ShawandPartners

an EFG company

The Research Monitor

June Quarter 2019

inside this issue

Are Small Companies too expensive?

ASX Tech sector returns like Moore's Law

A partially Inverted Yield Curve

+ stock picks

Q1 2019 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, recorded its best quarter since September 2009 – rising 9.5% in price terms and 10.9% including dividends, after having produced the worst quarter since 2011 in the previous quarter.

A strong rebound in global markets was mirrored in the domestic market as bond yields fell, US/China trade talks progressed, central banks pivoted and fears of a slowdown in global growth waned.

Among Australian equity sectors, all sectors posted positive returns during the quarter. Leading the charge were the Software and Telecommunication Services sectors, up 19.9% and 17.9% including dividends respectively. These are relatively small parts of the Australian market, comprising 2.45% and 2.82% of the market. Globally, these sectors are much more significant and there are signs that local investors are "paying up" for these sectors to catch the global tailwind.

Whilst defensive industrial sectors such as Food and Staples Retailing performed relatively well in the December quarter, these sectors performed relatively poorly in the March quarter, with the exception being the "bond proxies" such as Real Estate Investment Trusts (REITs) (up 14.4% including dividends) and the Utilities sector (up 11.6% including dividends). There are 32 REITs in the ASX300 index and the best, Charter Hall Group (CHC) posted a 38.4% gain. The worst, Vicinity Centres (VCX) was flat.

The largest component of the S&P/ASX 300 Index is the Banks Sector (21.9% index weight), which rose only 2.0% in price terms and 3.0% including dividends, extending the period over which banks have underperformed the index. The second largest – but closing in on being the largest - sector, Materials (18.9% index weight) rose 17.7% including dividends, with bellwether BHP up 12.5% despite paying over $2.20 in dividends!

Energy sector returns recovered following a bounce in the oil price. West Texas Intermediate oil prices rose 32.5% in the quarter and this pushed the sector up 15.2% after dividends, with heavyweight Woodside Petroleum (WPL) up 10.5%.

The worst performing sector was Banks, followed by Food and Staples Retailing where first half profit results were disappointing. Woolworths (WOW) rose only 3.3% and rival Coles Group (COL) rose only 0.9%.

Global equity markets also performed strongly in the March quarter, with the MSCI World ex Australia Index in Australian dollars up 12.6%. Quite astonishingly, this brings compound returns over the past ten years from global equities to 14.8% per annum – highlighting the importance of global diversification for Australian investors. Bond markets rallied on the back of lower long-term interest rates with the Bloomberg AusBond Composite (0+Y) index up 3.4% and Bank Bills returning 0.5%. **The spread between 90-day bank bills and cash fell from 59 basis points at the end of December to only 27 points at the end of March – a strong sign of easing credit conditions.**

Long term interest rates in Australia hit a record low of 1.72%, and measures of housing activity continued to show weakness, suggesting the broader economy is coming off the boil somewhat. Market measures of risk or volatility, fell significantly during the quarter, suggesting investors have become comfortable with the likely path of inflation, interest rates, growth and trade.

	Sector	Performance	Market Cap
↗	Energy	15.21%	94,822
↗	Materials	17.69%	319,035
↗	Capital Goods	13.20%	15,681
↗	Commercial & Professional Services	15.06%	43,288
↗	Transportation	10.57%	79,188
↗	Consumer Services	9.94%	49,698
↗	Retailing	14.78%	54,978
↗	Food & Staples Retailing	4.09%	55,771
↗	Food, Beverage & Tobacco	7.68%	34,957
↗	Health Care Equipment & Services	7.79%	49,715
↗	Pharmaceuticals, Biotech & Life Sciences	6.06%	91,962
↗	Banks	3.03%	369,551
↗	Diversified Financials	13.56%	85,464
↗	Insurance	14.17%	65,802
↗	Software & Services	19.95%	41,374
↗	Telecommunication Services	17.89%	47,561
↗	Media & Entertainment	12.58%	14,678
↗	Utilities	11.64%	33,788
↗	Real Estate	14.38%	123,968

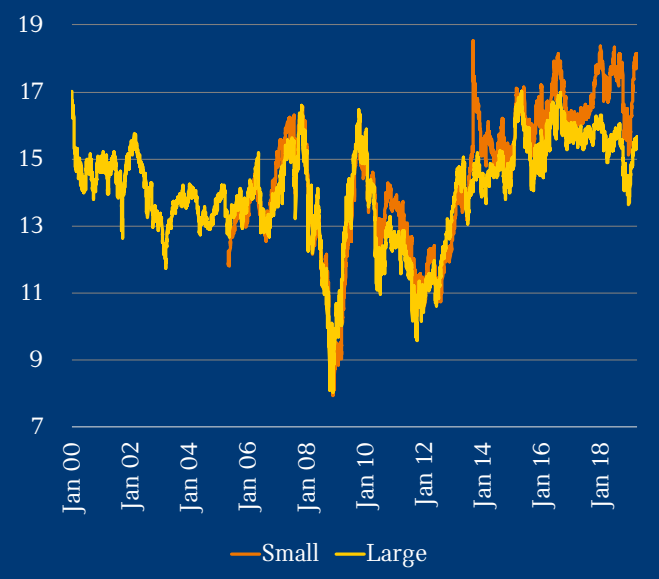
Are Small Companies too expensive?

Martin Crabb
Chief Investment Officer

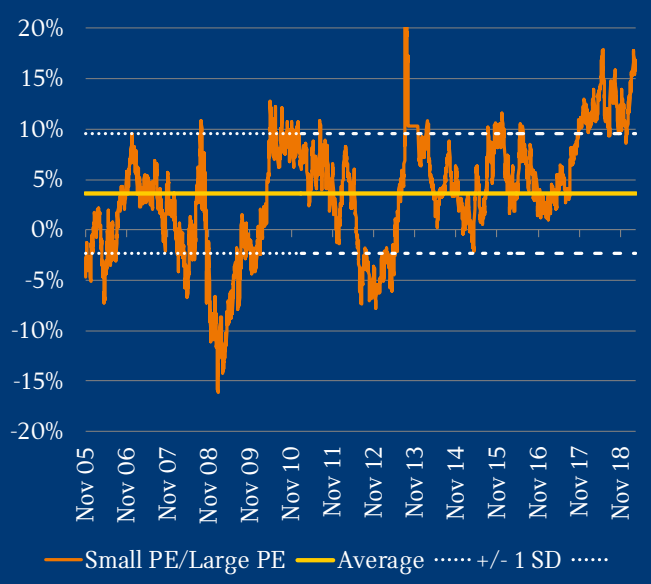
Are Small Companies too expensive?

Small Companies – defined as those in the All Ordinaries index outside the Top 100 – traditionally trade at a small PE premium to Large Companies due to their greater potential for growth. Based on market consensus forecasts since 2005, this premium has averaged 3.9%. At current levels, this premium is 17.4% - a significant premium to historical averages. Small Companies' PE is 18.0x versus Large Companies 15.3x, using consensus earnings estimates.

Price/Earnings Ratios



Small Caps are more expensive than Large



Forecast Growth	12m	24m
Communication Services	4.5%	8.7%
Consumer Discretionary	10.6%	9.8%
Consumer Staples	14.4%	18.2%
Energy	21.4%	-2.6%
Financials	10.1%	9.9%
Health Care	51.7%	42.7%
Industrials	26.4%	13.1%
Information Technology	25.7%	33.6%
Materials	44.2%	17.6%
Real Estate	-0.8%	3.2%
Utilities	-19.0%	-4.8%
Small Ordinaries	**19.2%**	**12.2%**

CHART 1: Earnings per Share Growth Y1 fwd to Y2 fwd

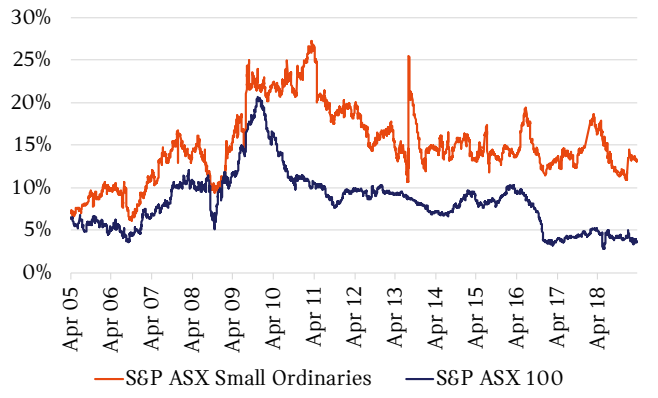


CHART 2: Small Caps growing faster

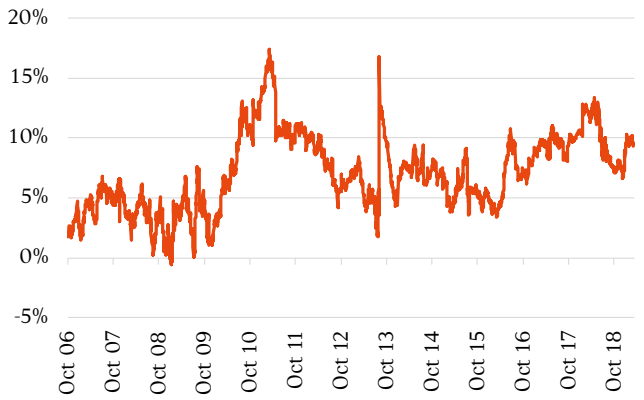


CHART 3: PE versus Growth Differential

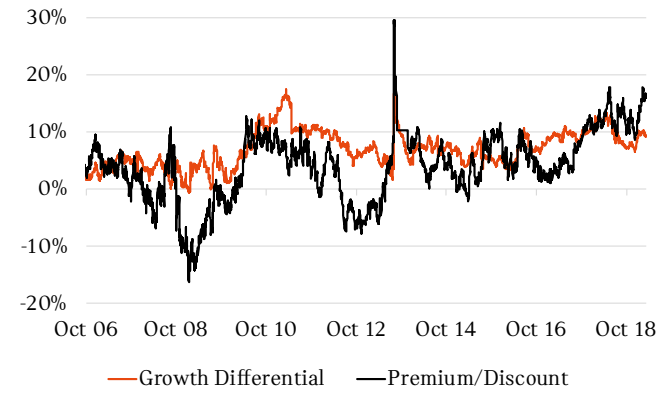
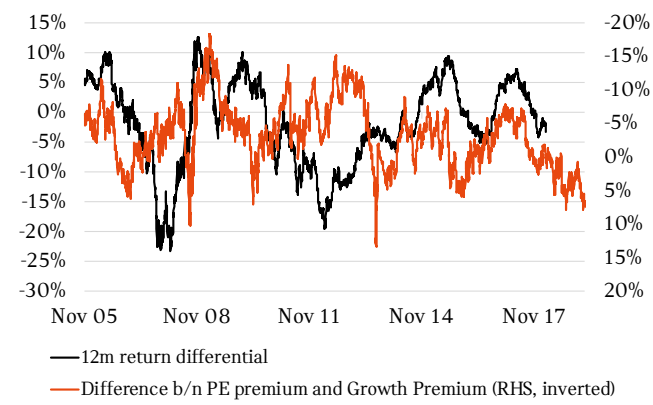


CHART 4: PE premium/discount drives performance



Source: FactSet and Shaw and Partners

Is there sufficient earnings growth in Small Companies relative to Large Companies to justify this premium?

The key here is to look two years' ahead as the PE ratio (CHART 1) is calculated using one year ahead earnings. So, what does the growth differential between small caps and large caps look like today, and does it justify the premium?

If we overlay the PE premium with the growth differential (CHART 3), we can see that the market continues to see a growth premium of Small Companies over Large Companies beyond the next few years.

Whilst by no means a perfect correlation, small caps typically underperform large caps (and vice versa) when this PE versus Growth differential gets too large.

This ties in with our thesis that just buying the market is unlikely to result in a fantastic outcome for investors and thus they must do their homework and cleverly select the right stocks and sectors that are expected to do well.

So which sectors look like they will be delivering the highest level of growth over the next few years? Looking at the individual stocks that comprise the Small Ordinaries Index and collating the sector data, it's no surprise that Healthcare and Information Technology stocks have the highest forecast growth.

We polled our small cap team and selected ten companies that we believe have superior growth prospects that may not be being correctly priced by the market. They are:

- Audinate (AD8)
- Apiam Animal Health (AHX)
- Bingo Industries (BIN)
- Carbonxt Group (CG1)
- IVE Group (IGL)
- Money 3 (MNY)
- Midway (MWY)
- Rhipe (RHP)
- Revasum (RVS) and
- Zip Co (Z1P).

Jonathon Higgins
Danny Younis
Research Analysts

ASX Tech Sector returns like Moore's Law

Moore's law is the observation that the number of transistors in a dense integrated circuit doubles about every two years. Moore's Law can also be utilised to represent exponential growth.

The tech and high growth sector has led the rebound in the US and Australia with the average $100m+ market cap tech stock up ~19% since December to March and outperforming the broader index by ~9%.

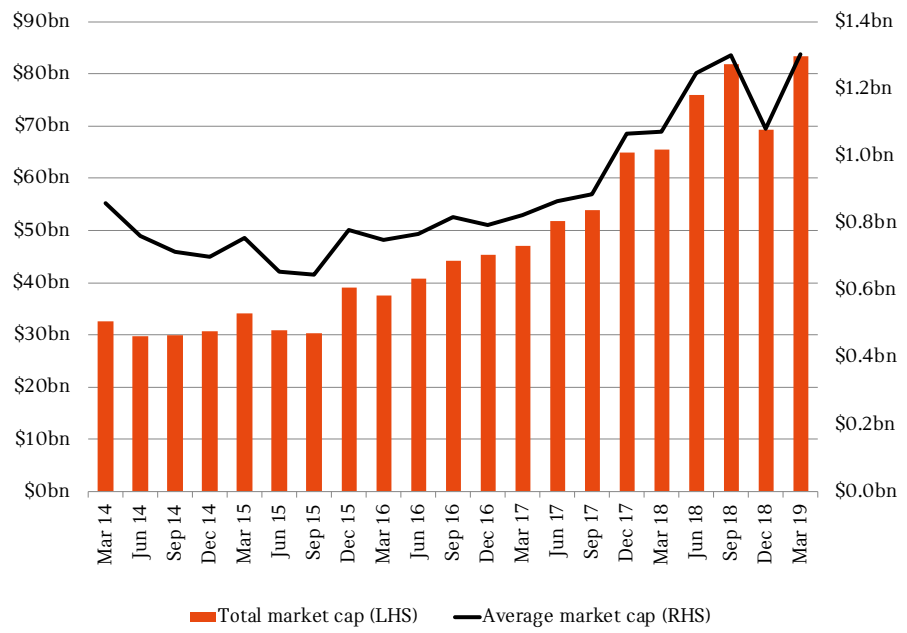
Tech both domestically and internationally has been a bellwether for overall market sentiment. Whilst the tech/growth sector in Australia pales in comparison with the size of the market in the USA, a number of quality companies have emerged on the ASX as new listings (Afterpay, Wisetech) as well as established players continued to grow domestically and internationally (Appen, Altium, Promedicus, Xero to name a few).

The combined market cap of larger ASX tech names now totals over $83bn up over 170% in the past 5 years. The average market cap has also risen over 50% and now sits at over $1.3bn supported by a skew towards larger names.

Overall quality (measured by profitability) of tech names has actually increased across the bourse as businesses have matured, management drive towards profitability and higher quality later stage tech have been listed on the Australian stock exchange.

Interestingly on the ASX and the Australian market, management are incentivised and given a mandate to drive towards profitability, rather than users, active KPI metrics and a loss making high market share, as is encouraged within the USA. The current percentage of stocks with a market cap of over $100m making positive EBITDA is 71% against 35% 5 years ago, representing a step up in ASX listed tech quality available to investors.

Total market cap and average capitalisation (tech sector)



Source: FactSet and Shaw and Partners

As more accommodative monetary conditions have reigned supreme, the market has turned risk on towards growth shares.

TECH STOCK PERFORMANCE SINCE THE START OF THE YEAR TO MARCH 2019

DUB	135.8%
NEA	92.0%
APX	81.4%
ISX	67.7%
APT	62.6%
AD8	62.0%
ALU	53.4%
Z1P	52.3%
BVS	47.3%
PME	47.1%
IFM	46.6%
RHP	44.6%
ESV	43.8%
NTC	41.4%
IRI	35.4%
DDR	33.0%
AMS	30.4%
ASG	29.7%
LVT	29.7%
WTC	27.3%
TNE	26.1%
HUB	21.9%
SDA	20.3%
GBT	18.3%
CL1	16.2%
EML	16.1%
MP1	14.8%
CAR	13.6%
XRO	13.1%
LNK	12.3%
DTL	12.3%
IRE	11.4%
RBL	11.1%
LVH	10.3%
MNY	10.3%
ELO	8.6%
REA	7.9%
SEK	7.2%
OCL	6.5%
CGL	6.5%
CDA	6.5%
PPH-NZE	5.7%
CAT	3.2%
ARQ	1.3%
WLL	1.0%
CPU	0.9%
CXL	0.6%
NXT	-0.8%
DWS	-2.5%
FDV	-6.0%
PVS	-6.3%
GTK	-6.7%
ISU	-7.9%
FLN	-8.8%
GTK-NZE	-8.9%
RUL	-9.7%
3PL	-10.0%
PPS	-10.9%
HSN	-12.0%
SLC	-12.3%
SMN	-14.8%
TTT	-16.9%
QMS	-17.1%
OVH	-19.3%

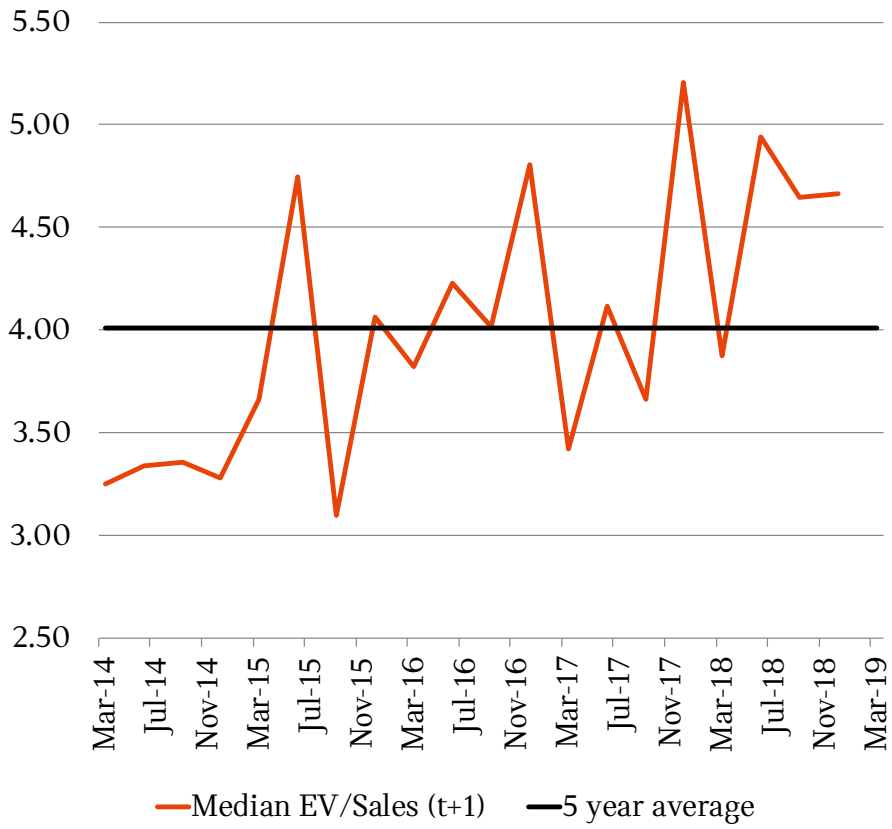
ASX Tech Sector returns like Moore's Law

Quality is continuing to emerge across the ASX, with domestic tech names more profitable, bigger and increasingly more global than before.

The sector has re-rated and is currently sitting 15% above its 5 year average EV/sales multiple; even as the skew of size and investor appetite within the sector has increased towards the larger and more liquid names, which are trading at even more substantial premiums to the broader sector (of up to 2x the broader sector multiple).

The tech sector YTD has re-rated by over 20% to start the year an EV/sales basis. This is even more pronounced within the basket of popular larger tech growth stocks. Without earnings continuing to outperform, this re-rating typically leads a period of underperformance and sharp correction within the growth sector.

EV/Sales multiples all tech and growth

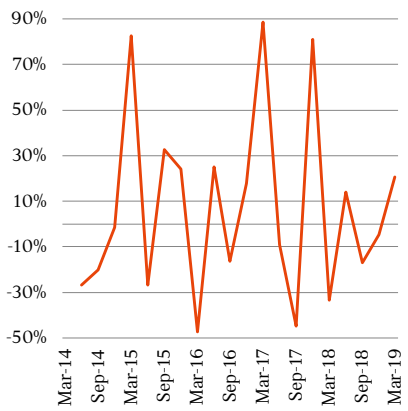


Source: FactSet and Shaw and Partners

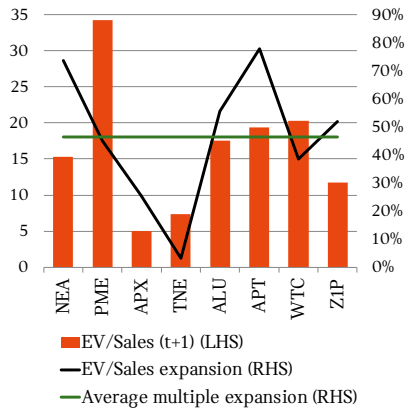
ASX Tech Sector returns like Moore's Law

Approximately 50% of the outperformance within the Small Ords sector has been within the five most popular tech stocks on the ASX.

Rolling QoQ re-rating for sector



Sales trading multiples tech & growth



Whilst the majority of investors have started the year with a positive experience, underperformance is rife across the market, lending our institutional colleagues with the headache of good performance against index underperformance to start CY19.

This is as a result of a collective basket of small cap tech/growth names that have outperformed substantially (~50%) YTD. These stocks include such names as Afterpay Touch Group (APT), WiseTech Global (WTC), Nearmap (NEA), Appen (APX), Altium (ALU), Technology One (TNE) and Pro Medicus (PME). Reporting season in general wasn't a standout for these names, but an underweight position was at your own peril.

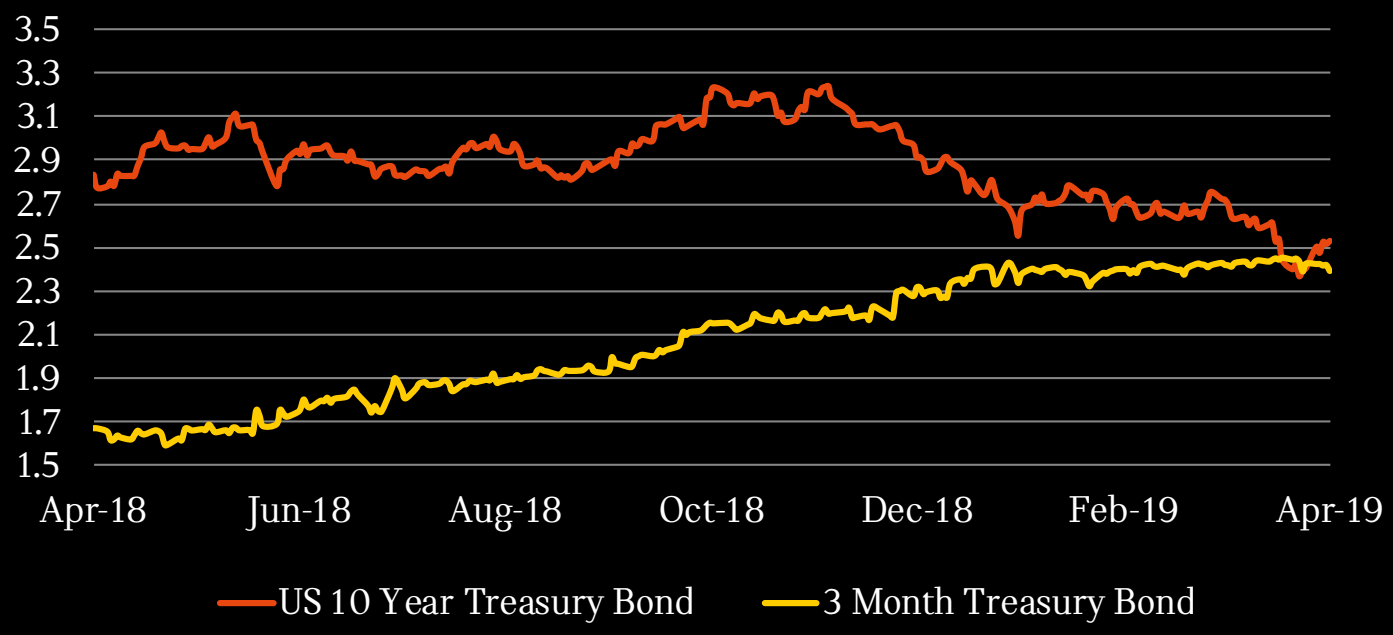
Shaw and Partners has picked three of the top 12 performers within the tech index in Zip Co (Z1P), Rhipe (RHP) and Audinate (AD8), which have added on average ~100% in the past 12 months to March and outperformed the broader market substantially.

Within the popular larger tech names, those names that screen the cheapest with respect to trading multiples and rate of growth across gross profit (some are unprofitable or just reaching profitability) are Z1P, Afterpay Touch Group (APT) (large multiple with over 100% forecast growth), Catapult Group International (CAT) and Appen (APX).

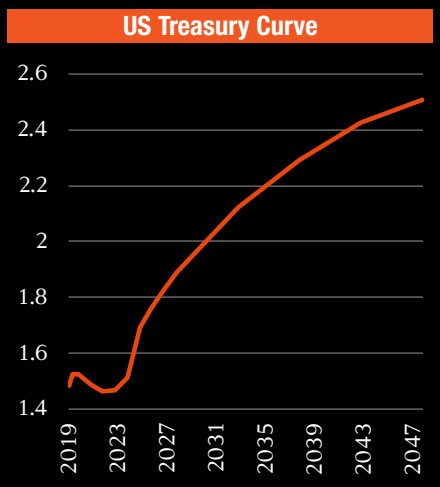
The popular tech names that screen as expensive include, Nearmap (NEA), Pro Medicus Limited (PME), WiseTech Global (WTC), Xero (XRO), REA Group (REA), Carsales.Com (CAR) and Technology One (TNE).

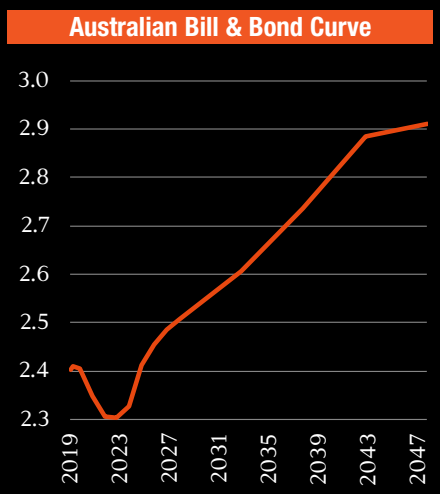
Steve Anagnos &
Cameron Duncan
Co-Heads, Income Strategies

Can a partially Inverted Yield Curve be a signal of recession?



The recent inversion of the three Month Treasury Bill to the US 10 year Treasury Bond was viewed by some analysts as a harbinger for increased impending market volatility and a potential looming recession in the US and some other developed economies including Australia.





Source: FactSet and Shaw and Partners

Coupled with the Fed's GDP revisions and more dovish commentary in relation to the Fed Funds rate and quantitative activity, the outlook infers a period of at least slowing growth.

The US Treasury yield curve is inverse out to four years and the Australian bond curve is inverse for three years, which has also prompted some analysts to suggest that some developed economies including Australia are headed for a recession.

We note, however, that viewed across all tenors, clearly the greater yield curve is still essentially "normal" and a sustained period of inversion would be a more clear indicator of there being some dark clouds on the horizon.

Furthermore, the inverse shape at the shorter end of the curve has been attributed to the impact of a lengthy period of quantitative easing and slack monetary policy.

A similar Australian yield curve is evident across the Australian bill / bond interest rate curve, which has created concern in terms of the implications for the economic outlook, particularly in the context of weakening residential house prices.

The better news is that similar to the US curve, over the past week or so longer bond yields have moved relatively wider again which has created a more "normal" shape curve.

This shift is important beyond just the possible inference of an impending recession or slower growth. When the gap between short term rates and longer term rates narrows, it reduces the margins that financial institutions receive who borrow "short" and lend "long".

In summary, recent yield curve shifts have increased our wariness of market volatility and increased our defensive positioning. We have increased our weighting of liquid alternatives and hybrids relative to equities. However we do not view the current yield curve and the temporary inversion of the three month bill / two year bond spread to 10 year bonds, as a reliable indicator of a looming recession or dramatically slower growth.

ShawandPartners
an EFG company

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

www.efginternational.com

STRATEGIC PARTNERSHIP

On the 13th of March 2019, Shaw and Partners and EFG International entered into a long-term strategic partnership with EFG acquiring a 51% stake in the issued shares in Shaw and Partners.

ABOUT EFG INTERNATIONAL

EFG International is a global private banking group offering private banking and asset management services.

INTERNATIONAL PRESENCE

As a leading Swiss private bank, EFG International has a presence in major financial centres and growth markets. EFG International operates in over 40 locations worldwide, with a network spanning Europe, Asia Pacific, the Americas and the Middle East.

SOLID FOUNDATIONS

As one of the best-capitalised Swiss private banks, EFG International is a financial partner that offers the security and solidity needed to provide clients with effective support. An entrepreneurial spirit has shaped the bank since it was established in 1995, enabling it to develop and offer hands-on solutions and to build long-lasting client relationships.

CLOSE TO CLIENTS

EFG combines a global focus with a strong local presence. The company is present in selected locations around the globe and with experienced specialists who know and manage the business at a local level. Thanks to its proximity to clients, EFG International can offer comprehensive advice that takes account of local culture and practices.

> “Our combined expertise and capabilities enable us to provide top-tier services and a truly global offering to our clients.”
>
> Giorgio Pradelli, CEO at EFG

Americas

Buenos Aires
Nassau
Hamilton
Grand Cayman
Santiago
Bogotá
Panama
Lima City
Montevideo
Punta del Este
Miami

EFG International at a glance

Swiss quality private banking driven by an entrepreneurial spirit.

A3 CREDIT RATING (MOODY'S)

3,200 EMPLOYEES WORLDWIDE

Listed on the SIX SWISS EXCHANGE

Global Footprint 40+ OFFICES WORLDWIDE

~AU$ **200bn** ASSETS UNDER MANAGEMENT

TOP 10 SWISS PRIVATE BANK

200+ RESEARCH ANALYSTS

EFG combines a global focus with a strong local presence.

Europe

Guernsey, Jersey, Nicosia, Paris, Athens, Milan, Vaduz, Luxembourg, Monte Carlo, Madrid, Zurich, Geneva, Lausanne, Crans-Montana, Locarno, Lugano, Chiasso, Istanbul, London, Birmingham

Middle East

Manama

Asia Pacific

Shanghai, Hong Kong, Jakarta, Singapore, Taipei, Sydney, Melbourne, Brisbane, Adelaide, Canberra, Perth

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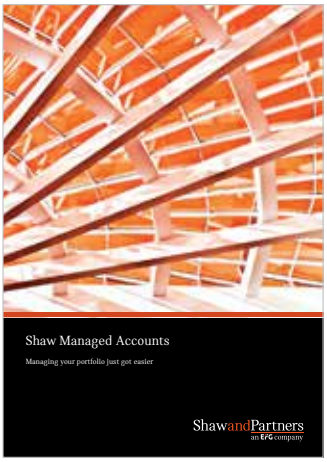
Shaw Managed Accounts

Portfolio Performances – March 2019

		1 Mth	3 Mth	6 Mth	1yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	1.44%	6.17%	1.72%	8.26%	7.02%
Objective: RBA Cash +3%	Portfolio Objective	0.38%	1.10%	2.23%	4.50%	4.48%
Inception: Sep-17	Excess v Objective	1.06%	5.07%	-0.51%	3.76%	2.54%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	0.90%	7.35%	1.39%	8.93%	8.59%
Objective: RBA Cash +4%	Portfolio Objective	0.46%	1.33%	2.71%	5.50%	5.51%
Inception: Sep-17	Excess v Objective	0.45%	6.02%	-1.31%	3.43%	3.08%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	0.87%	10.05%	-1.35%	9.38%	11.69%
Objective: RBA Cash +5%	Portfolio Objective	0.54%	1.58%	3.21%	6.50%	6.47%
Inception: Sep-17	Excess v Objective	0.33%	8.47%	-4.55%	2.88%	5.22%
Debt Securities Income Portfolio	**Total Portfolio Return**	0.98%	2.21%	3.65%	5.49%	4.24%
	Inception: Sep-17					
Hybrid Income Portfolio	**Total Portfolio Return**	1.57%	1.83%	2.60%	7.40%	7.13%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	**Total Portfolio Return**	2.31%	11.84%	3.61%	12.52%	8.77%
	Inception: Sep-17					
Australian Equity (Large Cap) - Growth	**Total Portfolio Return**	1.49%	14.38%	0.08%	13.49%	15.16%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	**Total Portfolio Return**	0.62%	11.86%	4.59%	13.97%	13.00%
	Inception: Sep-16					
Australian Equity - Small and Mid Cap	**Total Portfolio Return**	-0.45%	8.27%	-6.85%	1.62%	6.21%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	**Total Portfolio Return**	-0.57%	2.43%	-0.90%	N/A	-1.18%
	Inception: Aug-18					
AB Concentrated Global Growth	**Total Portfolio Return**	3.00%	15.73%	2.71%	14.89%	9.89%
	Inception: Jan-15					

Shaw Managed Accounts

Click on the images below to download the marketing brochure and Portfolio Factsheets



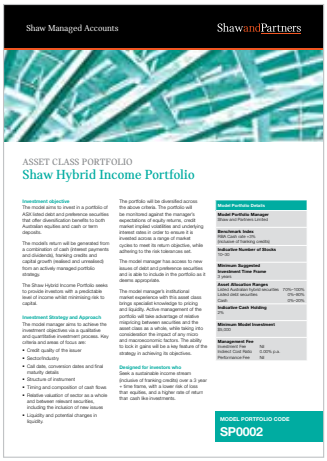
SMA Marketing brochure

Shaw Income Goal

Shaw Balanced Goal

Shaw Growth Goal

Shaw Debt Securities Income



Shaw Hybrid Income

Shaw Australian Equity (Large Cap) Income

Shaw Australian Equity (Large Cap) Core

Shaw Australian Equity (Large Cap) Growth

Shaw Australian Equity (Small and Mid-Cap) Growth

Shaw Liquid Alternatives

AllianceBernstein Concentrated Global Growth

Australian Large Cap Model Portfolio

Australian Large Cap shares posted modest gains in March, consolidating two very strong previous months to set up the best quarterly return since the GFC. Overly pessimistic investors at the end of 2018 were left chasing shares at the end of the quarter. We remain cautious of earnings outside the Energy and Materials sector and seek the barbell of banks (value) and miners (growth).

MARKET PERFORMANCE

Our Australian Large Cap Model Portfolio rose 1.38% from the start of March to the 2nd of April against an S&P/ASX 100 index return of 1.79%. Over the medium to longer term, the portfolio has consistently outperformed the index. Being overweight in the Energy and Banks sectors detracted from returns, however our overweight in the iron ore stocks within the Materials sectors made a positive contribution to the portfolio.

SECTOR HIGHLIGHTS

The Real Estate Investment Trust (REIT) sector was another stand-out, responding to a fall in Australian 10-year bond yields to a record low of 1.7%. Anything that looks like a bond (high yield, low risk of capital loss) rallied strongly during the month, with notable examples being Stockland (SGP) and Mirvac (MGR) amongst the REITs and Transurban (TCL) amongst the infrastructure stocks.

Despite a rally in oil prices toward the end of the month, the largest detractors from performance were Energy stocks. Woodside Petroleum (WPL) and Oil Search (OSH) went backwards during the month.

March was a big month for dividend and distribution payments, with no fewer than 39 of the top 100 stocks trading ex-dividend since the beginning of March. It is estimated that income added 0.73% to our portfolio returns for the period, or 1.01% including imputation credits.

CHANGES

Changes to the portfolio this month see us increase our overweight to iron ore stocks by adding 2% to our RIO position. We switch from Northern Star (NST) to Evolution (EVN) in the gold space and reduce our Commonwealth Bank (CBA) position whilst still maintaining a large overweight to the bank sector. We trade some Dexus (DXS) for Mirvac (MGR) in the REITs sector.

Additions		Reductions	
EVN	2.75	CBA	(2.00)
MGR	1.00	DXS	(1.00)
RIO	2.00	NST	(2.75)
	5.75		**(5.75)**

RECOMMENDATION

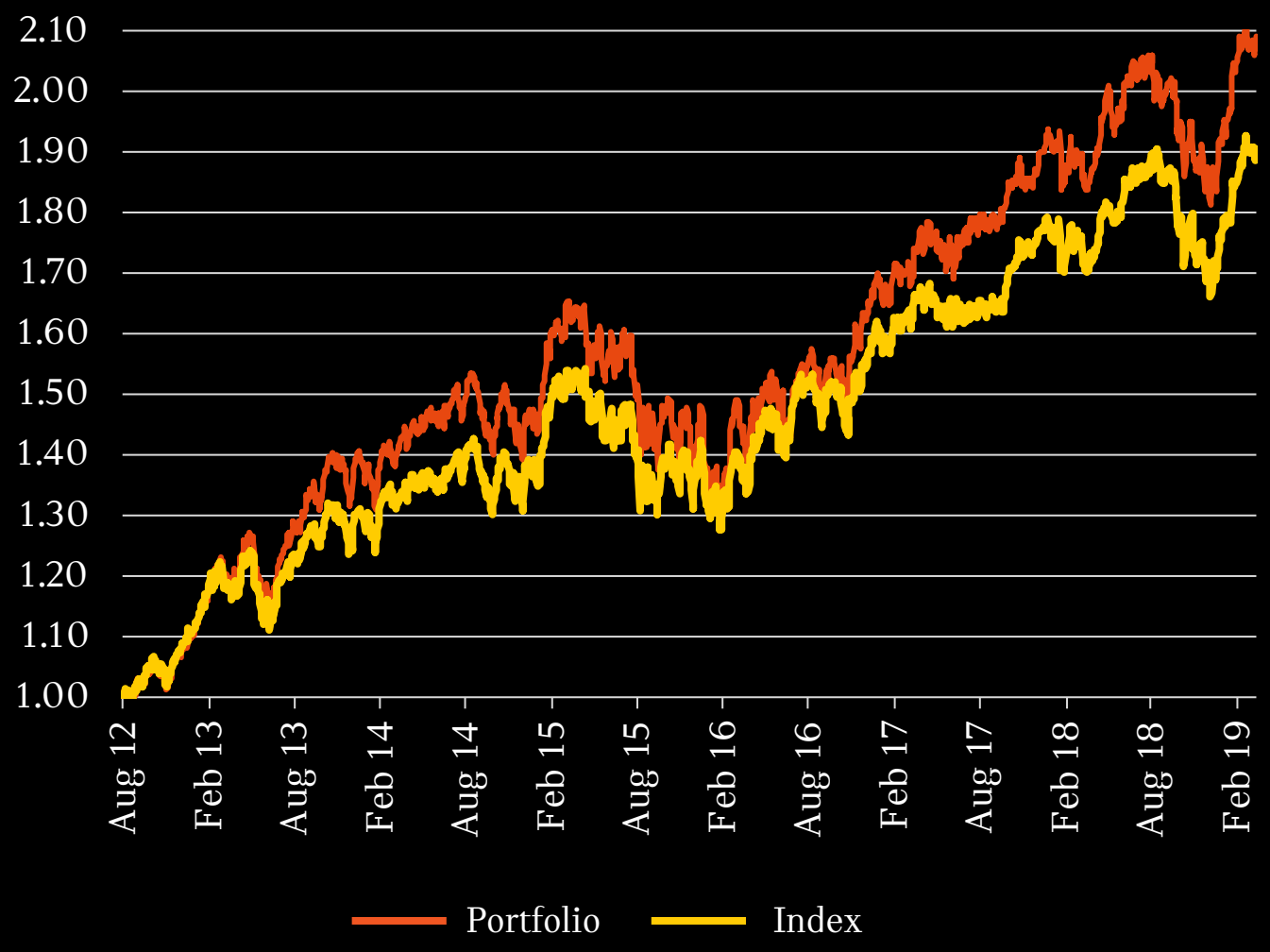
We remain cautious in our outlook for Australian shares given the downward pressure on operating margins from rising cost pressures, faltering demand, intensive competition and the continued slowdown in the domestic real estate market. We maintain a relatively defensive stance despite overweights to Energy and Materials as we think of iron ore and oil prices being well bid due to supply constraints. We remain underweight Australian shares in a balanced portfolio setting.

PORTFOLIO ATTRIBUTION

Sector allocation detracted 0.68% from index returns over the period 1st March to 2nd April, due primarily to the 11% overweight to the Banking sector, which fell 2.6% against an index which rose 1.8%. Similarly, the 7% overweight to the Energy sector – which fell 3.5% - also detracted from returns. Somewhat offsetting this detraction was the 9.2% overweight to the REIT sector – which rose 5.7%.

From a stock selection perspective, the Materials sector was a standout, adding 64 basis points to returns thanks to Fortescue Metals (FMG) up 26.2%, Rio Tinto (RIO) up 8.5% and OzMinerals (OZL) up 7.0% the three greatest contributors to portfolio performance.

Portfolio Performance (Accumulation Basis)



Model Portfolio at March 2019

WBC	Westpac Banking	9.1%
RIO	Rio Tinto Limited	9.0%
NAB	National Australia Bank	8.6%
BHP	BHP Group Ltd	7.1%
CBA	Commonwealth Bank	6.5%
WPL	Woodside Petroleum Ltd	6.4%
ANZ	ANZ	5.6%
SUN	Suncorp Group Limited	5.2%
MGR	Mirvac Group	5.1%
LLC	Lendlease Group	4.6%
FMG	Fortescue Metals Group	4.1%

OSH	Oil Search Limited	4.0%
OZL	OZ Minerals Limited	3.4%
MQG	Macquarie Group Limited	3.3%
SCG	Scentre Group	2.9%
COL	Coles Group Ltd.	2.9%
EVN	Evolution Mining Limited	2.7%
FLT	Flight Centre Travel Group	2.6%
SGP	Stockland	2.2%
CTX	Caltex Australia Limited	1.9%
VCX	Vicinity Centres	1.8%
DXS	Dexus	1.1%

Our Preferred Stocks

National Australia Bank engages in the provision of banking and financial services.

Suncorp Group is a financial services company, which provides banking and wealth, as well as insurance products and services across Australia and New Zealand. The company operates its business through the following segments: General Insurance, Banking and Life. Suncorp Group was founded in 1996 and is headquartered in Brisbane, Australia.

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

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.

Centuria Metropolitan REIT engages in the investment in office assets in metropolitan markets of Australia. It comprises of registered managed investment schemes such as Centuria Metropolitan REIT 1 and Centuria Metropolitan REIT 2. The company is headquartered in Sydney, Australia.

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

LendLease Group (LLC) designs, develops, and manages property and infrastructure assets. The Company constructs apartments, commercial buildings, government offices, retirement living, and educational facilities. LendLease serves customers worldwide.

Calix (CXL) is a multi-award-winning Australian technology company that is developing new processes and materials to solve global challenges. The core technology is a world-first, patented "kiln" built in Bacchus Marsh, Victoria that produces "mineral honeycomb" - very highly active minerals.

Revasum designs, manufactures and markets a portfolio of market leading tools for grinding and polishing the substrates upon which semiconductor wafers (sized 200mm and below) are built. These wafers are the basis of most microchips, sensors, LEDs, RF devices and power devices are commonly used in mobile phones, connected IoT devices, wearables, automotive, 5G and industrial applications. Revasum's products are recognised for delivering significant yield, cost and output benefits. The company was incorporated in Delaware and is based in San Luis Obispo, California.

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.

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

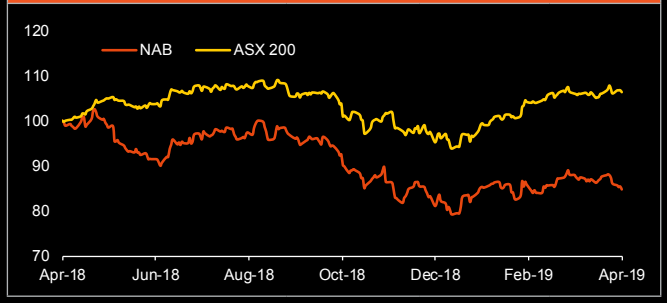
Zip Co (Z1P) provides point-of-sale credit and digital payment services. The Company offers retail finance solutions to small, medium, and enterprise businesses. Zip Co serves retail, education, health, and travel industries in Australia.

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.

National Austr. Bank (NAB)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 April 2019)	$24.61
Target Price	$29.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.7%	-0.4%	-15.3%

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

A new beginning…again

- NAB reported cash earnings of $1.65bn for 1Q19 which does not include any significant customer remediation expenses, however, such expenses are expected in 2Q19.
- NAB's NIM fell by an estimated 2 bps from 2H18 to 1Q19 as a result of lower treasury and markets earnings and lower margins on home loans. NAB did not increase its home loan rates last October but announced an increase which took effect in January this year. This increase adds an average 14 bps to their home loan margins and the contribution to group NIM is 4 bps p.a. Such a benefit should allow NAB to maintain its NIM throughout the rest of FY19.

The following is forecast from FY18 to FY19:

- 2% income growth which is a product of 3% loan growth with 3 bps NIM decline;
- 9% decline in expenses, being a decline of $790m which reflects the absence of the $755m in restructuring costs in FY18 and fewer Royal Commissions costs (which were $64m in FY18);
- A small reduction in the bad debt charge to $750m;
- The common equity tier 1 (CET1) ratio is forecast to be 10.4% at 31/3/19 and 10.5% at 30/9/19.

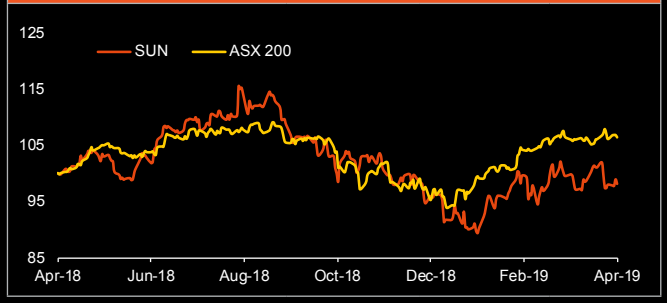
Forecasts

YE 30-Sep	FY18	FY19E	FY20E
Earnings cps	210.4	236.0	246.3
Dividends (AUD) cps	198.0	198.0	198.0
PE x	13.2	10.4	10.0
Yield %	7.1%	8.0%	8.0%
Franking %	100%	100%	100%

Suncorp (SUN)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 April 2019)	$13.32
Target Price	$14.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.33%	8.63%	-1.91%

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

Crunch time

- The underlying general insurance profit increased by $46m from 2H18 to 1H19, which matched IAG's achievement. However, the financial markets and the cost of the storms turned an improving performance into a worse reported insurance profit. 2H19 should be better.
- Gross Written Premiums (GWP) for general insurance increased by 3% from 1H18 to 1H19 with the greatest increase being in Australian motor insurance. This was 4% which comprised 6% growth in premiums per policy and 2% reduction in the number of policies. Australian home insurance achieved 2% growth in GWP over the period which included 3% growth in premiums per policy and 1% reduction in the number of policies. Commercial insurance also reported 2% growth in GWP over the period.
- The Business Improvement Program is said to be progressing ahead of plan. The benefits should be $30m higher than expected in FY19, however, this is more than offset by an additional $50m to be spent on regulatory projects, also in FY19.
- SUN has realised that its peril allowance is insufficient and has increased it by $100m for FY20 and it plans to purchase $200m in reinsurance cover above this level. This is expected to cost a further $40M to $50m p.a.

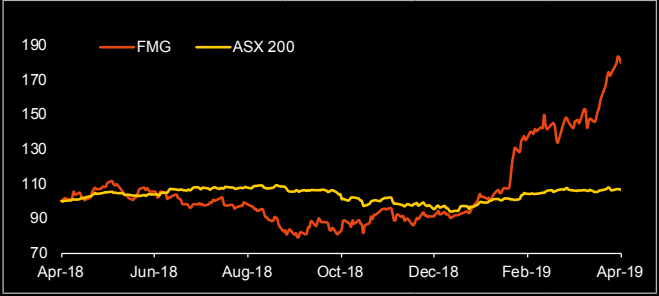
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	85.2	87.4	99.3
Dividends (AUD) cps	81.0	75.0	78.0
PE x	17.1	15.2	13.4
Yield %	5.6%	5.6%	5.9%
Franking %	100%	100%	100%

Fortescue Metals (FMG)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$8.07
Target Price	$7.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	26.6%	75.5%	79.9%

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

Growth, longevity and leverage

- This journey isn't over yet and will likely endure for perhaps years not just months or quarters. Why? The iron ore supply dynamic whilst not intractably broken will struggle to bridge the demand gap until Vale is fully back on line (perhaps 3-4 years) or price lifts materially to "incentivise" other sources – China domestic, West Africa etc.
- Growth & longevity – FMG announces the 2nd major growth/ longevity and supply diversity initiative in 2 years. FMG will lead the $2.6 billion project to develop the Iron Bridge project in Australia, seeking to tap demand for higher-quality iron ore as mills boost efficiency and cut pollution.
- Iron Bridge key details – To be operated by FMG, production rate of 22Mt (first ore in CY2022), produce a 67% Fe magnetite concentrate product. The AISC for is estimated at USD45-55/dmt and five binding offtake agreements have been executed to date for 5.3Mtpa of product.
- Project valuation/economics – We estimate the valuation for Iron Bridge (100%) is ~US$600m (ungeared) basis key inputs(A$0.20-0.40/share). Worth highlighting that the "spot" project NPV would be ~10x higher at US$6bn! We estimate a base case project IRR of ~11%, 9 year payback period and long term EBITDA margin of 38% and sustainable NOPAT contribution to FMG of ~$190m (~15% lterm NPAT uplift).
- Leverage – Earnings likely to increase a further 150% (FY20), +80% already since 25 January. And the share price will follow EPS and the spot NPV, now $22/share.

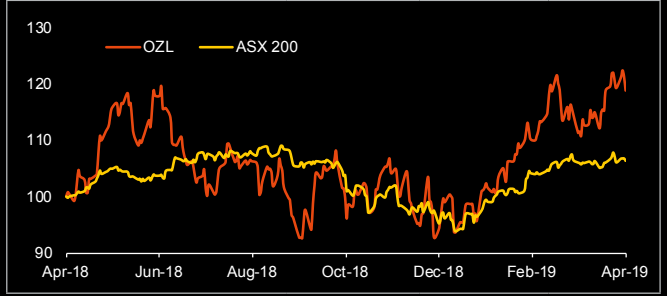
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	34.6	54.9	55.1
Dividends (AUD) cps	24.1	49.8	50.3
PE x	9.4	10.5	10.4
Yield %	5.8%	6.2%	6.2%
Franking %	100%	100%	100%

Oz Minerals (OZL)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$10.50
Target Price	$13.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	6.7%	17.0%	18.8%

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

Growth

- What an incredible journey … when the new team started at OZL in early 2015 – led by CEO Andrew Cole – the market viewed OZL as a disappointing "one trick pony" with a short mine life (~2022) and just one asset, the challenging Prominent Hill. The latest position has Prominent Hill churning out extraordinary CF to 2030 (2018 EBITDA ~$600m).
- The "one trick pony" has now made way for a myriad of growth options that could be delivered across the companies "province strategy". OZL has a LONG term valuation tail that the market hasn't yet fully grasped, let alone valued – top line growth could hit ~200 % over the period to 7 years 2026/27. That's a CAGR (%) of ~15% vs. RIO and BHP at ~2-3% 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 CF.
- Carrapateena study highlights upscaling and derisking. The Carrapateena (CPT) projects update maps out a plan to deliver a near doubling of output (Cu units), lower unit costs and potential to add to LOM. This involves a measured and incremental approach taken by OZL – starting with a lower risk sub level cave (SLC) operation (commencing in 4Q2019) – and moving to a lower cost (but higher capital and timing risk) block cave (BC) operation.
- A myriad of catalysts in 2019. Lots of news flow expected over 2019 across six different growth options each highlighting the potential for OZL to add production units (copper, gold and nickel) and adding to the companies life of mine (LOM) = NPV positive.

Forecasts

YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	73.0	57.9	74.1
Dividends (AUD) cps	20.0	20.0	6.0
PE x	12.1	18.1	14.2
Yield %	2.3%	1.9%	0.6%
Franking %	100%	100%	100%

Caltex (CTX)

Recommendation	Buy
Risk	Low
Share Price (as at 12 April 2019)	$27.60
Target Price	$31.00
Analyst	Stuart Baker

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.4%	2.2%	-14.4%

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

Leveraged to a recovery in retail and refining

- CTX is in an earnings "flat spot" at the moment from weak regional refining margins, and negative momentum from the "convenience retail" and fuel supply segments. This is impacting the share price, but there are reasons to view this as a cyclical low, in an otherwise decade long growth trend.
- CTX's strategic focus is away from a refiner/marketer to a retail/wholesaler and the closure of the Kurnell refinery in 2015 took the company closer to that objective, but the Lytton refinery in Brisbane still exposes CTX to regional refinery margins. Margins are cyclical and are at multi-year lows.
- Income from wholesale fuels marketing and convenience retail stores has flat-lined and reflects a number of factors including maximisation of market share, the re-invigoration of competitors, and CTX strategy to re-acquire its network of franchised petrol stations. Separately, rising oil prices have lowered retail margins due to pricing lags.
- There are a number of immediate pressures impacting profit, but our view is that they are not structural trends and we forecast a bounce-back in profit after 2019 due to (1) recovery in regional refinery margins (2) contribution from franchise stores being acquired during 2018-2019 and (3) recovery in retail margins as global oil prices stabilise.
- The stock buy-back is underway, responding to demands to distribute franking credits, and when complete will enhance earnings metrics.

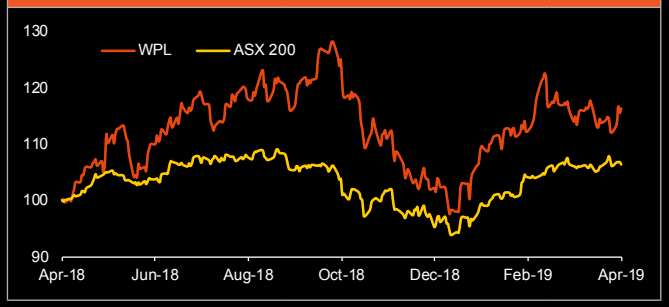
Forecasts

YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	214.0	195.5	220.0
Dividends (AUD) cps	118.0	117.5	132.0
PE x	11.9	14.1	12.5
Yield %	4.6%	4.3%	4.8%
Franking %	100%	100%	100%

Woodside Petroleum (WPL)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 April 2019)	$35.70
Target Price	$43.00
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.0%	6.4%	16.3%

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

Dividends and growth funded from low cost production

- WPL is the lowest cost, highest margin, most profitable domestic oil and gas company. Over the next few years we expect to see production growth from new projects such as Wheatstone LNG reaching full capacity and Greater Enfield oil. If oil prices trend higher then WPL will enjoy significant revenue growth driven by both higher price and sales volume.
- WPL has growth options, the key ones being (1) expansion of the Pluto LNG asset and (2) oil development offshore Senegal in West Africa. These projects provide substantial production growth from 2022
- Until then WPL will generate strong operating cashflow that will be paid out in dividends. WPL's dividend policy is to pay at least 80% of underlying EPS but in recent years the payout has been higher than that. The balance sheet is robust and can support multi-billion dollar investment for growth projects as well as maintain dividends.
- Our DCF valuation is ~$43/share and this assumes that Pluto2 and the SNE oil development offshore Senegal move forward. We do not assume higher risk projects such as development of Browse Basin gas, or exploration success, so success in these other endeavours provides upside longer term.
- The earnings valuation ratios are compelling. The PE ratios are among the lowest in the world and yields are superior to many mining or oil companies. Low multiples and high yield provide share price support until the next growth phase.

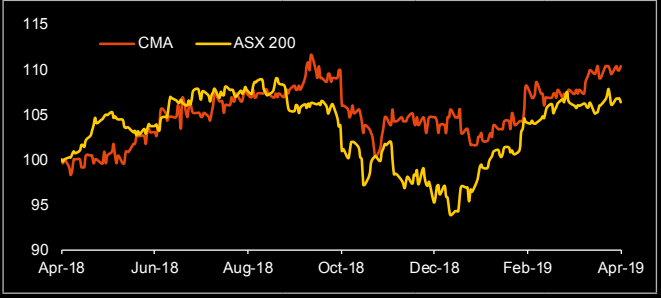
Forecasts

YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	146.1	198.4	252.4
Dividends (AUD) cps	192.6	222.8	230.4
PE x	15.1	12.8	10.1
Yield %	6.5%	6.2%	7.9%
Franking %	100%	100%	100%

Centuria Metro. REIT (CMA)

Recommendation	Buy
Risk	Low
Share Price (as at 12 April 2019)	$2.52
Target Price	$2.54
Analyst	Peter Zuk

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.8%	8.1%	10.3%

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

A pure-play office REIT with an attractive yield

- For investors that are bearish on retail and/or retail REITs, CMA is one of the few pure-play office REITs listed on the ASX, and the quality of the portfolio keeps improving. We believe it offers relative value when compared to larger market-cap REITs with office exposure.
- It offers an attractive forecast FY19E DPS yield of 7.0% based on a ~96% funds from operations (FFO) payout. Looking forward, we expect dividend growth to be lower than FFO growth and thus expect CMA's DPS payout ratio to decline.
- The portfolio has grown to $1.4bn from $0.9bn at 30 June 2018 mainly due to the previously announced Hines portfolio acquisition in Oct '18. Occupancy is broadly stable at 98.8% with a weighted average lease expiry (WALE) of 4.3 years.
- Gearing is 35.3% up from 28.3% at June 2018, reducing to 34.2% post settlement of 13 Ferndell St on 31 Jan 2019. A $145m facility expires in FY20, but we are not concerned that CMA faces material refinance risk. It has undrawn debt of $64.7m as at 31 Dec 2018, plus $24.2m of proceeds to come in from settlement of 13 Ferndell St in 2H19. We are not aware of any material capex commitments other than "normal" maintenance capex. Any material acquisitions could require the issue of more equity – but this should be well understood by investors.

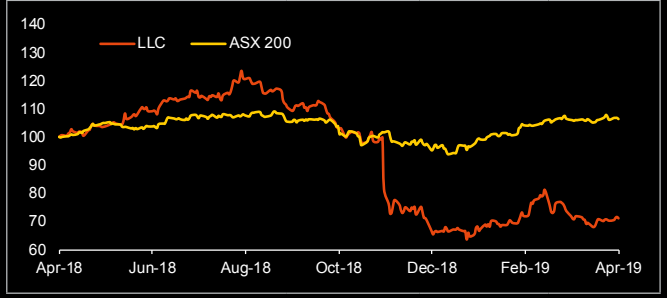
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	19.7	17.8	18.0
Dividends (AUD) cps	18.1	17.6	17.8
PE x	12.6	14.1	14.0
Yield %	7.3%	7.0%	7.1%
Franking %	0%	0%	0%

Lendlease (LLC)

Recommendation	Buy
Risk	Medium
Share Price (as at 12 April 2019)	$12.77
Target Price	$17.90
Analyst	Peter Zuk

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.1%	5.6%	-28.9%

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

Catalyst for a re-rate = The sale of the Engineering business

- We remain attracted to LLC due to its leverage to the global urbanisation thematic (and not on the back of the "leverage to the Australian infrastructure spend" thematic).
- It has a strong balance sheet, a robust $74.5bn development pipeline and an established network of capital partners that has seen external FUM grow to $34.1bn. We see the rollout of its development workbook as a driver of FUM growth. This in turn should help drive recurring income growth both from FUM fees and co-investment income.
- Its global diversification will see a greater earnings contribution from offshore, and leave LLC less exposed to cyclicality in Australia.
- The underlying Building business is profitable. Ex-engineering, the backlog is $13.8bn. While lower margin, it is also lower risk.
- The decision to exit the Engineering business is sensible – but uncertainty over the timing of the sale/exit remains a headwind to the share price recovery. The residual backlog is $6.6bn. We suggest the market continues to capitalise expectations of ongoing impairments.
- We estimate the sale of the Engineering business could provide $2.3-$5.3 share of upside.

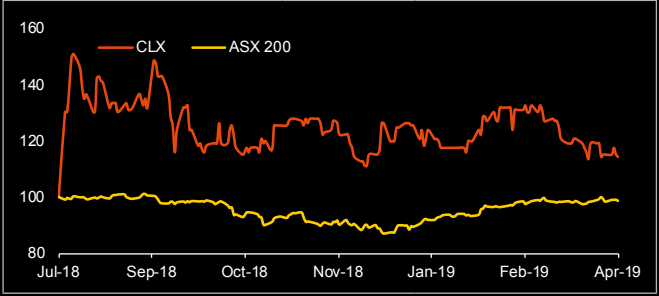
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	137.1	81.4	86.5
Dividends (AUD) cps	69.0	40.7	43.3
PE x	14.4	15.7	14.8
Yield %	3.5%	3.2%	3.4%
Franking %	0%	0%	0%

Calix (CXL)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$0.71
Target Price	$0.90
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-10.6%	-7.7%	nm

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

2019 is Expected to Build on the Achievements of 2018

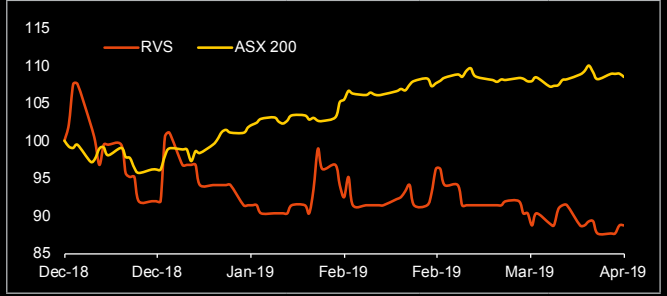
- In 2018 CXL delivered steady progress across its portfolio of products produced using its unique calcification technology. Based on the progress made, the simplicity of its technology, the validation its commercial MgO products provide and the substantial corporate and government interest in its pipeline products we expect it will continue to deliver positive news flow through 2019. Below we discuss three of its unique products.
- ACTI-Mag for odour control – ACTI-mag has been generating strong growth in a price competitive Australian market since 2013, with low customer churn. We had been looking for evidence that it could continue to expand into international markets. This came through in 2018 when CXL received its first purchase order from a West Coast US client. CXL also has multiple ACTI-Mag biogas trials underway in Thailand.
- BOOSTER-Mag crop protection – CXL has three Material Transfer Agreement's for BOOSTER-Mag with global crop protection companies. European trials continued through 2018 with highly encouraging results.
- Construction of CXL's LEILAC Project is on schedule, a technology for capturing Co2 released in cement and lime production, funded by the European Commission is under construction at Heidelberg Cement's Lixhe cement plant in Belgium. It is on time and within budget for commissioning in April 2019. Initial results proving up complete separation of Co2 are expected shortly after that and evidence of longer term reliability is expected in 12 months.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	-3.1	0.0	2.0
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-25.6	nm	36.1
Yield %	0%	0%	0%
Franking %	0%	0%	0%

Revasum (RVS)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$1.30
Target Price	$2.00
Analyst	Darren Vincent

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.9%	-5.7%	nm

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

Delays Deliver a Buying Opportunity

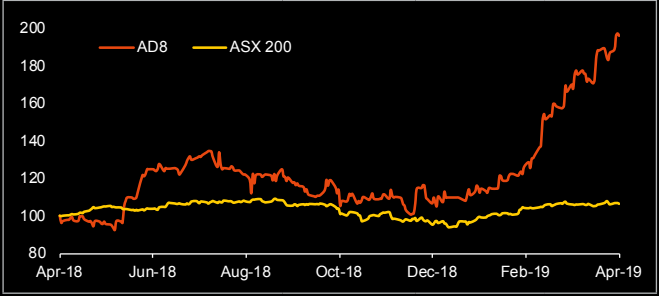
- Silicon polisher delays. RVS recently announced delayed deliveries of silicon polishers due to a clients slower than expected commissioning of a new silicon fab. RVS has received deposits of 30% on the delayed tools which it now expects to ship over 2H19 and 1Q20. We believe previous market shortages of silicon tools have also been equalised.
- SiC industry drivers are going from strength to strength. The delays affecting RVS's silicon polisher deliveries are disappointing, but they don't impact the key to our investment thesis and RVS's long term growth prospects, which ride on the outlook for silicon carbide (SiC) tools.
- RVS is to be a big beneficiary from the leap in capability SiC delivers. The mainstream auto industry as it moves in a more meaningful way towards electric vehicles is completely dependent on SiC. The same can be said of mobile communications as 5G takes hold and RVS has unmatched manufacturing equipment to service these industries' SiC needs. RVS's unmatched equipment capability was reflected in its FY18 sales result (predominantly due to silicon tool sales) which were up 118% on pcp and its. 2H18 revenue which was up 132% on pcp.
- Scaling and new designs now key risk. Scaling the business in our view, given RVS's leading market position, strong underlying markets and the strength of confirmed purchase orders, is the main risk confronting management and investors. Based on the successful scale up evident in the FY18 results, Management looks to be executing well on its opportunities which gives us confidence.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	0.0	-0.3	2.4
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	39.0
Yield %	0%	0%	0%
Franking %	0%	0%	0%

Audinate (AD8)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$6.41
Target Price	$5.70
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

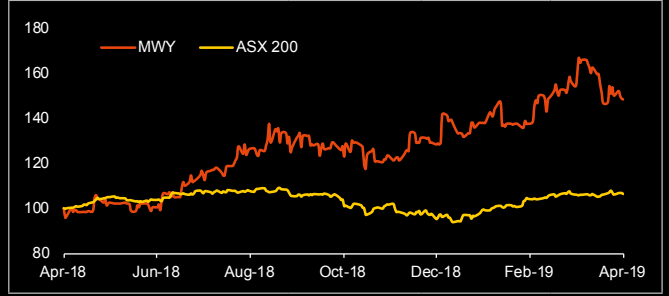
	1 mth	3 mth	12 mth
Relative Performance*	15.3%	71.2%	95.9%

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

Midway (MWY)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$3.53
Target Price	$4.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.8%	7.6%	48.3%

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

Onwards & Upwards

- AD8 continues to surpass all expectations, and even Shaw and Partners lofty expectations – 1H18, 3Q18, FY18, 1Q19 and now 1H19 results. This is why it remains one of Shaw's key picks in the small caps space. The share price has had a stellar run (from $1.22 listing price to now over $6.40, or +428% in less than 18 months), and we do not see any reason why AD8's run should not continue over time, especially given DDM and video are yet to meaningfully contribute to the future earnings trajectory and digital market adoption is only penetrated at a lowly 8%.
- Profitable on all metrics now with scale up in earnings likely to ensue as widening 'jaws' start to positively open as sales growth exceeds cost growth – despite a 69% increase in COGS, the gross margin remained a robust 73.3%, ahead of Shaw's 72.3% and slightly down on pcp's 74.6% as expected owing to lower margin adapters introduced into the product mix plus short-term shortage costs. Importantly, opex as a % of sales continue to trend down from 74% to 61% - despite opex rising with additional staff (FTEs up from 64 in pcp to 83), marketing and LTI grants.
- Positive 1H19 operating cashflow of $0.6m on the back of FY18's +$1.0m – augmented by strong balance sheet with cash sitting at $12.2m and no debt.
- Inclusion into the All Ords index was also a positive

Significant Tailwinds To Continue Into FY19 and Beyond

- Retain buy and undemanding multiple of 12x, as the stock's appreciation continues (+51% since we initiated 6 months ago). Furthermore, MWY remains an attractive Australian story with a large addressable market, impressive forecasted 4-year EBITDA CAGR of 14%, double-digit earnings growth, increasing free cash flow, low maintenance capex requirements, healthy dividend yield of 7% and high returns (ROIC >20% / ROE ~15%) despite being in a fragmented and highly capital intensive industry.
- FY19 tailwinds are significant and likely to remain well into FY20 given industry forecaster RISI's analysis, including woodchip pricing strength, Chinese demand, constrained global supply, FX benefit and acquisitions / equity investments now contributing.
- Recently, MWY announced that it had secured an 11% price increase to US$182 per bone dry tonne (BDT) in CY 1H19 for its high quality Eucalyptus globulus woodchips to its Chinese customers, who make up two thirds of MWY's export volumes – validating the demand/supply imbalance that is resolutely now favourable as RISI's 2018 International Pulpwood Trade Review forecasts higher prices for Australian Eucalyptus globulus woodchip exports to Asia over the next 5 years.
- As per the Market Update on 21 January 2019, MWY have re-confirmed that they are comfortable with the market FY19 EBITDA market range of $35m to $40m (Shaw's $38m).

Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	4.0	0.6	4.2
Dividends (AUD) cps	0.0	0.0	0.0
PE x	97.5	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

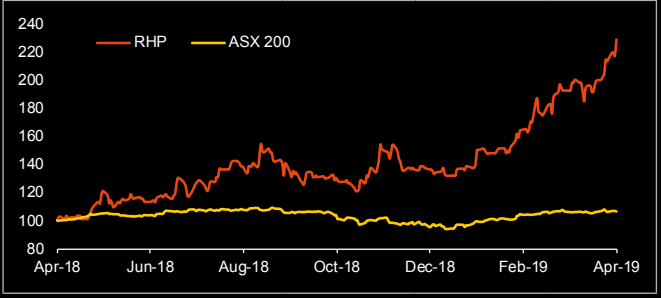
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	24.5	24.9	29.2
Dividends (AUD) cps	18.0	18.0	21.0
PE x	10.8	14.2	12.1
Yield %	6.8%	5.1%	5.9%
Franking %	100%	100%	100%

Rhipe (RHP)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$2.10
Target Price	$1.87
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	18.9%	52.4%	128.6%

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

Multi-pronged recurring cloud growth

- 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, Symantica and Citrix. RHP has grown strongly and now has operations across a number of APAC countries; leveraging its 'born in the cloud' competitive channel strategies.
- RHP has multiple growth levers across its business which are underwriting a strengthening growth trajectory. These key levers include: 1) Shift to public cloud services; 2) Increased geographical footprint now selling into multiple countries in SE Asia; and 3) Further and more expansive vendor agreements.
- Across these multiple growth levers, RHP is overlaying a predominantly fixed cost operating envelope and with the business now sustainably profitable, it is demonstrating increasing operating leverage, a strong net cash position and flexibility in its capital management.
- We see management's guidance as continuing to err on the side of conservatism and the stock's upgrades cycle continuing. We further see that with a predominantly SAAS recurring revenue stream and ~100% YoY growth rates in public cloud, that investors are underestimating the earnings growth as the business rolls forward onto each new reporting period.
- RHP has been and will continue to be one of our key picks.

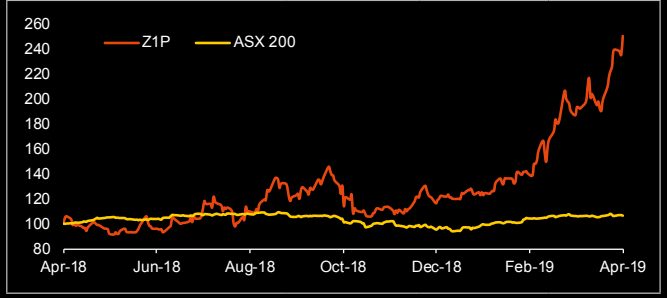
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	3.6	6.2	7.6
Dividends (AUD) cps	2.0	2.6	3.8
PE x	33.1	33.8	27.5
Yield %	1.7%	1.2%	1.8%
Franking %	100%	100%	100%

Zip Co (Z1P)

Recommendation	Buy
Risk	High
Share Price (as at 12 April 2019)	$2.37
Target Price	$2.06
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	34.0%	100.9%	150.0%

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

Multi-bagger potential

- Zip Co (Z1P) is one of Australia's largest alternative fin-tech and payments companies. Z1P offers products that range from a regulated credit product (zipMoney), to buy now pay later (zipPay) as well as having a market leading personal finance management app (Pocket Book).
- Currently doing over $1bn in annualised transaction volume and with over one million customers across the group within the lending side of the business alone, Z1P has and is continuing to grow strongly. Recent results had the business having grown over 100%, with all the leading measures of consumer engagement being positive.
- Zip Co is now sustainably cash flow positive, progressively winning larger merchants and most importantly winning further share within Australia's payments space. We see Z1P as having scratched less than 1% of its addressable market, whilst demonstrating positive characteristics which include: 1) Recurring income stream; 2) Operating leverage being delivered at greater scale; 3) Structural tailwinds towards shift to non-bank payments players; 4) Bank and sophisticated ownership; and 5) Network effects as product is rolled out further and more extensively starting to take hold.
- Led by a founding management team with large equity holdings we see Z1P as one of the most exciting fin-techs within Australia. Expect further large merchant wins and step changes in both profitability and customer acquisition over the next 12 months.

Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	-5.6	-1.8	-1.2
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-15.4	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

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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