ShawandPartners

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The Research Monitor

September Quarter 2019

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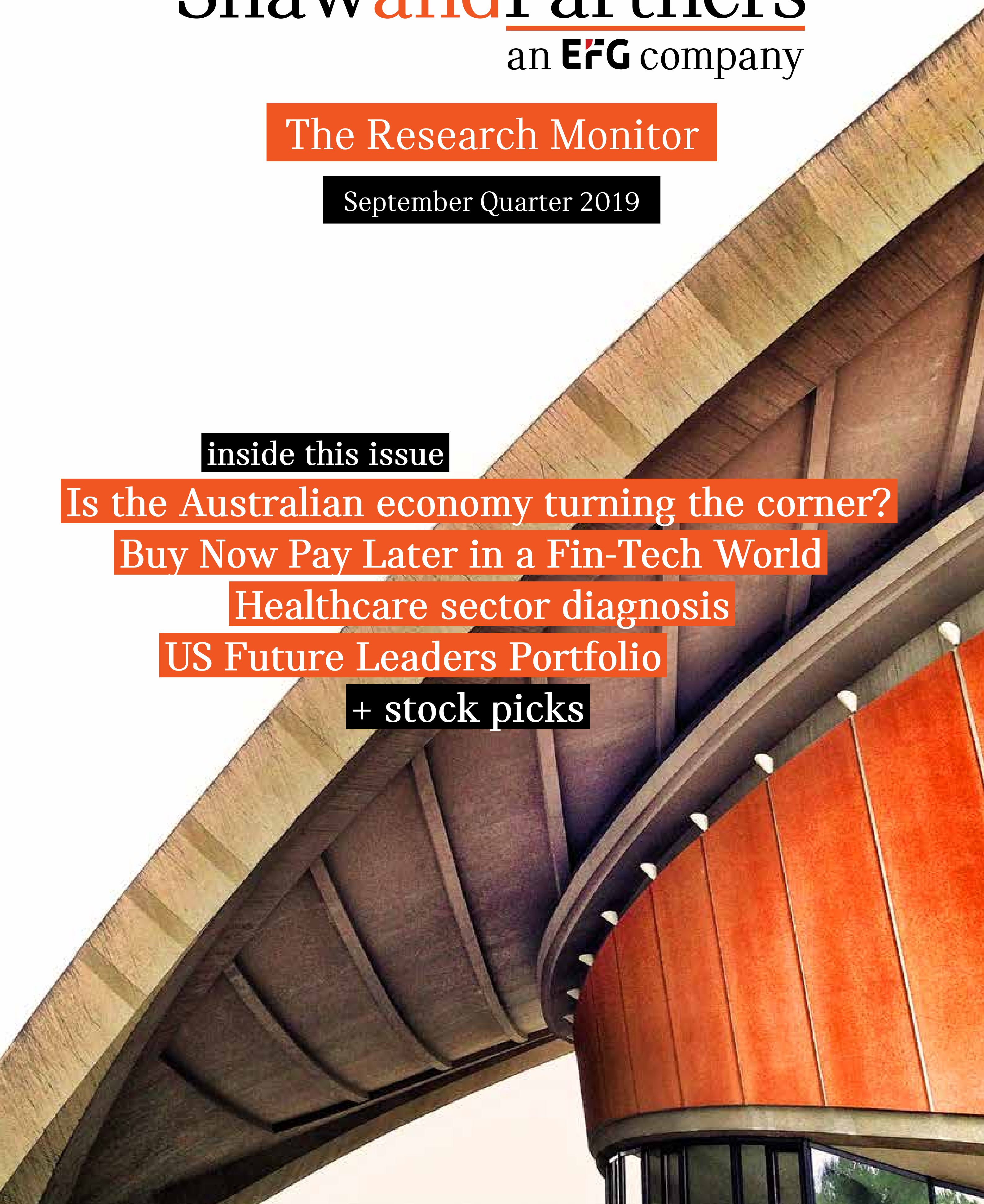

Q2 2019 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, recorded another strong quarter following in the footsteps of a 9.5% in price terms (10.92% including dividends) return in the March quarter. The June quarter saw returns of 7.2% in price terms and 8.0% including dividends, making up almost 20% returns since the start of the year.

The Australian market was driven especially by the surprise Federal Election result which saw the return of the "market friendly" coalition. **This saw Australian shares rise 2% in the month of May, when global shares fell 6% in $US terms due to concerns about global growth and trade.** Bond yields continued to fall to record lows, with the Australian 10-year bond ending the quarter at 1.32%, down from 1.78% at the end of March and a full 1% below where they were at the start of the year. Among Australian equity sectors, **all sectors except Energy posted positive returns during the quarter.** Leading the charge were the Healthcare Equipment, Telecommunication Services, Media and Entertainment, Banks, Transport and Pharmaceuticals sectors which all rose double-digits for the quarter. These sectors comprise 48% of the Australian share market and collectively added 5% of the 8% return. Given the dramatic fall in 10-year government bond yields and also the easing stance of the Reserve Bank, it was not surprising to see those stocks considered "bond proxies" continue to do well. Real Estate Investment Trusts that are exposed to residential real estate were the best performers (Mirvac (MGR) up 13.8% for example), whereas those Trusts focussed on retail malls did poorest (Unibail-Rodamco-Westfield (URW) down 11.2%).

The largest component of the S&P/ASX 300 Index is the Banks Sector (22.8% index weight), which rose 11.1% in price terms and 13.4% including dividends, reversing the period over which banks have underperformed the index. Most of this performance came immediately post the Federal Election outcome as both clarity around the treatment of franking credits and a move by bank regulator APRA to lower the stress test interest rates on loans signalled more accommodative macroprudential controls on credit growth. **The second largest sector, Materials (18.9% index weight) rose a more modest 7.2% including dividends,** with bellwether BHP up 6.9%. Energy sector returns retreated following a fall in the oil price. West Texas Intermediate oil prices fell 3.3% in the quarter and this pushed the sector down 0.2% after dividends, but it was coal stocks such as New Hope (NHC) and Whitehaven (WHC) which dragged the index lower. There were some spectacular returns amongst small companies, even as the broader Small Ordinaries Index rose only 3.75% with medical device company Polynovo (PNV) and diversified financial Eclipse Group (ECX) both up over 100% in three months!

Global equity markets performed much more modestly that Australian markets in the June quarter, with the MSCI World ex Australia Index in Australian dollars up only 2.5%. World share markets reversed sharply in May due to concerns about the outcome of trade talks between the United States and China. **Bond markets rallied on the back of lower long-term interest rates with the Bloomberg AusBond Composite (0+Y) index up 3.1% and Bank Bills returning 0.4%.** The spread between 90-day bank bills and cash fell from 27 basis points at the end of March to negative 5 points at the end of June – a strong sign of easing credit conditions and expectations that the RBA will continue to cut rates. **Long term interest rates in Australia hit a record low of 1.26%.** Market measures of risk or volatility, rose sharply in May and have subsequently retreated to March levels, suggesting investors have become comfortable with the likely path of inflation, interest rates, growth and trade.

	Sector	Performance	Market Cap
↗	Banks	13.4%	410,712
↗	Health Care Equipment & Services	13.4%	53,946
↗	Telecommunication Services	12.3%	53,365
↗	Media & Entertainment	11.9%	16,352
↗	Transportation	11.0%	86,079
↗	Pharmaceuticals, Biotech & Life Sciences	10.5%	100,635
↗	Food & Staples Retailing	9.6%	61,115
↗	Commercial & Professional Services	8.9%	47,021
↗	Consumer Services	8.8%	52,311
↗	Materials	7.2%	340,871
↗	Insurance	5.4%	69,272
↗	Software & Services	5.1%	43,352
↗	Real Estate	4.1%	129,320
↗	Retailing	4.0%	55,641
↗	Diversified Financials	3.6%	87,246
↗	Utilities	1.9%	34,052
↗	Capital Goods	0.6%	15,687
↗	Food Beverage & Tobacco	0.6%	35,481
↘	Energy	-0.2%	94,748

ShawandPartners
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Shaw and Partners is one of Australia's preeminent investment and wealth management firms. With a national presence and $17 billion of assets under advice, Shaw and Partners offers the intimacy of a boutique investment firm, backed by the resources and scale of a major financial group, EFG International.

WATCH OUR CORPORATE VIDEO

30+
YEARS IN THE MAKING

$17bn
OF ASSETS UNDER ADVICE

6
OFFICES IN
SYDNEY
MELBOURNE
BRISBANE
ADELAIDE
CANBERRA
PERTH

280
STAFF AUSTRALIA WIDE

160+
INVESTMENT ADVISERS & FINANCIAL PLANNERS IN AUSTRALIA

Martin Crabb
Chief Investment Officer

Is the Australian economy turning the corner?

Following the surprise Coalition election victory in May, Australian share markets have performed well, somewhat due to greater certainty around the tax treatment of various investments, but also due to a number of post-election developments.

Specifically, we refer here to the shift in stance by the RBA in regard to monetary policy and also a relaxation of “macroprudential” measures engineered by the Australian Prudential Regulatory Authority (APRA) to slow down the housing market.

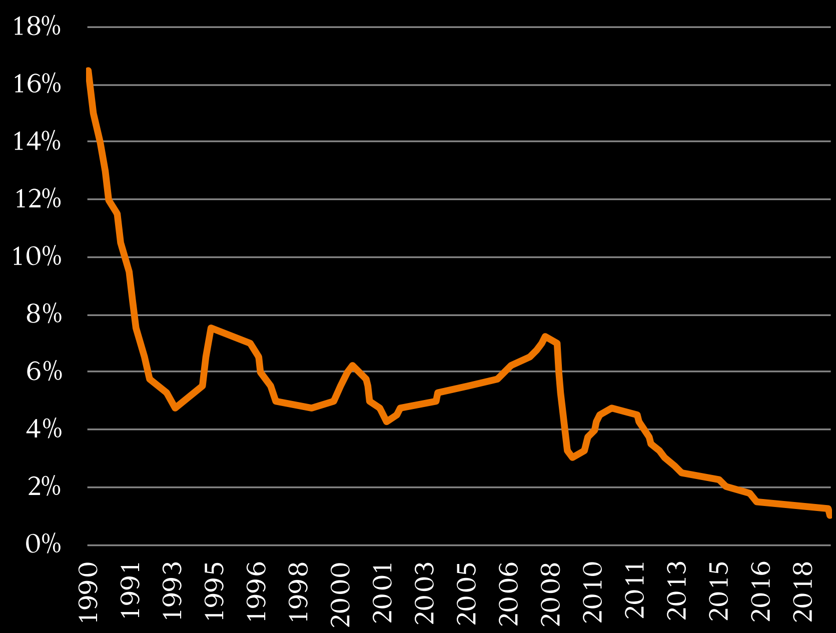
Australian’s are generally obsessed by residential property values as it remains our greatest store of wealth despite the exponential growth in superannuation. The most recent data suggests Australian households own $6.4 trillion worth of land and dwellings out of a total net worth of $10.2 trillion. Considering the residential population is 25.18 million, that’s over $250,000 worth of property for every Aussie.

A combination of policy changes are likely to boost demand for new property and make it easier for Australians to enter the market. Firstly, interest rates are on the way down – maybe as low as 0.5% if futures markets are right. This could bring mortgage interest rates down into the twos.

Secondly, APRA have left it up to the banks to determine the rate that they use to “stress test” new borrowers. It is no longer set a 7.00-7.25% so this is likely to mean more home buyers will qualify for a loan. Thirdly, the Federal Government is due to implement a policy that will provide up to $500m to first home buyers to help them with a deposit for their first home.

Collectively, these measures are likely to see a bottoming of house prices, an improvement in auction clearance rates and an overall improvement in sentiment toward residential real estate.

RBA Cash Rate (1990-2019)



Source: FactSet and Shaw and Partners

Is the Australian economy turning the corner?

Consumption remains the largest component of Australia's Gross Domestic Product, at 56.5%.

CONSUMPTION

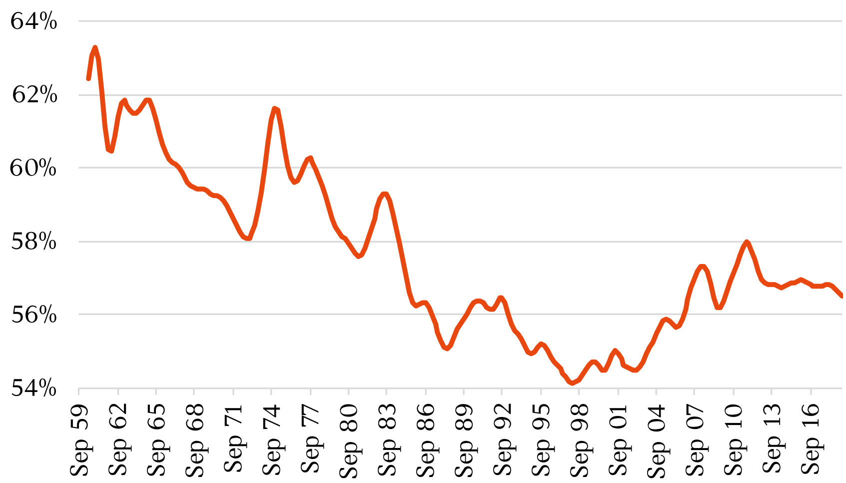
Consumption remains the largest component of Australia's Gross Domestic Product, at 56.5%. Although this has been as high as 63% and as low as 54% over the past several decades, it's influence on changes in GDP has been critical. Recently, consumption has waned as a combination of weak wages growth, falling real estate values, tax bracket creep and generally low consumer confidence have impacted household budgets. Lower interest rates and potential tax cuts should provide some boost to consumer spending in the near term.

INVESTMENT

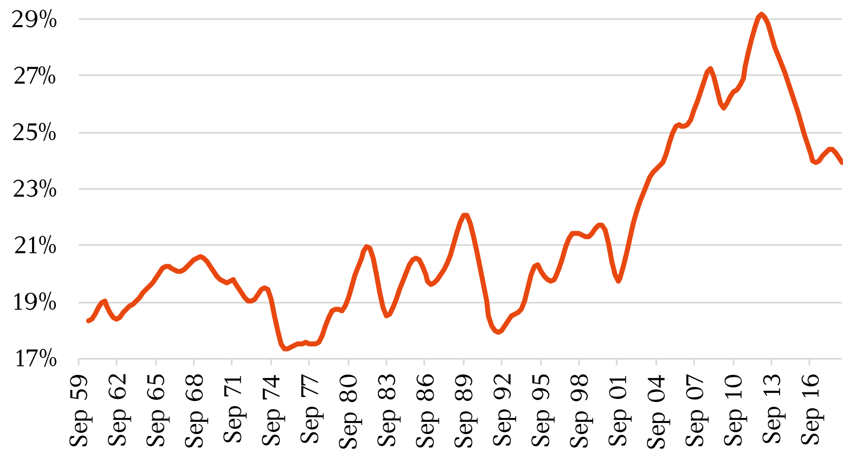
Investment is the second largest component of Australia's GDP after consumption and currently comprises 23.9% of GDP. Historically investment spending has oscillated around 19% of GDP, but then shot up in the 2000's in response to the industrial development of China and its need for Australian resources of steel-making raw materials and energy.

This "boom" in mining investment came to an end in March 2013 when investment spending peaked at 29.1% of GDP. The outlook is for a stabilisation of investment as a proportion of GDP more in line with historical norms and for real estate and infrastructure spending in line with the constituent increase in population.

Consumption % of GDP



Investment % of GDP

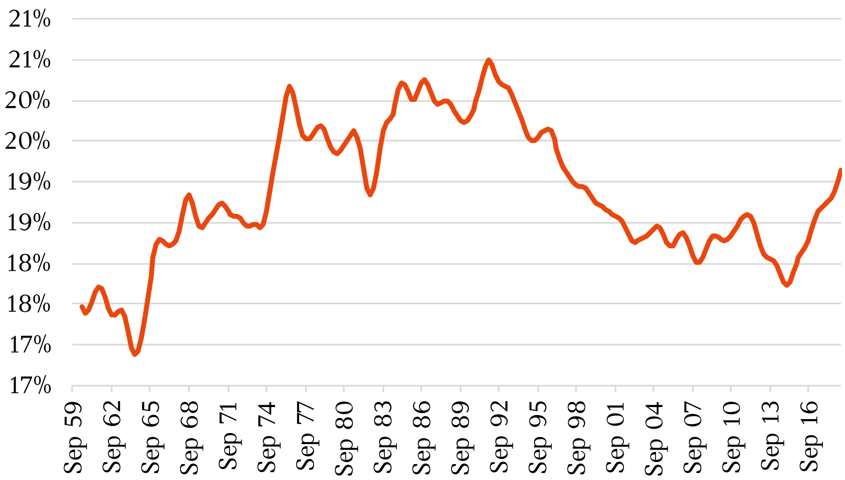


Source: FactSet and Shaw and Partners

GOVERNMENT SPENDING

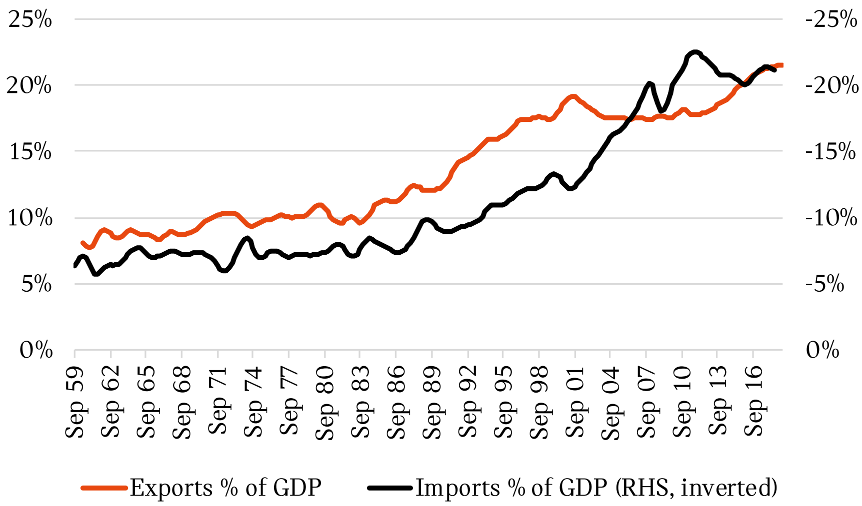
Government spending is the third largest component of GDP at 19.1% and has tended to be "counter-cyclical" as governments seek to boost activity when the economy is weak and pare back spending when growth is strong. Politically, the Liberal/National Party coalition is generally in favour of "smaller" government and the ALP in favour of larger tax and social welfare spending. As a result, government spending share of GDP has been quite variable over time. The strong revenue boost from Australia's mining exports (mining GDP is now 7.7% of overall GDP) is likely to see the Federal Budget move into surplus sooner than expected and some of this windfall will be passed on in tax cuts and some in the form of higher government spending and investment.

Government spending % of GDP



The final component of GDP is net exports. Australia has a largely open economy with limited barriers to trade and thus exports comprise 21.6% of GDP and imports comprise -21.2% of GDP (imports are considered a negative item as they comprise the GDP of other countries). Net exports are thus 0.4% of GDP. Again, this is a very volatile component.

Exports vs Imports % of GDP



Source: FactSet and Shaw and Partners

Overall, with lower interest rates, tax cuts and an improving fiscal picture, the Australian economy is set to improve going forward.

We expect households to use any income windfall to first reduce mortgage debt, but those on lower incomes and without housing debt are likely to spend a large proportion of any extra income.

Investors should look to selectively add exposure to companies exposed to improved consumer spending and residential construction activity as signs of an improvement in consumer sentiment validate this thesis.

Jonathon Higgins
Research Analyst

Buy Now Pay Later in a Fin-Tech World

"If you don't jump on the new, you don't survive"

Satya Nadella, Microsoft CEO

The Fintech Ecosystem

In CY18 there was over US$50bn in funding across fin-tech and alternative payment investments in the Americas; up 100% YoY.

There is a structural shift underway in payment and lending channels across the world. This structural change is associated with the shift towards digital payments/wallets, mobile transactions, a discerning consumer that demands more and alternative well-funded companies.

These emerging tailwinds are generating a huge opportunity across the traditional finance and payments ecosystem. Within a short period of time category killing lending entrants have emerged, including well-known names Afterpay, Zip Co, Klarna and Affirm as well as business fin-techs such as Kabbage, OnDeck and Prospa.

There are now hundreds of well-funded payment and lending companies across the world with hundreds of billions dollars of shareholder value and funding.

Banks and traditional financial institutions globally are threatened by the rise of these companies and should sit up and take notice. Traditional customer acquisition channels are broken and these banks are no longer top of funnel for a consumer. Traditional channels of customer acquisition typically centre around:

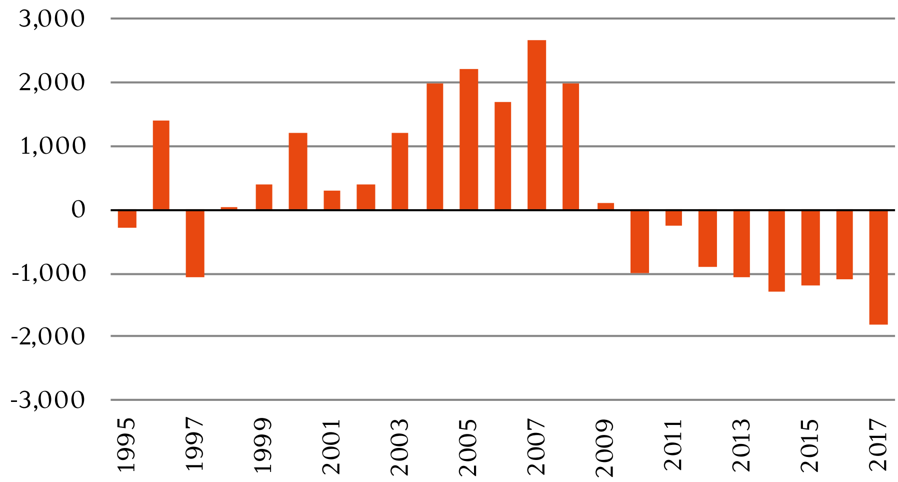
- Financial arrangements through familial connections;
- Fixed branch network;
- Brand; and
- Product led and brokers.

These channels and acquisition methodologies are overlaid against a complex and typically time consuming process. Compare these traditional channels and products with a BNPL company such as Afterpay (APT) or Zip Co (Z1P) who acquire a customer at a checkout within real time through smarter, more transparent ways and across a trusted amortising product. Banks and traditional channels will find it difficult to keep up. **Banks have an origination issue.**

This is particularly the case for millennials and newer generations who utilise digital transaction channels at a rate over 100x to that of branches.

Over 35% of the US personal loan market is now originated by fin-tech lending, alternative payment and platform companies - up 6 fold in less than 5 years.

US bank branch changes - Net closures since 2008



Source: FactSet and Shaw and Partners

Buy Now Pay Later in a Fin-Tech World

Retail bank branch traffic in the US is forecasted by CACI to decline by 36% over the next 4 years.

WHAT SHOULD BANKS DO?

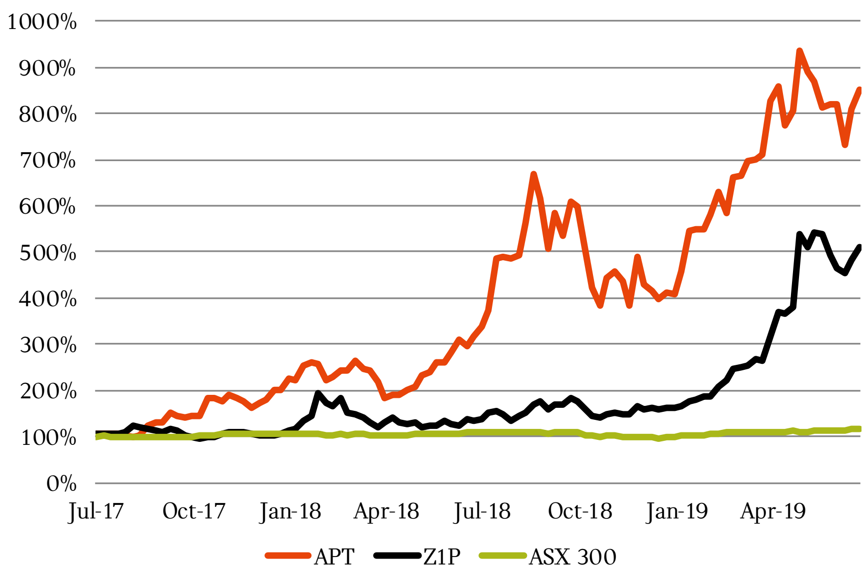
We see banks getting back to their core competitive advantage. That is sitting as the wholesale lender partner and channel to customer facing fin-tech organisations that have material competitive advantages in this space.

Meanwhile a host of various Australian and global companies have created a large amount of value within a short period of time. The combined market cap of just the three fin-tech BNPL players listed on the ASX (APT, Z1P, SPT) is over $7bn.

BNPL is one of the hottest sectors within the Australian market having seen extraordinary returns during the last 3-5 years since new entrants have listed and notibly year to date, with both APT and particularly Zip spectacularly outperforming the market. Zip alone is in the top 3 best performers for ASX tech companies year to date.

Whilst Z1P and APT are vastly different at product revenue and returns levels, both products are fulfilling a similar value proposition.

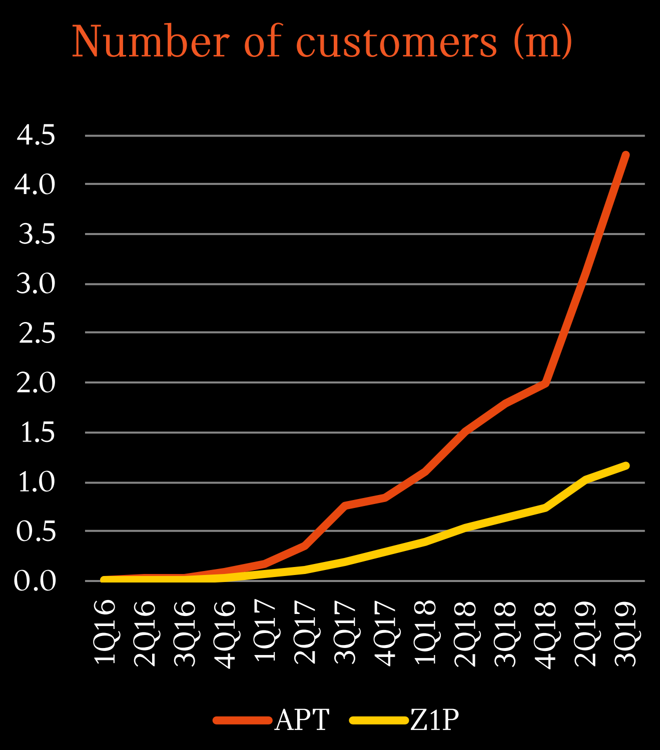
Relative performances of BNPL versus Small Ordinaries

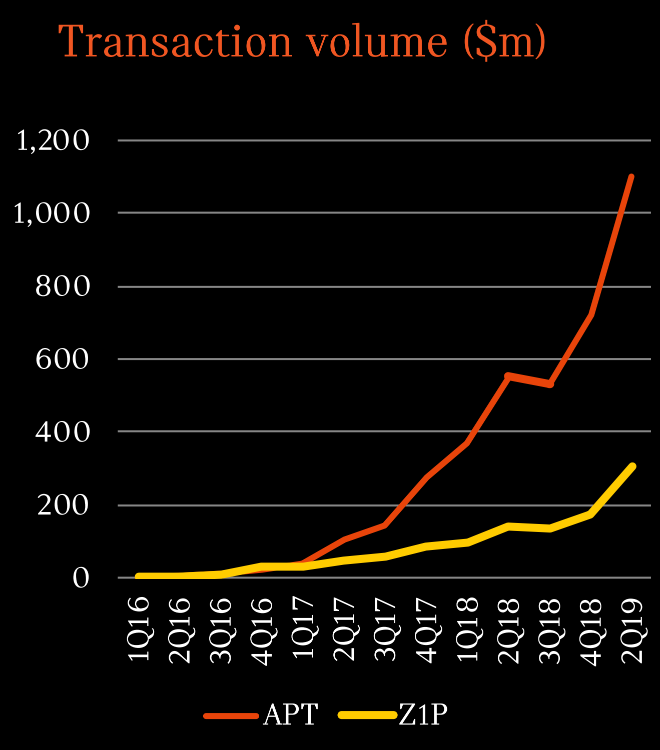


That is that they're best meeting iterations of consumer expectations in the digital age and are increasingly becoming a force within the Australian and overseas payments landscape.

The scale and immediacy of the sector and why banks and investors should sit up and take note include:

- Shaw and Partners estimates that over 10% of Australians have an account with APT and Zip combined;
- From a standing start within 5 years these businesses are generating $6bn+ of transaction volume a year and growing exponentially; and
- Over 10% of Australian e-commerce is generated by these companies.





GROWTH

Whilst already large, both of Australia's major players have a material opportunity to grow customers, sales and earnings both domestically and globally. Their model is one of a platform wherein increasing scale, attractive operating leverage characteristics and intelligent customer acquisition provides significant advantages over traditional players.

Although Shaw and Partners doesn't cover APT, we see significant growth potential for the business in terms of sales, transaction volumes and expansion in years to come. Our preferred vehicle through current coverage is Zip Co (ASX:Z1P), with an understanding that as a whole we see the sector as winning with strong structural tailwinds driving the adoption of independent and alternative payment players.

ZIP CO

We feature Zip in our stock picks section 9later in the issue). Broadly we like Zip for the following reasons:

❶ Zip is growing at record rates, with sales up 100% year on year. The company is accelerating adding over 28 merchants and 1,500 customers a day;
❷ Westpac owns a material stake in the business. With Zip having what we consider to be a sustainable, profitable and increasingly valuable operating model;

❸ Now sustainable cash flow breakeven, with operating leverage emerging across the business at an increasing scale;

❹ Trades at a discount to major ASX listed tech with the highest gross profit growth trajectory;

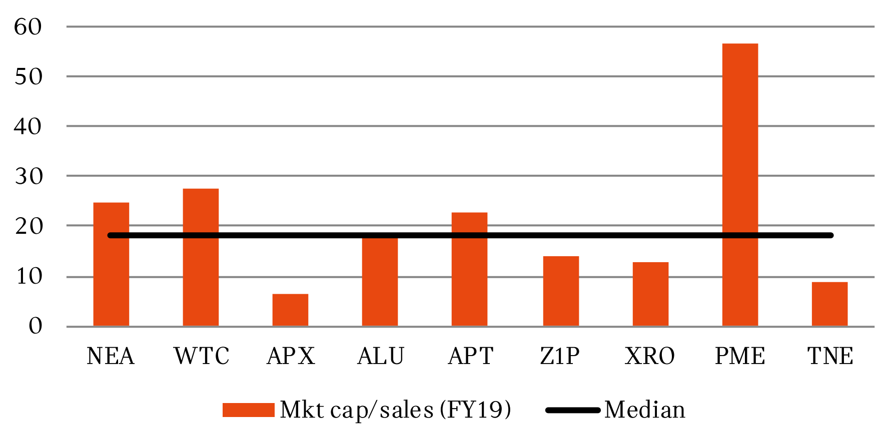
❺ and Potential to structurally alter the face of lending and alternative payments in Australia.

Longer term the value for both the major BNPL companies is outside of lending and is through utilising active and engaged customers. This could be geared towards further product iteration, lead generation, co-branded banking, data mining, personal financial management, insurance and a whole host of other business models.

It's commonly thought that the majority of value in Qantas is within the frequent flyer program and we note that on a market cap to customers basis Zip is worth ~$200 when it costs $150+ for a major bank to acquire a transactional customer, $700+ for a car loan and significantly more for mortgage leads.

It took Qantas significant infrastructure and over 15 years to get to 4m members and it took Zip and APT combined only 3 years to do the same.

Sales multiples ASX popular tech



Source: FactSet and Shaw and Partners

Buy Now Pay Later in a Fin-Tech World

Interesting payments, tech and lending businesses around the world.

Code	Company	Description	Size ($m)
APT	Afterpay	Buy Now Pay Later Provider across Australia, US and UK	**5,900**
Z1P	Zip Co	Buy Now Pay Later Provider across Australia and New Zealand	**1,090**
PPH	Pushpay	Faith giving application and software globally (particularly USA)	**1,060**
EML	EML Payments	Fin-tech provider of payment solutions, financial services and payment disbursement	**750**
HSN	Hansen	Support, software and utility solutions globally	**750**
PGL	Prospa	Fin-tech business lender servicing SME businesses within Australia	**590**
GTK	Gentrack	Support, software and utility solutions globally	**550**
CRD	Credible	Dominant and growing US platform for student payments and loans	**450**
MNY	Money 3	Alternative provider of non-conforming automotive and longer term loans within Australia and New Zealand	**390**
PBH	Pointsbet	Expanding platform for betting solutions with leverage into opening up of US markets	**270**
RMC	Resimac	Alternative and one of the largest providers of mortgage backed securities end to end within Australia	**250**
SPT	SplitIt	Buy Now Pay Later Provider globally, particularly US	**210**
WZR	Wizr	Alternative provider of personal finance solutions within Australia with peer to peer roots	**110**
BBC	Banking Corporation	Smallest listed ADI within Australia with an integrated broking and mortgage backed securities business	**50**
RZI	Raiz Invest	Innovative financial investment platform connected to everyday spend	**30**
MNW	Mint Payments	Omni-channel payment solution provider	**20**
CCA	Change Financial	Provides innovative mobile digital banking services globally	**5**

The alternative payments and lending space on the ASX is still an emerging sector. A number of new participants and the structural shift is growing towards independence across all of these companies within Australia.

We remain positively disposed to the overall thematic and have various investment opportunities that are available for you to discuss with your Shaw and Partners adviser.

Future Leaders Panel

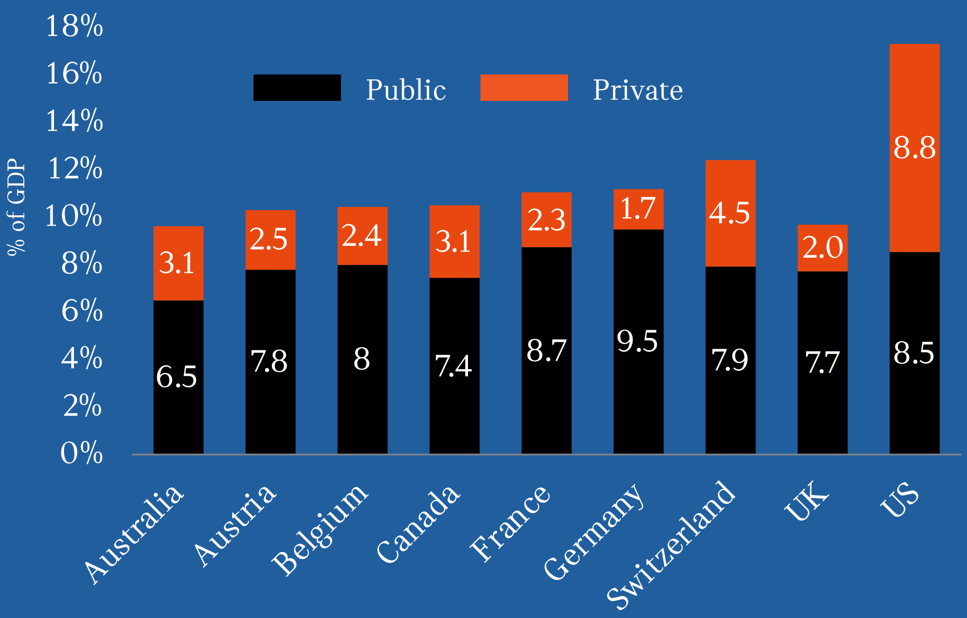
EFG International

Healthcare sector diagnosis: a dose of disruption needed.

Healthcare sector diagnosis: a dose of disruption needed

Since the 'Big Pharma' boom in the 1990s, innovation in healthcare, primarily pharmaceuticals, has stalled and the market has faced increasing competition from generics and biogenerics, hurting incumbents.

Public vs. Private health expenditure as % of GDP



Source: OECD Health Statistics

In 2017 the US spent 17% of GDP on healthcare compared to just 5% 50 years ago.

Other sectors have already seen disruption which has helped to overcome inefficiencies and drive innovation. These disruptive forces are now becoming more prevalent in healthcare. We expect this trend to start in the US, where there is most need, but then spread to other regions.

Although countries have varying degrees of healthcare provisions, one thing they have in common is the growing costs of healthcare expenditure. We are seeing ageing populations and also improved technology on offer; both are positives but contribute to higher levels of spending.

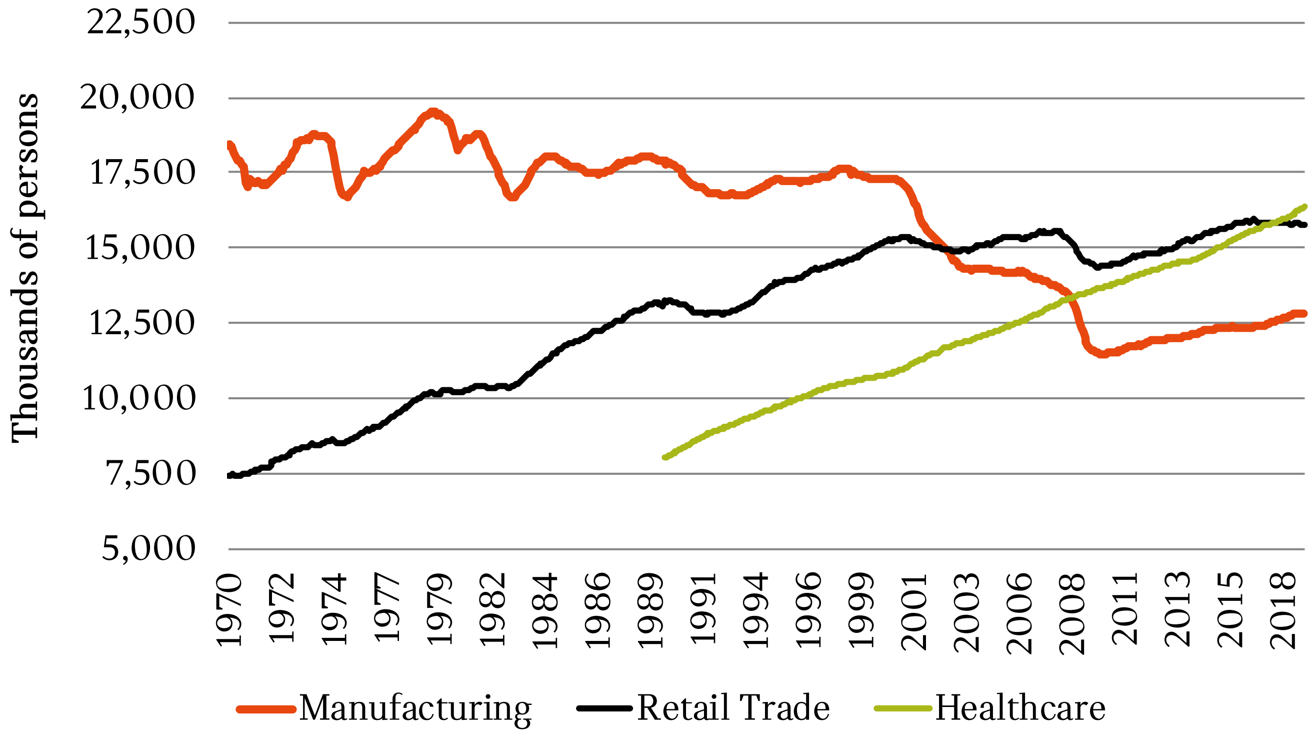
Amongst OECD countries, the US spends the greatest proportion of GDP on healthcare. In 2017 it spent 17% of GDP, compared to just 5% 50 years ago. Furthermore, the sector has become the largest US employer, with more people employed in it than in manufacturing or retail trade, with this growth set to continue. Nevertheless, even with vast numbers of employees, healthcare systems are under strain.

Over the last 20 years the price of healthcare has also ballooned. Hospital services inflation in the US is around four times greater than that of the overall inflation level.

Despite all of the spending and resources dedicated, there is mounting concern that many of the services provided are not strictly necessary. The US National Academy of Medicine estimates that the US healthcare system wastes US$765bn per year, one quarter of all the money spent, on unnecessary or needlessly expensive care.

Warren Buffett regards such a high level of healthcare spending as a serious impediment to US companies' competitiveness in world markets. Furthermore, system inefficiencies are highlighted by stalling life expectancy growth which declined in the US in 2016 as the nation battles its obesity and opioid addiction crisis.

Healthcare has become the largest employer in the US.



Source: FRED, US Bureau of Labor Statistics

Due to the combination of these factors, this historically staid industry is now, more than ever, open to change and new ways of caring for patients. Historically, innovation was restricted from healthcare but fortunately, we have a whole host of new technologies to address requirements within the sector, with innovation spanning across genomics, new treatment modalities including gene therapy and immunotherapy, machine learning and miniaturisation.

There has been an increase in the number of companies outside of the sector, in particular within technology, forming partnerships to innovate, drive down costs and provide a more efficient service. In 2018 for example, Amazon acquired PillPack for close to $1bn, and in Southeast Asia ride-hailing app Grab has partnered with Ping An Good Doctor to deliver online healthcare services.

Digitisation within healthcare helps competition and covers making healthcare records available in digital form; using digital technologies in the management of that information (for example, in identifying diseases and medical conditions); and digital transformation. Within this field, Australia rolled out “My Health Record”, linking patient data to form a personalised record. Other countries are also taking measures to increase the availability of digital records.

Robotics also offers interesting prospects, and rather than coming in to take jobs it allows workers to focus on more meaningful tasks. For example robots are able to fill out digital paperwork, take vital stats and even act as companion bots to the elderly or mentally disabled. Despite the potential, robotics is still at the early adoption stage, and the uptake will depend on how much costs can be taken out as well as improved accuracy.

EFG Future Leaders Panellist Dr Neal Bangerter believes that over the next 20 years, Artificial Intelligence and deep learning will make healthcare more accessible and more accurate, helping contain costs in the developing world. Throughout this phase of development, Neal points out that wearables and very active involvement by individuals in monitoring and addressing their health will become commonplace in the developed world, informed by AI-based tools using standardised data collection and near-constant monitoring.

We think we are just at the start of exciting new developments in the healthcare sector and are actively seeking ways of gaining exposure.

This will be a key theme for the next few years and beyond. Looking at the three key stakeholders in healthcare, patients, physicians and payers, it is clear that they will always choose the products and services which best fit their needs; those that provide better outcomes/ fewer side-effects for patients, enhanced revenues for the efficient practice and cheaper for payers. These goals are lofty but attainable in the long run.

See more insights from EFG’s Future Leaders Panel at www.efgfutureleaderspanel.com

US Future Leaders Portfolio now available on Shaw Managed Accounts

Shaw and Partners is pleased to have launched the first of EFG Asset Management's (EFGAM) New Capital Funds, giving Australian investors increased access to global equity markets.

From Monday 1st July 2019, the US Future Leaders strategy will be available to Shaw and Partners clients as a Separately Managed Account (SMA) via Praemium.

EFGAM's New Capital Funds are a series of high-conviction strategies designed to produce long-term and sustainable alpha opportunities for clients. The goal of the US Future Leaders Strategy is to identify the next Facebook, Apple or Starbucks; discovering companies that are poised to dominate multi-billion dollar markets over the next decade. It is a concentrated US stock model portfolio that is designed to provide direct equity exposure to rapidly-growing businesses with significant opportunity to develop into future mid or large-cap companies, primarily via organic growth.

Shaw and Partners Chief Investment Officer, Martin Crabb said "We are excited to be bringing this strategy to our clients. One of our greatest challenges is helping investors gain exposure to the new and disruptive businesses that are poised to challenge those companies that typically comprise Australian share portfolios, such as banks, supermarkets and telecommunications companies. The EFGAM US Future Leaders strategy is a union of academic research, investment management and security selection that is unique in the market and one that provides an excellent portfolio diversifier for our clients."

Portfolio construction is rooted in EFG's fundamentally based investment philosophy and process – with a focus on four primary growth sectors of the economy; technology, healthcare, consumer discretionary, and financial services.

The Future Leaders Panel is comprised of industry and academic experts who help develop a proprietary framework that enables EFGAM to enhance its research process by being able to better identify visionary leaders in company management teams.

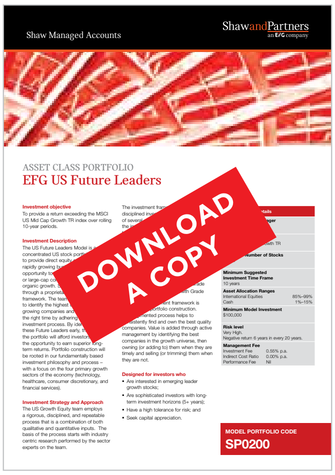
"At EFG, we believe that great management is a key driver behind successful companies and their ability to continually innovate or disrupt the status quo."

Measuring successful management is not easily quantifiable or apparent from traditional company analysis – something which EFGAM seeks to accomplish with the panel. "We believe this is a truly unique initiative as the panel's input is directly linked to the investment process," Donald Klotter, Global Head of Institutional Sales at EFG International said.

The new EFGAM investment solution is the thirteenth addition to Shaw and Partners' successful SMA offering and has been earmarked as the "first of a number of international investment solutions" that Shaw and Partners intends on bringing to market over the next 12-18 months.

Since its inception in April 2016, the US Future Leaders Strategy has returned 23.12% annualised, as at May 2019.

EFGAM InFACT brochure



US Future Leaders Portfolio Factsheet

An introduction to the Future Leaders Panel.
Interview with Moz Afzal, Global CIO, EFG International

Donald Klotter, Global Head of Institutional Sales at EFG International, will present the US Future Leaders Portfolio, alongside Shaw and Partners CIO, Martin Crabb at the end of July.

- Sydney, Tuesday 23rd July
- Adelaide, Wednesday 24th July
- Melbourne, Wednesday 24th July
- Melbourne, Thursday 25th July
- Canberra, Thursday 25th July
- Brisbane, Friday 26th July
- Perth, Monday 29th July

If you would like to attend the presentation at one of our offices, please register at the link below.

REGISTER TO ATTEND THE US FUTURE LEADERS ROADSHOW

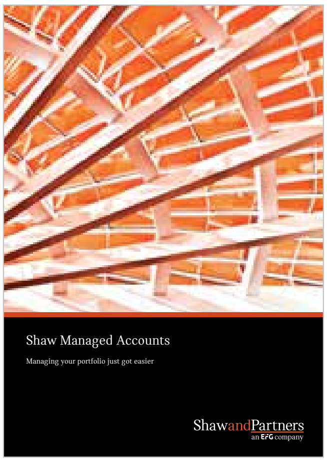
Shaw Managed Accounts

Portfolio Performances – May 2019

		1 Mth	3 Mth	6 Mth	1yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	**0.54%**	**3.74%**	**8.08%**	**8.03%**	**7.71%**
Objective: RBA Cash +3%	Portfolio Objective	0.38%	1.12%	2.23%	4.50%	4.48%
Inception: Sep-17	Excess v Objective	0.16%	2.61%	5.85%	3.53%	3.24%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	**0.37%**	**3.15%**	**8.93%**	**7.77%**	**9.11%**
Objective: RBA Cash +4%	Portfolio Objective	0.46%	1.36%	2.71%	5.50%	5.51%
Inception: Sep-17	Excess v Objective	-0.08%	1.80%	6.22%	2.27%	3.61%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	**-1.46%**	**3.31%**	**10.54%**	**6.09%**	**12.04%**
Objective: RBA Cash +5%	Portfolio Objective	0.54%	1.61%	3.21%	6.50%	6.46%
Inception: Sep-17	Excess v Objective	-2.00%	1.69%	7.33%	-0.41%	5.58%
Debt Securities Income Portfolio	**Total Portfolio Return**	0.90%	2.09%	4.13%	6.08%	4.49%
	Inception: Sep-17					
Hybrid Income Portfolio	**Total Portfolio Return**	1.03%	3.07%	4.60%	8.40%	7.22%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	**Total Portfolio Return**	3.11%	8.16%	17.88%	13.58%	11.41%
	Inception: Sep-17					
Australian Equity (Large Cap) - Growth	**Total Portfolio Return**	-1.22%	5.41%	18.08%	9.18%	16.12%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	**Total Portfolio Return**	4.32%	5.37%	18.08%	12.71%	13.96%
	Inception: Sep-16					
Australian Equity - Small and Mid Cap	**Total Portfolio Return**	-0.71%	5.26%	10.59%	2.66%	9.05%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	**Total Portfolio Return**	-1.90%	-0.67%	2.00%	n/a	-1.28%
	Inception: Aug-18					
AB Concentrated Global Growth	**Total Portfolio Return**	-3.27%	5.99%	13.96%	13.98%	9.99%
	Inception: Jan-15					

Shaw Managed Accounts

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



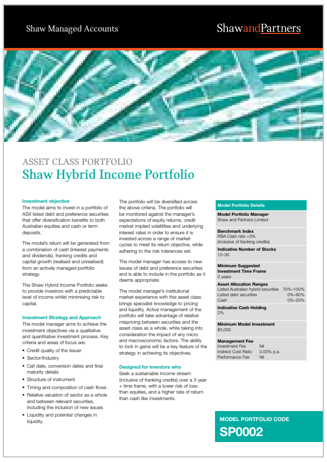
SMA Marketing brochure

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

After another solid month of returns, we lock in some gains in gold and supermarket stocks and rotate into more diversified plays and add exposure to an improving domestic consumer and the ongoing hunt for yield.

MARKET PERFORMANCE

The Australian share market has defied the bears and had another cracking month, with the S&P/ASX 100 index up 4.0% for June, the seventh month in a row it has posted gains and is now up 20.2% year to date. Strong gains across Communications Services (up 31.8% YTD) were offset by relatively modest gains in Consumer Staples stocks (up 11.4% YTD). Our Australian Large Cap Model Portfolio, established in April 2011, rose 4.3% in June, and is up 8.7% for the June quarter and 21.3% year to date.

SECTOR HIGHLIGHTS

Our decision to build a large overweight position in gold over the past few months was the right one. The two greatest contributors to portfolio returns in June were Northern Star (NST) and Evolution Mining (EVN) both gold producers. NST was up 20.0% and EVN up 12.7%. Based on a reasonable outcome from the G20 meetings between the United States and China and a more modest monetary policy stance from the US Federal Reserve, we think gold may tread water for a while, so we have wound back the large overweight in gold stocks.

Australian 10-year government bond yields ended the financial year at an extraordinary low level; 1.32%. This level of risk free rate suggests equities - with a cash yield of 4% and some dividend growth - are an extremely attractive investment. What the bond yield is also telling us, however, is that growth and inflation are likely to remain low and the RBA is having to cut rates to stimulate a weak economy and push the Australian dollar lower. The play we are attracted to here is retail Real Estate Investment Trusts which are exposed to both an improvement in the Australian consumer (lower interest rates, tax cuts, easier credit, stable/rising house prices) and lower bond yields as investors chase yield. We top up our weightings in Scentre Group (SCG) and Vicinity Centres (VCX).

CHANGES

In other portfolio changes, we drop Caltex (CTX) from the portfolio after the recent downgrade, trim the large holding in Coles (COL) which has run hard and top up Consumer Discretionary stock; Flight Centre (FLT), as well stocks exposed to a post G20 improvement in sentiment toward trade and China, being BHP and Iluka Resources (ILU).

Additions		Reductions	
BHP	2.18	COL	(3.00)
FLT	1.50	CTX	(1.68)
ILU	1.00	EVN	(2.50)
SCG	2.50	NST	(2.50)
VCX	2.50		
	9.68		**(9.68)**

RECOMMENDATION

In a market valuation environment that suggests low single digit returns from the broader share market, stock selection becomes critical. We dial down some of the previously well performing exposures to gold and supermarkets and dial up exposure to retail REITs. Based on our assessment of value (12-month Target Prices and dividend expectations being achieved), the Australian Large Cap Portfolio is expected to return more than 10% over the next year, well in excess of the expected 2% broad market return and the 1.3% yield available from the long-term government bonds. We remain underweight Australian equities in a multi-asset portfolio, preferring to obtain equity exposure via international markets.

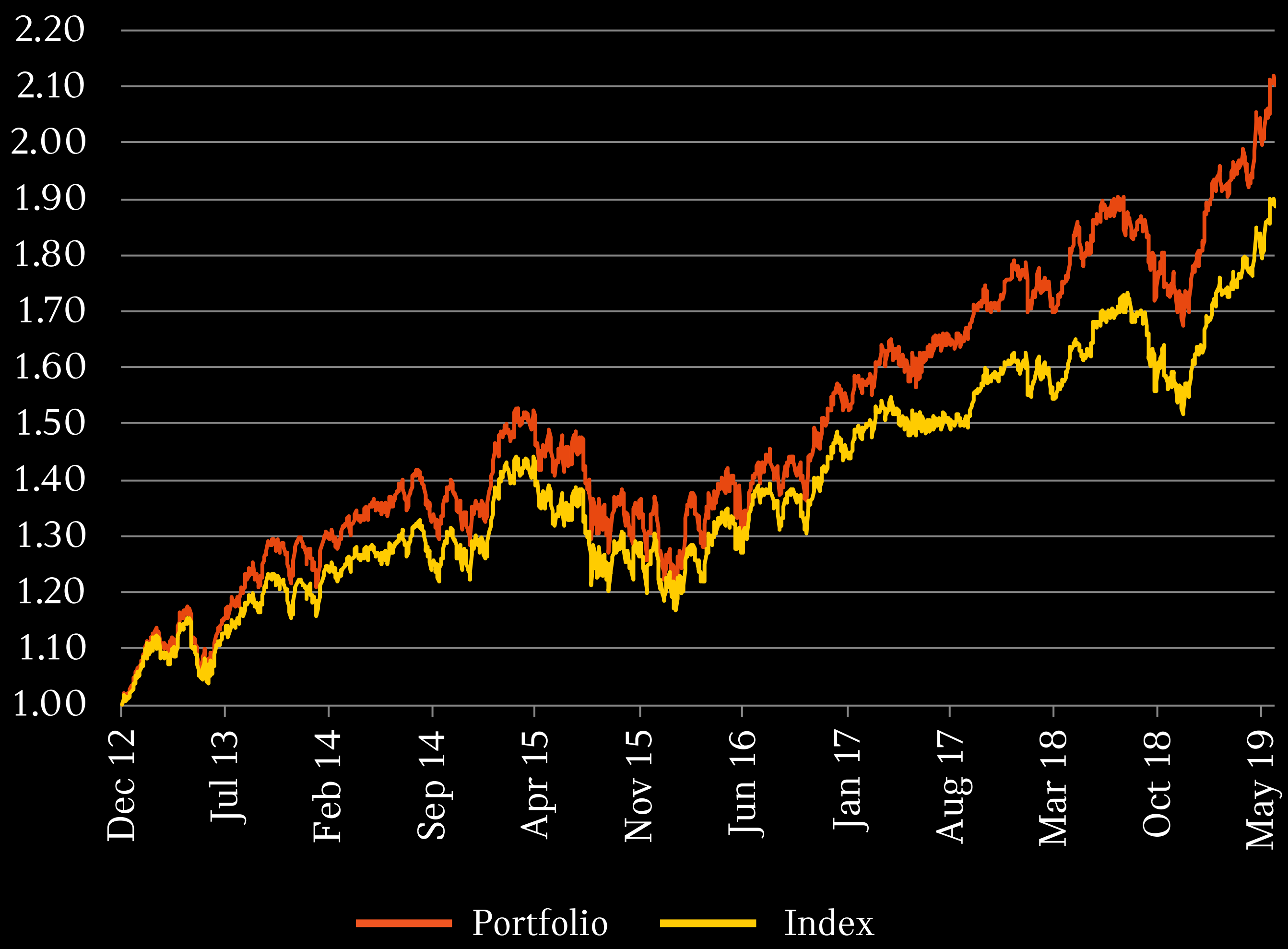
PORTFOLIO ATTRIBUTION

June was another strong month for Australian shares, and since the low of 4465 on Christmas Eve, the S&P/ASX100 ended June at 5482, up 22.8% in price terms and 23.9% including dividends. Gold shares were the best performers for the month on the back of a rise in the bullion price of 3.2% in $US terms. Northern Star (NST) rose 20.0%, Newcrest (NCM) rose 17.4% and Evolution Mining (EVN) rose 12.7%.

Stocks that are considered "bond proxies" due to their correlation with bond markets and defensive characteristics also performed well. Goodman Group (GMG) rose 13.3% and Sydney Airport (SYD) rose 11.1%. In fact, the Transport sector which contains SYD and Transurban (TCL), was the best performing sector in June, up 7.1%. The worst performing sector was Retailing, where an 8.1% fall in JB Hifi (JBH) dragged the sector lower. The spread between the best (NST) and worst Challenger (CGF) was 37.7% in June, highlighting the opportunity to profit from stock selection.

In a market valuation environment that suggests low single digit returns from the broader share market, stock selection becomes critical.

Portfolio Performance (Accumulation Basis)



Model Portfolio at June 2019

BHP	BHP Group Ltd	9.4%
WBC	Westpac Banking	7.7%
NAB	National Australia Bank	7.5%
WPL	Woodside Petroleum Ltd	6.4%
SCG	Scentre Group	5.1%
RIO	Rio Tinto	5.0%
ANZ	ANZ	4.9%
CBA	Commonwealth Bank	4.7%
LLC	Lendlease Group	4.7%
ILU	Iluka Resources	4.5%
VCX	Vicinity Centres	4.2%
MQG	Macquarie Group Limited	4.2%
FLT	Flight Centre Travel Group	3.9%
SUN	Suncorp Group Limited	3.8%
OSH	Oil Search Limited	3.4%
FMG	Fortescue Metals Group	3.3%
COL	Coles Group Ltd.	3.2%
NST	Northern Star Resources	3.1%
OZL	OZ Minerals Limited	3.0%
WES	Wesfarmers	2.9%
EVN	Evolution Mining Limited	2.7%
SGP	Stockland	2.3%

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.

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

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.

Sandfire Resources NL (SFR)
Sandfire Resources is a dynamic mid-tier copper Australian mining and exploration company. SFR's producing asset, DeGrussa mine is based in WA and produces high quality copper-in-concentrate with significant gold credits.

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.

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

Flight Centre Travel Group (FLT) operates as a retail, corporate and wholesale travel agency. The Company operates close to 1200 outlets throughout Australia and internationally including New Zealand, Hong Kong, South Africa, Canada, UK and the US. The Company's agencies and brands include Flight Centre, Travel Associates and Student Flights.

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

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.

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.

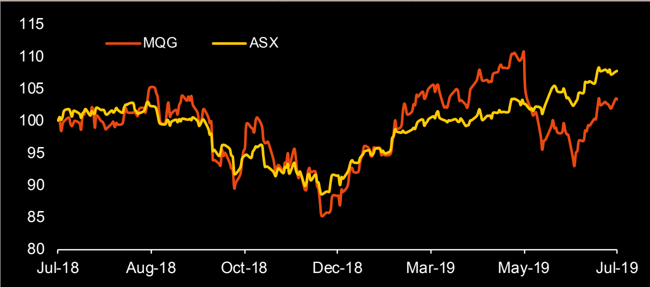
Rhipe (RHP) provides software licensing, subscription management tools and cloud computing services. Its software vendors include Microsoft, Citrix, Datacore, McAfee, Red Hat, Trend Micro, Veeam, Zimbra and VMware. The company was founded in 2003 and is headquartered in Melbourne, Australia.

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.

Macquarie Group (MQG)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$127.12
Target Price	$133.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.7%	-3.3%	3.3%

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

FY20

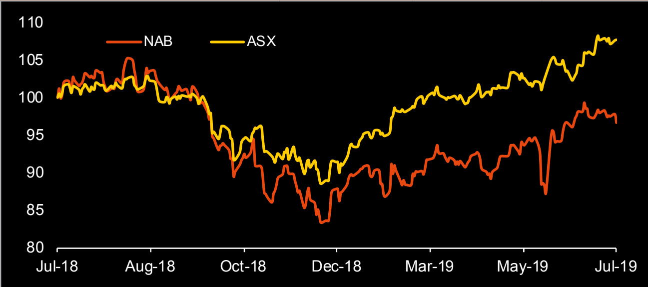
- MQG's guidance is for FY20 profit to be slightly down on FY19 with stable results expected for most divisions, except for Commodities and Global Markets (CGM) and Macquarie Capital (MacCap). CGM's net interest and trading income was 42% or $829m higher in FY19 than it was in FY18 because of increased market volatility and the higher prices that North American Gas and Power could achieve for energy. MacCap is expected to have lower profit in FY20 in view of the unsustainability of the large gains they made from asset sales in FY19. To offset these factors, impairments and expenses should decline.
- Increased base fees should be derived from the MIRA business. $46bn of equity was raised for the MIRA business in the past 2 years and we are forecasting that 50% of that will be invested this year. MIRA fees relative to equity under management (EUM) fell recently, but it was stable if recent capital raisings were excluded. This suggests a delay in the investment of the EUM.
- MIRA may contribute $2.2bn in revenue in FY20. This is on an investment of $1.9bn which requires capital of $1bn. Using MQG's average ratio of NPAT to revenue, this implies $1bn of capital invested in MIRA is forecast to produce $520m NPAT.

Forecasts			
YE 31-Mar	FY19	FY20E	FY21E
Earnings cps	883.3	909.5	949.3
Dividends (AUD) cps	575.0	632.4	659.3
PE x	14.7	14.0	13.4
Yield %	4.4%	5.0%	5.2%
Franking %	45%	45%	45%

National Austr. Bank (NAB)

Recommendation	Buy
Risk	Medium
Share Price (as at 3 July 2019)	$26.49
Target Price	$28.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.0%	4.3%	-3.4%

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

1H19 achievements

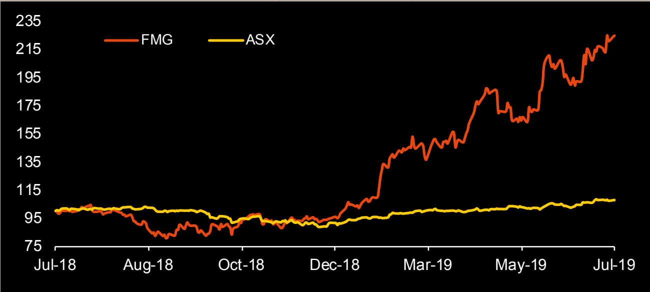
- NAB achieved higher Australian loan growth than its peers in 1H19 due to housing increasing by 4% p.a. which was the highest growth rate amongst its peers. The delay in increasing its SVR was probably the key factor in this outcome as its repayment rate fell significantly in 1H19.
- Despite the superior loan growth performance, NAB's growth in net interest income (excluding treasury and markets and customer remediation) was no better than its peers.
- NAB's $16bn increase in total loans from 30/9/18 to 31/3/19 was almost matched by a $13bn increase in deposits. Much of this increase came from Australian term deposits which increased by $10bn (or 8%) from 2H18 to 1H19 and their cost was constant over the period.
- NAB continues to have a bad debt charge which is almost as high as their new impaired loans while its peers typically operate at a ratio 40% for the bad debt charge over new impaired loans.
- NAB had collective provisions of $3bn at 31/3/19 which compares with $3.4bn for ANZ, $3.9bn for CBA and $3.6bn for WBC.

Forecasts			
YE 30-Sep	FY18	FY19E	FY20E
Earnings cps	210.4	216.7	236.5
Dividends (AUD) cps	198.0	166.0	168.0
PE x	13.2	12.2	11.2
Yield %	7.1%	6.3%	6.3%
Franking %	100%	100%	100%

Fortescue Metals (FMG)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$9.18
Target Price	$8.30
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	14.0%	28.6%	124.6%

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

Growth, longevity, leverage & (lots) of income as a consequence

- 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. No supply response yet.
  - (1) **Growth & longevity –** FMG recently announced the 2nd major growth/longevity and supply diversity initiative in 2 years. FMG will lead the $2.6bn project to develop the Iron Bridge project, seeking to tap demand for higher-quality iron.
  - (2) **Leverage –** Earnings likely to increase a further 100% (FY20), +200% already since 25 January. The share price will follow EPS and the spot NPV, now $35 / share.
  - (3) **Income FMG recently announced additional capital management –** FY19 total now >US$2bn … that's 2x as much as FY19 earnings estimates were just 3 months ago.
- FMG hasn't relied on asset sales – "shrinking the company" in the cash of BHP and RIO – but based on underlying FCF.
- We also like the direction of capital proceeds to a "special" and/or final FY19 dividend amounting to A60c and adding to 1H19 A30c dps (19c ord and 11c special). This dividend also liberate ~US$1.4bn of the current US$1.7bn franking balance
- This latest capital management windfall is not likely to be the last. FY20 dividend could be ~A$1.50-2.00/share based on FMG's 50-80% payout ratio and applying spot commodity prices. Also worth noting that the remaining A$360m buy back program is still available as/when required.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps (USD)	34.6	71.9	101.7
Dividends (AUD) cps	24.1	80.7	95.2
PE x	9.4	8.9	6.3
Yield %	5.7%	9.0%	10.4%
Franking %	100%	100%	100%

Sandfire Resources (SFR)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$6.91
Target Price	$9.00
Analyst	Peter O'Connor

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	12.4%	-6.5%	-25.5%

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

Acquisition adds a growth option & fills the production "gap"

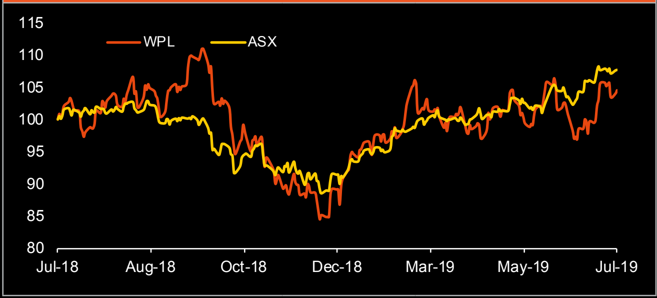
- SFR has been "cum" a major acquisition for some time which was delivered with the bid for Mod Resources = copper, Botswana, advanced project ... on first pass we like what we see.
- Sandfire's bid for MOD at 45c ($167m) with cash payments capped at $41.6m. The prize is MOD's T3 copper project in Botswana, along with an extensive landholding in the region, and a means to extend Sandfire's production life beyond its depleting DeGrussa operation in Western Australia. The late-stage development project, scheduled for construction next year, has reserves of 343kt of copper.
- From "big" success at the drill bit in 2009, followed by a short three years to operations the DeGrussa operation has been the mainstay lode for SFR since.
- In the past six years (since start) SFR has produced A$4.3bn of revenue and $1.5bn of OCF, dps to date of $130m, and retired $400m in debt and debt service. Not a bad project and a glimpse of what a good mine can deliver. Degrussa posted a record result on all metrics. FY19 expect another solid year with high 60kt copper & ~20% higher FY20-21.
- The Botswanan project is a lookalike to SFR's DeGrussa - ~11/12 year's life at ~30ktpa copper and 1st quartile cash costs. The project is a province opportunity, likely adding more throughput/output &/or longer life. Permitting is well advanced and 1st production expected in 2H CY20.
- SFR is the 2nd cheapest name in our coverage. We like the first pass take on this deal especially as SFR grows from 3-4 years of cashflow to >>12 years, with other options to boot.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	77.9	75.1	122.6
Dividends (AUD) cps	27.0	22.5	36.8
PE x	11.8	9.2	5.6
Yield %	2.9%	3.3%	5.3%
Franking %	100%	100%	100%

Woodside Petroleum (WPL)

Recommendation	Buy
Risk	Medium
Share Price (as at 3 July 2019)	$36.74
Target Price	$43.00
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.7%	5.2%	4.5%

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

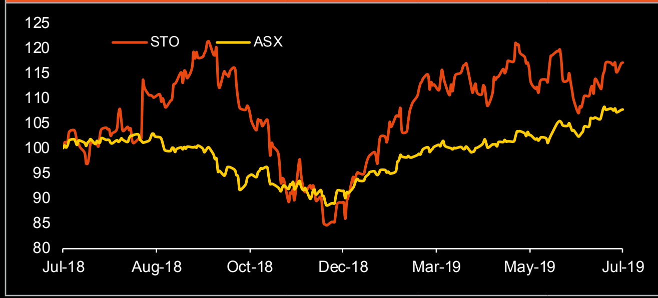
- WPL is the most profitable E&P company in Australia. It realises premium prices for oil and LNG, and has low cost operations at Pluto, Wheatstone and the North West Shelf. The profit and cash flow per barrel are in the top decile on a global basis. In 2019, we forecast cash operating margins of 78% (high), and cash cost of US$13.5/boe (low). Even in the current low-ish oil price environment, WPL is generating substantial free cashflow after investment activities.
- This high level of profitability flows through to dividends and WPL offers one of the highest yields we have seen in this industry. The dividend payout ratio is close to 100% of underlying EPS. This is uniquely high.
- Financial media has written extensively on low LNG spot prices in Asia, but these are not important to WPL which has multiple long-dated, oil-linked LNG contracts for supply into north Asia.
- Growth projects are long dated but big enough to impact the company if they move forward. We think oil development offshore Senegal, and the Pluto expansion fed by the Scarborough gas field are highly likely. We assume both progress and our valuations include them, on a risked basis.
- The proposed Browse Basin gas-to-Karatha project is more challenging and we do not assume a go-ahead until a number of issues are resolved, the key ones being costs, and partner alignment.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	146.1	199.1	253.1
Dividends (AUD) cps	192.6	225.6	290.6
PE x	15.1	12.9	10.1
Yield %	6.5%	6.2%	7.9%
Franking %	100%	100%	100%

Santos (STO)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$7.20
Target Price	$8.40
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	6.8%	4.0%	17.1%

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

- Santos have transitioned from three years of cost and debt reduction and are now in a position to re-invest for growth.
- Costs have fallen and the FCF break-even is <US$35/bbl, which is still not as low as some peers, but at current oil prices allows the company to generate significant positive cashflow. Debt servicing is no longer an issue so FCF can be re-directed to dividends and growing the business.
- Santos has had drilling success offshore WA, at Dorado, and in PNG bought into upstream gas fields which will crystalise the company's participation in future PNG LNG expansion. Offshore Darwin, the Barossa gas field looks likely to be developed to extend the life of the Darwin LNG plant.
- In domestic gas, development activity in the Cooper Basin sets up some reserves replacement, and participation in emerging domestic gas market shortfall at higher prices. The Narrabri gas project in NSW has been resurrected and may win Government approvals but still faces social and environmental challenges. We ascribe nil value to this asset so if it moves forward there is upside in our valuation.
- GLNG remains a challenge, to find enough gas to run the plant at full capacity and so is a part of the asset base that needs to be addressed. Our forecasts assume the project reaches a 6 MTPA production plateau next year, which is short of nameplate capacity of 7.8 MTPA. If Santos can find the gas to utilise the space capacity, then there is upside to our estimates.

Forecasts			
YE 31-Dec	FY18	FY19E	FY20E
Earnings cps	35.0	39.3	50.8
Dividends (AUD) cps	13.4	22.3	230.4
PE x	11.0	12.8	9.9
Yield %	2.6%	3.1%	4.1%
Franking %	100%	100%	100%

Flight Centre (FLT)

Recommendation	Buy
Risk	Medium
Share Price (as at 3 July 2019)	$42.56
Target Price	$48.00
Analyst	Darren Vincent

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.4%	-0.3%	-30.7%

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

Corporate travel is now the reason to own FLT

- We see long term organic growth being delivered by FLT's corporate travel businesses. Growth is expected given the international corporate travel market's size, FLT's emerging international footprint and its strong growth trajectory. We also see that the underlying Australian leisure travel market, which now only accounts for ~37% of FLT's TTV and even less earnings, provides the basis for a 2020 recovery.
- Business development initiatives are a consistent part of the way FLT runs its business reflecting a culture of relentless business improvement. These initiatives are wide ranging from FLT's three year Business Transformation Programme (which has tight cost control and the removal of unprofitable businesses at its core), its TEN strategy (vertical integration into hotel management and travel experiences), its push into corporate travel management (via organic and acquisition growth) and two newer initiatives; i) the launch of a new brand, Universal Traveller (UT), to replace its Student Flights brand which has 52 stores in Australia. ii) In April FLT announced the acquisition of 25% of The Upside Travel Company. Upside uses machine learning models to dynamically price business travel packages in realtime to save client's money and increase travel options.
- In April FLT advised Group Global TTV was tracking 9% above the prior corresponding period, Australian TTV was reportedly flat, and that underlying profit before tax for the 12 months to June 30 2019 was likely to be between $335m and $360m. Shaw and Partners' forecasts sit in the range.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	261.7	245.0	270.7
Dividends (AUD) cps	167.0	315.2	177.0
PE x	24.3	17.4	15.7
Yield %	2.6%	7.4%	4.2%
Franking %	100%	100%	100%

National Vet Care (NVL)

Recommendation	Buy
Risk	Medium
Share Price (as at 3 July 2019)	$2.16
Target Price	$2.90
Analyst	Darren Vincent

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.5%	13.7%	-17.6%

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

Scale benefits to deliver growth

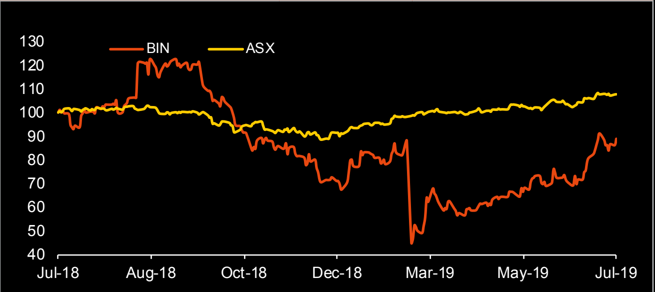
- NVL has a strong track record with regards to acquisitions (number, timing and multiples paid), operational delivery and clear disclosure to the market. Scale benefits are now starting to become more evident but plenty of opportunity to find further cost outs and to leverage the platform it has created still lie in front of it. This is the basis for us expecting ongoing double digit EPS growth to be attainable and continuing to recommend NVL as a BUY.
- NVL's 1H19 results showed that margin growth is being realised. NVL had an underlying EBITDA margin of 15%, but excluding the low margin NZ Pet Doctor acquisition, it was 16.1% up from the 15.7% achieved in 1H18. This improvement suggests management initiatives complimented by further scale will continue to drive NVL's margins and earnings growth over coming periods. Similarly NVL reports it is already making progress with Pet Doctors on cutting costs at both the clinic level and support level which it believes over the next two years will see the acquired clinics performing in line with its previously owned NZ clinics and see its combined NZ operation performing closer to its Australian business.
- Acquisitions will also continue to deliver scale and realise leverage. Following the 23 NZ clinics acquired with Pet Doctors in September and six other acquisitions already completed this year, we expect NVL will continue to acquire clinics through 2020.

Forecasts			
YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	10.6	12.0	13.7
Dividends (AUD) cps	3.0	2.5	2.6
PE x	25.0	18.0	15.8
Yield %	1.1%	1.2%	1.2%
Franking %	0%	0%	0%

Bingo Industries (BIN)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$2.32
Target Price	$2.50
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	25.7%	49.7%	-11.1%

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

Key Strategic Assets Sets Up Long Term Earnings Base

- Outlook also 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) falling resi sensitivity; and (5) expected uplift from introduction of QLD levy. However execution and steadying the ship in the short to medium term is paramount.
- Shaw and Partners attended BIN's inaugural Strategy Day and visited two key sites of considerable long-term strategic benefit. We were most impressed by DADI's Eastern Creek (Genesis) facility – combined recycling and landfill asset with approved capacity of up to 2mt pa and 15-year landfill life; diversifies BIN's existing product suite into new avenues (timber shredding, brick and concrete aggregates, scrap steel recycling, garden organics and contaminated soils; $15m annualised synergies reaffirmed; pushes BIN into putrescible waste for both C&I and MSW volumes.
- We acknowledge that BIN is not cheap at current multiples, with resi risk still present albeit diminishing (from 25% of sales to <20% in FY20). We acknowledge that market confidence has been severely dented as the company strives to rebuild confidence (and credibility). However, despite the resi exposure headwind – which is reducing – the operational metrics and underlying business remain attractive longer-term: double-digit (core) earnings growth, improving margins and ROE all within an attractive sector.

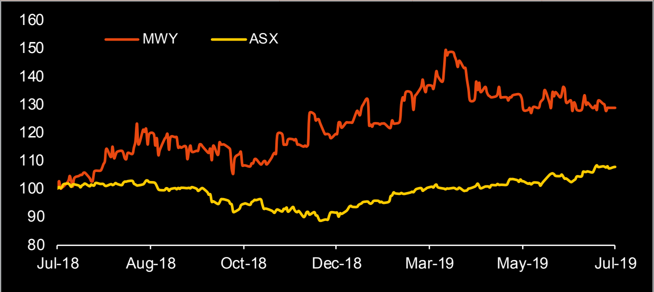
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	11.8	6.1	7.4
Dividends (AUD) cps	3.7	2.7	3.0
PE x	22.8	38.3	31.4
Yield %	1.4%	1.2%	1.3%
Franking %	100%	100%	100%

Midway (MWY)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$3.45
Target Price	$4.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.4%	-6.8%	28.7%

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

Significant Tailwinds To Continue Into FY19 and Beyond = More Upside to Come

- As we expected, MWY secured a 1Q CY19 price increase of $US1.75 per bone dry tonne (BDT) to $US182.25 BDT for the rest of the 2019 CY, from the start of April until the end of December. Japanese customers, which account for ~30% of total MWY hardwood woodfibre exports (China the other 70%), agreed to pay MWY $US180.50 1Q19 CY (announced in the 1H19 results on 21 February 2019). This latest Japanese price increase represents a full catch up with Chinese customers who agreed to pay $US182 BDT in 2H18 (announced to the ASX on 18 December 2018).
- Strong balance sheet with interest cover of 6x – with net debt falling from $50m to $36m (ND/ND+E of just 20%).
- MWY has invested for the long-term with multiple growth channels on hand – operating efficiencies, organic expansion, acquisitive growth.
- 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, China demand, constrained global supply, FX benefit and acquisitions / equity investments now contributing.

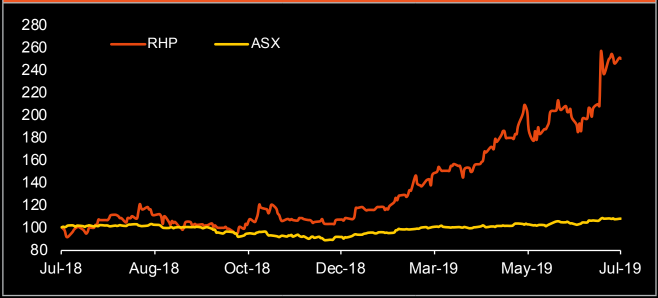
Forecasts

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	13.8	11.8
Yield %	6.8%	5.2%	6.1%
Franking %	100%	100%	100%

Rhipe (RHP)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$2.91
Target Price	$3.23
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	26.5%	58.2%	149.8%

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

Getting faster with more options as it gets faster

- RHP is the leading wholesaler of cloud based products within APAC and is one of only 11 managed account partners for Microsoft globally and the smallest by market capitalisation. RHP was born in the cloud and derives the majority of revenues via a recurring monthly billable model, that due to strong growth trajectory and platform like costs is more profitable each month as operating leverage grows across the business.
- RHP is a way of accessing an ASX listed turbocharged option on Microsoft's growth within the fastest developing markets globally (Asia). MSFT is one of the largest companies within the world, immensely profitable and is successfully navigating a shift towards the cloud and a SAAS model of business expenditure.
- Multiple growth levers are evident across RHP's business and this underwrites our confidence and investment thesis. Private cloud took 10 years to grow to FY19 gross margin levels, O365 CSP (public cloud) took 4 years and Azure (infrastructures as a service) is currently 30% ahead of CSP at a similar time since launch.
- These growth levers underwrite a fast growing annualised recurring revenue (ARR) profile, across a highly profitable, growing business with net cash and a large amount of optionality. We expect further upside from public cloud growth, SE Asian expansion, vendor additions and potentially accretive acquisitions.

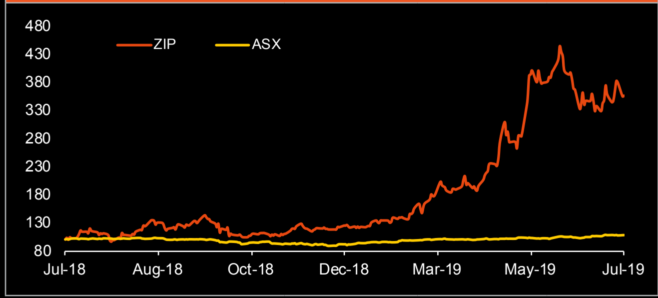
Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	3.6	6.5	7.6
Dividends (AUD) cps	2.0	2.8	3.8
PE x	33.1	44.4	38.2
Yield %	1.7%	1.0%	1.3%
Franking %	100%	100%	100%

Zip Co (Z1P)

Recommendation	Buy
Risk	High
Share Price (as at 3 July 2019)	$3.11
Target Price	$3.27
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-2.8%	66.3%	255.4%

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

Massive leverage into structural change of payments and lending

- We see Zip as being at the inception of a structurally strong shift towards alternative and fin-tech payment and lending leaders within Australia. Buy now pay later (BNPL) has turned mainstream and now over 10% of Australians hold an account, growing at an exponential rate. Traditional lenders have an acquisition issue and Zip represents in Shaw's opinion one of the best in breed players to access this shifting dynamic.
- Over the short and longer term we expect Zip to provide material outperformance versus system credit growth and expect this to come from a number of growth levers which include customer acquisition, merchant integration, channel share growth, new product launches and potentially geographic expansion.
- Although having enjoyed a strong re-rating YTD, Zip is only just beginning to catch mainstream ASX listed tech and BNPL peers. Still trading at a discount to mainstream slower growing tech businesses, investors will likely enjoy the market rolling forward onto a progressively de-risked and fast growing recurring income stream that reaches a vastly larger magnitude at each reporting period.

Forecasts

YE 30-Jun	FY18	FY19E	FY20E
Earnings cps	-5.6	-1.3	-1.0
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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