest competitor, CobraNet, with c. 343 products – at the end 2H18, the number of OEM customers also rose from 310 in 2016 to 438. The number of Dante units shipped also grew 38% from 180k units shipped in FY17 to 248k (FY16: 110k).
- Total Addressable Market (TAM) for AD8 in the professional audio-visual (AV) market, according to Frost & Sullivan / Stiernberg (2017 Report) is c>A$450m annually and calculated as follows.
- AD8 continues to surpass expectations – 1H18 result, 3Q18 and 4Q18 results, the recent Site Visit, and now the FY18 result. The share price has had a stellar run (from $1.22 listing price) and we do not see any reason why this should not continue over time.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	4.0	0.8	3.6
Dividends (AUD) cps	0.0	0.0	0.0
PE x	99.0	nm	99.6
Yield %	0.0%	0.0%	0.0%
Franking %	100%	100%	100%

Bingo Industries (BIN)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 October 2018)	$2.75
Target Price	$3.40
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-12.1%	13.3%	29.2%

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

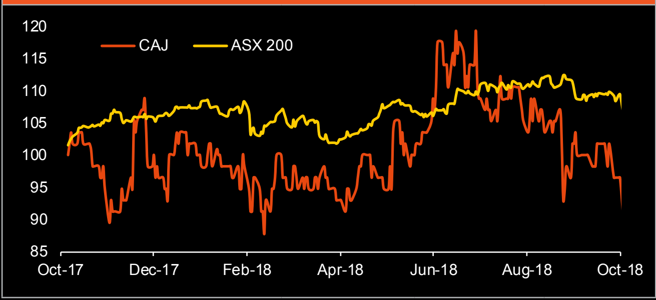
- FY19 EBITDA forecast is expected to grow by 16% to $109m year-on-year. This improvement is due to various catalysts, notably: volume and scale; better performance from Victorian operations – margins, utilisation and recovery rates; price increases; moderating employees opex post ramp-up; greater contribution from post collections (with higher margin); processing improvements with Minto and St Mary's coming on in 1H18 with upgraded processing plant, with Greenacre, Artarmon and Campbellfield now complete; post IPO acquisitions of NRG and Has-a-Bin; and Collections growth.
- Announced another potentially transformational acquisition of Dial-A Dump Industries (DADI) for $578m (65% cash, 35% equity) on an implied EV/EBITDA of 9.6x.
- Integration of previous acquisitions (NRG, Patons Lane) and network capacity upgrades on track with first step-up from 1.7mt to 2.2mt achieved in FY18, and then to 3.4mt in FY20.
- Balance sheet and cash flow strong (+45% on pcp) despite multiple acquisitions and network expansion with cash conversion of 95% and ROCE of ~20%.
- Outlook remains very positive with several tailwinds: (1) massive infrastructure pipeline (BIN's pure focus); (2) shift from landfill to recycling; (3) Patons Lane (last likely Sydney approved landfill); (4) Qld levy implementation; and (5) expected uplift from introduction of Qld levy. Rebased FY20 PE of 14x is not too onerous given FY19 -FY21 is forecast to yield quite strong double-digit earnings growth.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	11.8	14.3	20.3
Dividends (AUD) cps	3.7	5.0	7.0
PE x	22.8	19.9	14.0
Yield %	1.4%	1.8%	2.5%
Franking %	100%	100%	100%

Capitol Health (CAJ)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 October 2018)	$0.26
Target Price	$0.38
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.8%	-14.8%	-11.9%

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

- Capitol Health (CAJ) is one of the largest providers of diagnostic imaging services across the country with a majority of operations in metropolitan Victoria, as well as Tasmania and now Western Australia. The business operates a clinic driven network manned by radiologists and clinicians that perform procedures that range from MRI's, X-Ray to Ultrasounds and other diagnostic tests.
- The near past for CAJ has been one of rationalisation of assets and the clinic footprint. Having sold underperforming NSW assets to private equity 12 months ago, CAJ continues to enjoy an extremely strong balance sheet that's currently washing its face. Measured growth is the name of the game for CAJ now, with accretive acquisitions having been undertaken in WA and Tasmania underwriting earnings uplift into FY19.
- Looking forward to FY19 we see further acquisitions of a bolt on nature being made (outside of Shaw estimates), as well as greenfield clinic expansions in Victoria, in combination with a focus on increasing revenue per clinic above the current ~$2.5m p.a.
- CAJ is currently trading on a 15-20% discount to peers, with the healthiest balance sheet in the industry, supported by above average GDP industry growth and is currently undertaking a share buy-back that has bought shares back above current levels.

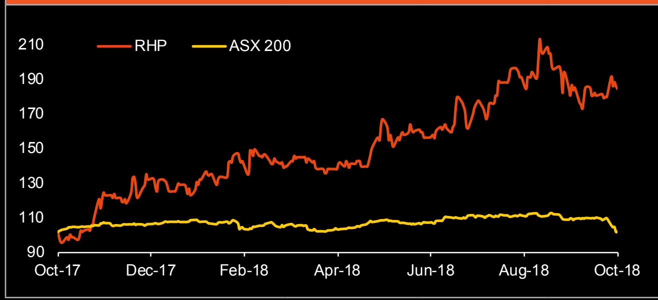
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	1.2	2.0	2.2
Dividends (AUD) cps	0.8	0.9	1.4
PE x	28.0	13.0	11.8
Yield %	2.5%	3.5%	5.5%
Franking %	100%	100%	100%

Rhipe (RHP)

Recommendation	Buy
Risk	High
Share Price (as at 12 October 2018)	$1.16
Target Price	$1.43
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-5.7%	-0.4%	84.1%

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

- Rhipe (RHP) is one of the largest wholesalers of cloud based products for software vendors within the Australian and New Zealand markets, with key vendors including Microsoft, Symantic, Citrix and others. RHP has grown strongly and now has operations across a number of APAC countries and is leveraging its 'born in the cloud' competitive channel strategies.
- RHP is the smallest globally managed account partner for Microsoft and is currently expanding aggressively into the public cloud market with O365 and Azure both demonstrating YoY growth rates of ~100%. Public cloud is outperforming private cloud where growth rates are stronger into Asia and we expect further country and product wins for RHP in the coming 12 months. Importantly RHP's key growth driver in the near term (CSP and Azure) run-rate has increased by ~70% on the average in FY18, a scenario that will likely underwrite strong profit growth in FY19.
- RHP is a vehicle trading at a discount to relevant ASX listed tech peers with all the characteristics we like in a volatile market. These characteristics include: 1) Globally leveraged business model; 2) Recurring SAAS based earnings stream; 3) Net cash balance sheet; 4) Operating leverage beginning to emerge (still at early stages) and 5) Share buy-back and capital management activities on the table. Trading on a cash adjusted PER of only ~21x, with net cash and an EPS growth rate of over 40% we still like RHP here.

Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	3.6	5.1	6.8
Dividends (AUD) cps	2.0	2.6	3.4
PE x	33.1	22.9	17.3
Yield %	1.7%	2.2%	2.9%
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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