Earnings Season Insights | March 2016

Earnings and dividends tick over despite some apprehension

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Despite well-publicised headwinds facing both the economy and corporate Australia, the recent reporting season was moderately better than expected. Dividends generally tracked modest earnings growth, with payout ratios not being pushed to alarming levels. Management generally dampened expectations where necessary during the multitude of November annual general meetings. Currency tailwinds assisted those with meaningful overseas operations. Cost-out was a feature helping to support margins as revenue growth was generally hard-earned.

Expectations for any company directly or indirectly associated with the resources and oil and gas sectors were pared significantly in the wake of widespread, indiscriminate commodity price weakness and despite very extensive and deep cost cutting. While some still disappointed, others surprised with "less awful" results. The magnitude of impairments was a talking point with BHP Billiton, Rio Tinto, Woodside and Santos responsible for collectively writing off $22bn in shareholders' funds.

The major banks delivered against widespread bearish sentiment. Financial services and wealth managers were also generally solid as were health insurers Medibank Private and NIB Holdings. General insurers battled against higher claims and lower investment income.

Building materials and retailers exposed to the housing sector did well as construction activity reached fever pitch and household creation increased. JB Hi-Fi, Harvey Norman and Wesfarmers' Bunnings produced strong results. Companies servicing the resources and energy sector to report better-than-expected results included CIMIC, Downer and Monadelphous.

Healthcare was a feature, demonstrating both growth and resilience from favourable demographics and necessity. While relatively expensive, most stocks in the healthcare space lived up to expectations. Also reliable were infrastructure stocks including Transurban, Sydney Airport and APA Group, while AGL Energy also produced a positive result.

REITs were solid and most met tight guidance. Goodman and Scentre Group were probably the pick. Those with residential exposure reported solid growth from their development operations. The supermarket price war took its toll on Woolworths but Wesfarmers' Coles performed well. In the smaller retail space, Domino's and Greencross were the pick. New media continued to achieve good growth while structural headwinds hurt traditional print media.

Telecommunications produced good results in a competitive environment but cash-flow generation was strong, underpinning dividends. Gaming was mixed with Tabcorp and Tatts reliable, while Crown encountered countervailing forces from solid main-floor gaming and non-gaming operations offset by a weakening Macau associate--Melco Crown.

Overall, the earnings season was positive and provided the market with a reasonable platform. Guidance for the remainder of the financial year was generally cautious but far from bearish. Economic growth in the December quarter surprised but the outlook for interest rates for the rest of calendar 2016 is benign.

Banks

Australia & New Zealand Banking Group (ANZ) (wide moat) delivered a modestly better-than-expected $1.85bn unaudited cash profit for 1Q16 (December quarter), despite a sharp increase in bad debts. Earnings were up 5% on the average of the previous two quarters and 4% on 1Q15. Driven by a significant jump in the Asian loan portfolio, bad debt expense of $362m was up 4% on the previous two quarters and 56% above 1Q15. Management expects higher bad debts in 1H16, forcing an increase in our forecast from $1.37bn to $1.57bn. The key positive was good revenue growth and tight cost control, supporting our forecast improvement in the cost-to-income ratio.

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ANZ Bank ANZ
Recommendation **Accumulate**
Fair Value ($) 33.00 ↓

Commonwealth Bank CBA
Recommendation **Accumulate**
Fair Value ($) 91.00 →

National Australia Bank NAB
Recommendation **Accumulate**
Fair Value ($) 35.00 →

Bendigo and Adelaide Bank BEN
Recommendation **Accumulate**
Fair Value ($) 12.00 →

Macquarie Group MQG
Recommendation **Accumulate**
Fair Value ($) 89.00 ↓

AMP Limited AMP
Recommendation **Accumulate**
Fair Value ($) 6.50 ↓

Retail and small business banking segments performed strongly. We trim our FY16 earnings estimate from $7.5bn to $7.4bn with similar reductions in outer years. As a result, fair value eases from $34 to $33 per share. FY16 dividend estimate is cut from $1.81 to $1.75. Capital levels are satisfactory but below peers.

Commonwealth Bank of Australia (CBA) (wide moat) impressed with a 4% increase in 1H16 cash earnings to $4.8bn, slightly above our $4.7bn estimate. EPS edged 0.7% higher to $2.84, affected by $5.1bn of new equity added in the period. The fully franked dividend was steady at $1.98 on a 71% payout, near the bottom of the 70%–80% target. Return on equity was an impressive 17.2%. Revenue increased 6%, helped by loan repricing. Volume growth was solid with loans up 7.7%, deposits up 9.1% and funds under administration up 7%. A stable net interest margin of 2.06% and volume growth pushed net interest income up 6% on 2H15 to $8.4bn. Cost-to-income improved from 43.3% in 2H15 to 42.2% with underlying cost growth of 3.8%. Impairment to average total loans ratio was steady at 0.17%. Capital ratios are strong. No change to our $91 fair value. Our FY16 dividend estimate of $4.25 reflects a payout of 75%.

National Australia Bank (NAB) (wide moat) reported a stronger-than-expected 1Q16 unaudited cash profit of $1.7bn, excluding Clydesdale. The result reinforces our view the refocused bank is on track to deliver solid earnings growth. Earnings were 3% higher than the previous two quarters and 8% above 1Q15. Bad debts were at an unsustainable multi-year low of just $84m. We expect them to normalise in the medium term. Adjusted revenue growth of 4% was just below a 5% lift in expenses but FY16 guidance is for expense growth of less than the 4.1% of FY15. Repricing of mortgages in 2H15 supported a modest increase in net interest margin despite higher funding costs and increased competition in business banking. Our FY16 earnings estimate of $6.7bn is unchanged as is our $35 per share fair value estimate. FY16 dividend is expected to be steady at $1.98 per share. Capital ratios are solid and additional capital requirements are expected to be sourced without calling on shareholders.

Bendigo and Adelaide Bank (BEN) (no moat) increased 1H16 cash earnings by 2.7% to $233.7m. Dividend increased from 33 to 34 cents per share fully franked on a 69.5% payout. Net interest income declined 2.8%, offset by unsustainable growth from Homesafe. The competitive environment saw net interest margin ease 2 points on 2H15 to 1.84%. Loan growth was soft and below system with management citing unsustainable pricing and questionable risk-taking by some competitors. Increasing house prices are driving Homesafe results but we expect a slowing, leading to a decline in BEN's 2H16 earnings. Bad debts fell 32% to $20.6m, helping the 1H16 bottom line. Cost-to-income was steady on 1H15 at 55.6% but above 2H15's 54.9%. While our FY16 earnings estimate is unchanged our FY17 forecast is trimmed without the lower bad debt and Homesafe cushions. Fair value is unchanged at $12 per share.

Macquarie Group (MQG) (no moat) maintained its guidance FY16 earnings would be higher than FY15 after its 3Q16 trading update. But increased market volatility and uncertainty saw a downgrade in the Commodities & Financial Markets (CFM) division, now expected to be below the strong FY15 result. Strong performances continued from the asset management and lending-style businesses, which account for almost 70% of group earnings. The lower CFM contribution sees our FY16 earnings estimate trimmed from $2.1bn to $2.0bn, with EPS up 19% to $5.99. FY16 dividend estimate eases from $4.10 to $4.00, 40% franked. Our fair value declines from $95 to $89 per share. Capital and funding levels are strong.

Life, General and Health Insurance

AMP Limited (AMP) (narrow moat) increased underlying NPAT 7% to $1.12bn, in line with our $1.14bn estimate. The 14-cent final dividend (90% franked) took the FY15 dividend to 28 cents per share, an 8% lift on FY14 and a 74% payout on underlying EPS of 37.9 cents. Earnings benefitted from strong growth in assets under management (AUM) and tight cost control. Management lifted the dividend payout target range from 70%–80% to 70%–90%. There were strong performances across key divisions with Wealth Management earnings up 10% to $410m; AMP Capital increased 20% to $138m; AMP Bank 14% higher at $138m; and New Zealand up 9$ to $120m. Wealth Protection eased 2% to $185m. Despite solid year-on-year earnings growth, 2H16 slowed to $550m from 1H15's $570m as investment returns suffered from financial market volatility and Life lump sum assumptions increased. Our FY16 earnings estimate declines 6% to $1.16bn and our fair value estimate trims from $7.00 to $6.50 per share.

Insurance Australia Group IAG	
Recommendation	**Hold**
Fair Value ($)	6.00 →

QBE Insurance QBE	
Recommendation	**Accumulate**
Fair Value ($)	15.00 ↓

Suncorp SUN	
Recommendation	**Hold**
Fair Value ($)	12.00 ↓

Medibank Private MPL	
Recommendation	**Reduce**
Fair Value ($)	2.40 →

NIB Holdings NHF	
Recommendation	**Reduce**
Fair Value ($)	3.50 →

Magellan Financial Group MFG	
Recommendation	**Hold**
Fair Value ($)	21.00 →

Insurance Australia Group (IAG) (no moat) reported a 23% fall in 1H16 NPAT to $504m. While insurance underwriting profit jumped 64% from $266m to $436m it was overwhelmed by a 62% slump in investment earnings from $564m to $212m. The result was broadly in line with expectations. The fully franked dividend was steady at 13 cents per share. Surplus capital and reduced risk after the Berkshire Hathaway deal prompted a special dividend of 10 cents per share fully franked. The reported insurance margin improved from 13.4% to 14.9%, while the underlying margin was a respectable 14.2%. The Berkshire deal boosted underlying margin by some 250 basis points. Guidance sees relatively flat gross written premiums, while cost savings are still being realised from the integration of Wesfarmers' insurance operations. We expect a flat FY16 NPAT of $988m with a 5.7% fall in EPS on a higher share count. Fair value is unchanged at $6.00.

QBE Insurance Group (QBE) (narrow moat) reported a 9% lift in 2015 cash earnings to US$893m, slightly below our US$914m estimate. EPS increased 30% to 89.6 Australian cents due to higher earnings and a lower A$/US$ exchange rate. Final dividend increased 6% to 30 Australian cents, taking the 2015 dividend to 50 Australian cents per share, a 56% payout. In US$ terms, EPS increased just 3%. Key metrics were modestly ahead of guidance--insurance margin 9%; combined operating ratio (COR) 94%; net earned premium US$12.3bn. Upgraded 2016 guidance was reaffirmed and the 1H16 payout ratio increases to 65%. Despite a slightly better result we trim our 2016 numbers and reduce our longer-term forecasts. Our fair value estimate falls from $18 to $15.

Suncorp (SUN) (no moat) reported a mixed result for 1H16 with group NPAT down 16% to $556m from 1H15 but 5% above 2H15. Cash EPS fell 17% to 42 cents. Dividend was cut from 38 cents to 30 cents per share fully franked, a 69% payout. The General Insurance operations disappointed with a 29% fall in net profit to $297m due to increased claims and sharply lower investment earnings. Investment income slumped from $348m to $133m as credit spreads widened and inflation-linked bonds underperformed. The sensitive underlying insurance margin fell from 14.8% to 10.1%. Banking profit increased 10% to $194m while Life struggled, falling 38% to $53m. We reduce our forecasts and fair value trims from $13 to $12 per share. Despite the cut in dividend, SUN has significant excess capital and future special dividends cannot be ruled out.

Medibank Private (MPL) (narrow moat) impressed with a 1H16 NPAT of $227.6m, above our $217m estimate and consensus of $214m. NPAT was up 51% from 1H15 pro forma with EPS up 51% to 8.3 cents. Dividend was 5 cents per share, a 64% payout which was below to 70%–75% target due to the expected lower 2H profit. There is a traditional 1H earnings bias. Operating earnings in the health insurance operations were $272m, in line with late January's surprising guidance of $270m. The strong performance was driven by lower claims, a $19m release from claims provision and a one-off tax credit which cut the tax rate to 19%. Investment income was disappointing with a return of 0.8% on a $2.15bn portfolio. Premium growth guidance of 4.5%–5.0% was reaffirmed as was an insurance operating profit of at least $470m. Our earnings estimates are unchanged as is our $2.40 fair value estimate.

NIB Holdings (NHF) (narrow moat) delivered a solid 4.7% lift in 1H16 NPAT to $43.1m, a little shy of our $44m estimate. EPS increased 5.3% to 9.3 cents with the dividend up 4.5% to 5.75 cents per share fully franked. The 58% payout ratio is lower than the 80% expected in 2H, with a FY16 payout of 68% near the top of the target 60%–70% range. The core Australian Resident Health Insurance (arhi) business and New Zealand were the standouts. Investment income was lower. There is a meaningful 1H bias in earnings, so 2H is expected to be 20% lower than 1H at $34m. We liked the relatively strong growth in net policyholder numbers at arhi. No change in our positive view and narrow moat or fair value estimate of $3.50.

Wealth Managers

Magellan Financial Group's (MFG) (narrow moat) 1H16 NPAT surged 41% to $109.3m, driven by a 44% increase in average funds under management (FUM) of $38.8bn over 1H15 levels. FUM increased by 9% to $39.7bn in the six months to 31 December and earnings growth will slow in 2H16, reflecting the easing in momentum. Management fees increased 43% to $128.3m, complemented by a 32% lift in performance fees to $42.8m. Operating costs jumped by 51%, exceeding revenue growth but the operating margin remained a high 79%. Dividend increased 38% on 1H15 to 51.3 cents per share fully franked, representing an 80% payout ratio. Strong investment performance relative to benchmarks and peers allows management to

Perpetual PPT		
Recommendation	**Hold**	
Fair Value ($)	48.00	→
Platinum Asset Mgmt PTM		
Recommendation	**Accumulate**	
Fair Value ($)	8.50	→
ASX Limited ASX		
Recommendation	**Hold**	
Fair Value ($)	39.00	→
Computershare CPU		
Recommendation	**Accumulate**	
Fair Value ($)	13.00	↓
Flexigroup FXL		
Recommendation	**Accumulate**	
Fair Value ($)	3.00	↓
Genworth GMA		
Recommendation	**Accumulate**	
Fair Value ($)	3.60	→

retain and importantly attract new funds, underpinning our narrow moat rating. Retail funds account for almost 30% of total FUM and 55% of base management fees. About 100 institutional clients provide $26.6bn of total FUM. We forecast FUM to reach $60bn in FY20, a five-year CAGR in FUM of 10.5% and EPS CAGR of 8% over the same period. Our fair value estimate is unchanged at $21 per share.

Perpetual's (PPT) (narrow moat) 1H16 underlying NPAT increased 2.4% to $63.6m on 1H15, but was 7% lower than 2H15. The dividend increased 9% to $1.25 per share fully franked with underlying EPS up 2.2% to $1.37. The result was as expected and our FY16 NPAT forecast of $125m is unchanged. Tight cost control supported a steady pre-tax profit of $88m despite a 2% slip in revenue. A lower tax rate helped the bottom line. Lower average FUM of $30.1bn, caused by declining equity markets, was a minor headwind offset by synergies from The Trust Company acquisition and good business growth. Our fair value estimate of $48 per share is unchanged. No guidance was provided, but we remain positive on the long-term outlook given PPT's strong brand, solid long-term track record and wide representation on investment platforms. The narrow moat rating is intact.

Platinum Asset Management (PTM) (narrow moat) lifted 1H16 NPAT by 18.6% to $119.7m. Strong revenue growth, tight cost control and a modest 4% increase in FUM to $26.8bn underpinned earnings growth. EPS increased 19.6% but the cut in dividend to 16 cents surprised with the 78% payout under the 80%–90% target range. Management noted the outlook is more subdued given the volatility in investment markets and expenses being generally higher in the 2H. We trim our 2H forecast marginally and our FY16 dividend forecast edges lower from 38 to 35 cents per share. PTM remains an attractive long-term stock and our $8.50 fair value estimate is retained as is the narrow moat rating. We like the strong brand, track record of investment outperformance, prudent management team, sound balance sheet and solid dividend payout.

Other Financials

ASX Limited (ASX) (wide moat) reported a 7.3% increase in 1H16 NPAT to $213.1m on a 7.9% lift in operating revenues. Listing and Issuer Services (28% of group revenue) was the feature with a 15.6% increase in revenue. Operating costs were 4.4% higher, driving an 8.9% increase in EBITDA. A 12% lift in depreciation and amortisation and lower interest income trimmed the NPAT increase. The fully franked dividend was 7.4% higher at 99.1 cents per share on a 90% payout. No change to earnings forecasts, wide moat rating or $39 fair value estimate. 1H tailwinds are likely to abate in 2H as equity capital raised backs off a record level, boosted by bank issues. Market volatility will impact new listings and secondary capital raisings.

Computershare's (CPU) (narrow moat) 1H16 NPAT fell 10.5% to US$143.8m and 6.4% in constant currency. Revenue fell 2.2% to US$939m but EBITDA was 6.4% lower, hurt by costs associated with product development and innovation, and regulatory and efficiency initiatives. Australian shareholders were helped by a weak A$, with EPS up 12% to 36 cents. The dividend increased from 15 to 16 cents per share, surprisingly fully franked. We assume 20% franking in future. FY16 EPS guidance was maintained at 7.5% below FY15 primarily due to a stronger US$ and lower yields on client balances. Management acknowledges a softening in the operating environment. Short-term forecasts are trimmed with higher interest rates unlikely affecting interest received. Fair value falls 7% to $13 per share. Cash flow disappointed and we look to a turnaround in 2H. The balance sheet remains solid.

Flexigroup (FXL) (no moat) reported a 4% increase in 1H16 NPAT to $44.3m, and while in line with expectations, the composition disappointed. Top-line growth and lower funding costs pushed net portfolio income 9% higher but a 24% increase in impairment charges trimmed net earnings growth. Expenses increased 9% to $61.7m including acquisition costs, with like-for-like growth estimated at 6%. Disconcerting was a 2% decline in volumes of the largest division, Certegy. EPS growth was just 2% on a higher share count to fund the Fisher & Paykel acquisition, which is yet to settle. Management guidance is for FY16 cash earnings of $92–$94m, excluding Fisher & Paykel. Our FY16 and FY17 earnings forecasts are reduced by 5.4% and 6.2%, respectively. Fair value estimate declines from $3.40 to $3.00. Our no moat rating reflects low barriers to entry.

Genworth Mortgage Insurance Australia (GMA) (no moat) reported FY15 underlying NPAT of $264.7m, in line with our estimate. Fair value is maintained at $3.60 per share. The result met or slightly bettered guidance targets--net earned premium growth of up to 5%; a loss ratio between

BWP Trust BWP		
Recommendation	**Reduce**	
Fair Value ($)	2.85	↑
Dexus DXS		
Recommendation	**Hold**	
Fair Value ($)	7.70	↓
Folkestone Education FET		
Recommendation	**Hold**	
Fair Value ($)	2.30	→
Goodman Group GMG		
Recommendation	**Accumulate**	
Fair Value ($)	7.50	→
GPT Group GPT		
Recommendation	**Hold**	
Fair Value ($)	5.00	↑
Mirvac Group MGR		
Recommendation	**Hold**	
Fair Value ($)	1.86	↑

25% and 30%; and a payout ratio between 50% and 70%. The result reflected tougher lending standards by banks crimping the demand for lenders mortgage insurance and the loss of Westpac as a client in July. The final fully franked dividend of 14 cents per share was boosted by a 5.3-cent special and follows an 18.5 cents per share special in the 1H. The yield attracts but a very high uncertainty rating means it is unsuitable for yield-conscious investors.

Real Estate Investment Trusts

BWP Trust's (BWP) (narrow moat) 1H16 distributable profit increased 8.5% to $53.3m with a distribution of 8.3 cents per unit. FY16 distribution guidance is maintained at 16.7 cents. Revenue rose a modest 4.9% to $74.7m. The outlook for organic revenue growth remains subdued with rental increases at market rent reviews expected to moderate as properties mature. Additionally, rental income will come under further pressure with 67% of leases CPI-linked in a low inflation environment. Rents increased by an average of 2% in the half on 52 leases subject to fixed and CPI-linked reviews. Net tangible asset backing increased 12.5% to $2.52 per unit as capitalisation rates compressed further. The balance sheet remains sound. Fair value increases marginally to $2.85.

Dexus (DXS) (narrow moat) reported a 17% increase in 1H16 funds from operations (FFO) per security to 33.4 cents from 1H15. Underlying growth was weak, with like-for-like net property income growth declining 1.4% with underlying FFO per security, excluding trading profits, down 1.5% to 26.9 cents. 1H16 distribution of 23.1 cents per security was as expected. Management maintained previous FY16 earnings per security growth guidance of 5.5%–6.0%, suggesting FFO of 62.8 to 63.1 cents per security. With subdued fundamentals in most markets, we expect weak like-for-like rental growth. We trim our FY16 and FY17 forecasts slightly and our fair value estimate declines from $8.00 to $7.70.

Folkestone Education Trust (FET) (narrow moat) reported 1H16 underlying earnings per unit of 6.9 cents, up 7.7% on 1H15. FY16 distribution guidance was maintained at 13.4 cents, driven by rental growth and the acquisition of Folkestone Social Infrastructure Trust. We maintain our FY16 earnings forecasts and $2.30 fair value estimate. We believe FET offers an attractive risk-reward trade-off, with earnings underpinned by high occupancy rates, long-weighted average lease expiry, triple net leases and low reletting risk.

Goodman Group (GMG) (narrow moat) reported a 7.5% increase in operating earnings to $357m or 20.1 cents per security for 1H16. The result exceeded our forecast for development earnings and performance-related fees, offset by a higher-than-expected tax expense. A strong increase in development work in progress (WIP) underpinned increased guidance growth from 6% to 7.5%, equating to earnings per security of 40 cents. Distribution guidance is 24 cents per security, implying a 60% payout. Our development division earnings forecast is upgraded slightly, offset by a more conservative view of growth of WIP. No change in narrow moat rating or our $7.50 fair value estimate. Management's strategy of selling some lower-quality assets continues to drive down gearing. Management expects to reap around $1bn from the sale of inner-city Australian warehouses to apartment developers in 2016.

GPT Group's (GPT) (narrow moat) 2015 FFO of $501.7m represented 28.2 cents per security, a 5.5% increase on 2014. Guidance for growth in FFO per security is 4%–5%, which we believe is readily achievable as borrowing costs are down, FUM are up, and occupancy in the office portfolio had increased to 96% at 31 December. Other minor near-term tailwinds include restructuring benefits and the start of rental flows from industrial assets under development. This was the first report under new but very experienced CEO Bob Johnson. There will be an increased focus on development opportunities within the existing portfolio. Acquisitions are not on the agenda. Our 2016 forecasts lift to the top of the guidance range and fair value increases 4% to $5.00 per security.

Mirvac Group's (MGR) (no moat) 1H16 operating earnings fell 29% to $164.6m or 4.5 cents per security. The sharply lower result reflects the timing of residential settlements, with 75% expected in 2H16. Guidance for FY16 earnings per security is maintained at 12.7 to 13.0 cents as is distribution guidance of 9.7 to 9.9 cents per security. The performance of the retail portfolio was a highlight, achieving 7.3% comparable sales growth, well above the broader Australian market. Our FY16 estimates adjust marginally and our fair value estimate increases 3% to $1.86 per security. The balance sheet remains in good shape despite an increase in gearing to

Scentre Group SCG	
Recommendation	**Hold**
Fair Value ($)	4.14 ↑

Stockland SGP	
Recommendation	**Hold**
Fair Value ($)	4.50 ↓

Westfield Corporation WFD	
Recommendation	**Hold**
Fair Value ($)	10.60 ↓

Ansell ANN	
Recommendation	**Accumulate**
Fair Value ($)	20.50 ↓

Cochlear COH	
Recommendation	**Hold**
Fair Value ($)	96.00 ↑

CSL Limited CSL	
Recommendation	**Hold**
Fair Value ($)	108.00 ↑

27.6%. Residential settlements in 2H should see gearing fall by 30 June.

Scentre Group's (SCG) (narrow moat) 2015 FFO increased 3.8% to $1.2bn or 22.6 cents per security, slightly ahead of guided 3.5% growth. Guidance is for 2016 distributions of 21.6 cents per security and FFO growth of 3%, but when dilution from asset sales is excluded, underlying growth is near 5%. Positives included speciality store sales at the top end of peers and a better-than-expected near-term growth outlook for net operating income, with management guiding for 2.5%–3.0% against our 2.0% expectation. Maintenance of the forward development pipeline at $3.0bn is higher than expected. We upgrade outer-year development earnings. As a result, our fair value estimate increases from $3.80 to $4.14. No change in the narrow moat rating.

Stockland (SGP) (narrow moat) increased 1H16 operating earnings by 6.7% to $313m or 13.2 cents per security. FY16 guidance range was tightened from growth of 6.0%–7.5% to 6.5%–7.5%, which implies EPS of 27.6 to 27.8 cents, and a 2H result up 9% to 11% on the 1H16 result. Our FY16 forecast lifts marginally but we trim medium-term forecasts for land lot sales with lower borrowing costs an offset. Near-term earnings visibility of the residential division is reasonably good. The retail portfolio is performing slightly ahead of expectations and we remain supportive of management's efforts to strengthen the retail business. Our fair value trims from $4.60 to $4.50 and SGP looks fairly valued.

Westfield Corporation (WFD) (narrow moat) reported as guided 2015 FFO of US$783m or 37.7 U.S. cents per security and distributions of 25.1 U.S. cents per security. Sales growth across the portfolio was robust with speciality tenants at flagship assets (82% of the portfolio) increasing 8% to US$902 per square foot, while sales at regional assets increased by 3.2% to US$454 per square foot. Despite solid sales growth we were disappointed with 2015 rent growth of 3.9%--flagship 4.2% and regional 2.7% against 6.2% and 4.2% respectively in 2014. We expected a continuation of 1H15 rent growth of 4.2% in 2H but it did not eventuate and it is difficult to pinpoint the reason behind slowing momentum. The timing of the redevelopment of Century City in Los Angeles, which led to the closure of several stores, could explain the situation. Delays in starting Milan and Croydon (London) push out development profits and we trim our fair value estimate from $11 to $10.60. Distribution guidance for 2016 is steady at 25.1 U.S. cents per security.

Healthcare

Ansell (ANN) (narrow moat) disappointed with a 1H16 NPAT of US$69.6m on a 10% fall in sales to US$785m, although flat on a constant currency basis. EPS fell 10% to 45.6 U.S. cents and the unfranked dividend was unchanged at 20 U.S. cents per share. FY16 EPS guidance is US$0.95 to US$1.10, as per the earlier pre-release. Management expects a stronger 2H performance. Turbulent macroeconomic conditions, hedging losses and poor execution of the rationalisation undermined the 1H result. Fair value was cut from $25 to $20.50 on a 0.73 A$/US$ exchange rate. We view the stock as undervalued.

Cochlear's (COH) (narrow moat) 1H16 NPAT surged 32% to $94m on a similar increase in sales to $582m. EPS increased 31% to $1.65. The fully franked dividend increased 22% to $1.10 per share, a 67% payout. In constant currency terms sales increased 16%, largely driven by the uptake of cochlear implants and sound-processor upgrades, which increased 16% and 17%, respectively. Management increased FY16 guidance by 9% to $180m to $190m, implying a 23%–30% increase over FY15. Our FY16 NPAT estimate upgrades to $198m with EPS of $3.46. Our medium-term growth estimates also increase moderately, driving a fair value increase from $79 to $96 per share. Our narrow moat rating is maintained.

CSL Limited (CSL) (narrow moat) reported a 7% increase in 1H16 underlying NPAT of US$669m in constant currency terms on a 9% lift in sales to US$2.76bn. Underlying EPS increased 9% to US$1.59 with the dividend up 10% to 58 U.S. cents per share (81 Australian cents) on a 37% payout. The result was broadly in line with expectations, characterised by double-digit growth across all plasma-derived therapies, most notably immunoglobulins and albumin. FY16 guidance was maintained for an approximate 5% increase in NPAT, after including estimated losses between US$90 and US$120m on Novartis assets. Our earnings forecasts are unchanged but our fair value edges up from $106 to $108 per share on time value of money considerations. We remain comfortable with our forecast of 13% compound average growth in EPS over the next five years.

Healthscope HSO	
Recommendation	**Hold**
Fair Value ($)	2.60 →
InvoCare IVC	
Recommendation	**Hold**
Fair Value ($)	13.00 →
Primary Health Care PRY	
Recommendation	**Accumulate**
Fair Value ($)	4.50 →
Ramsay Health Care RHC	
Recommendation	**Hold**
Fair Value ($)	67.00 ↑
Sonic Healthcare SHL	
Recommendation	**Accumulate**
Fair Value ($)	22.00 →
BHP Billiton BHP	
Recommendation	**Hold**
Fair Value ($)	17.00 ↓
Rio Tinto RIO	
Recommendation	**Reduce**
Fair Value ($)	32.00 →

Healthscope (HSO) (narrow moat) reported a 17.8% increase in underlying NPAT to $97.4m for 1H16 with underlying EPS up 14.6% to 5.5 cents. Dividend of 3.5 cents per share unfranked was 6% higher than 1H15 on a 64% payout. Group revenue increased 5.5% to $1.15bn, underpinned by the Australian hospital and New Zealand pathology divisions which grew revenue at 4.5% and 20.5%, respectively. The Australian medical centre business was flat, reflecting the MBS fee freeze. No FY16 guidance was provided. We remain positive and our fair value estimate is unchanged at $2.60 per share. Balance sheet is sound and our narrow moat rating retained.

InvoCare (IVC) (narrow moat) lifted FY15 NPAT by 6.9% to $49.4m on a 5.7% increase in sales to $436.4m, broadly as expected. Underlying EPS also increased 6.9% to 45.1 cents. Full-year dividend increased 4% to 38 cents per share fully franked, an 84% payout, consistent with a minimum 75% policy. The result was achieved with growth in funeral case averages in Australia (2.7%), New Zealand (2.7%) and Singapore (2.0%) offset by EBITDA losses of US$2.9m from the start-up U.S. business. Excluding the U.S., group EBITDA increased 7.6% to $108.8m, underpinned by solid gains in 2H and a marked shift to low-cost offerings. EBITDA margins were steady at 24.2%. FY16 NPAT forecast of $55m is unchanged as is our $13.00 fair value estimate and narrow moat rating.

Primary Health Care (PRY) reported a 9.9% fall in 1H16 underlying NPAT to $50.1m on 1H15, as expected. Underlying EPS fell 7.9% to 9.7 cents. Dividend of 5.6 cents per share, 50% franked, was 38% lower than 1H15's 9 cents per share. Management guidance is for 2H16 underlying NPAT of $60m–$65m for a FY16 estimate of $110m–$115m against our $117m forecast. Operationally, a 32% improvement in GP retention was a highlight, reversing a downward trend. Uncertainties stemming from the GP rebate freeze, MBS review and proposed government funding cuts will continue to weigh on investor sentiment and the share price. Our fair value estimate remains at $4.50 with a no moat rating.

Ramsay Health Care (RHC) (narrow moat) reported a 17.5% increase in 1H16 underlying NPAT to $224.9m with EPS up 16.9% to $1.14. The fully franked dividend increased 16% to 47 cents per share, a 41% payout. We expect the full-year payout policy of 50% to be maintained. Group revenue rose 24.9% to $4.17bn, reflecting solid growth in the Australian hospital division and a full six-month contribution from Generale de Sante in France. FY16 NPAT and EPS growth guidance was upgraded from 12%–14% previously to 15%–17%. We forecast a 19% lift in FY16 NPAT and EPS, driven by additional capacity coming on line in Australia and potential synergy gains from the integration of operations in France. We remain positive on RHC's global procurement strategy to make cost savings in medical consumables. Fair value estimate increases from $66 to $67 per share. Narrow moat rating is retained.

Sonic Healthcare (SHL) (narrow moat) reported solid 1H16 results and management reaffirmed FY16 guidance. NPAT was up 8% to $188m with EPS increasing 6.5% to 45.9 cents. Dividend edged 1 cent higher to 30 cents per share, 30% franked. Offshore operations drove the result, offsetting the impact of Medicare cuts in the domestic business. The weaker A$ also helped the translation of offshore earnings with underlying EBITDA up 16.7%, but on a constant currency basis, the improvement was halved to 8.4%. Management guided to EBITDA of $870m–$900m at current exchange rates. Our earnings forecasts are unchanged as is the $22 per share fair value estimate. The global pathology operations are an important differentiator to domestic peers, defraying domestic risks. Our narrow moat rating is retained.

Materials

BHP Billiton (BHP) (no moat) slashed the 1H16 dividend by 74% from 62 U.S. cents to 16 U.S. cents per share. This followed a 92% crash in adjusted 1H16 NPAT to US$412m. The result was as expected but we trim our FY16 NPAT forecast from US$781m to US$721m. Our FY16 dividend forecast is 40 U.S. cents, down from US$1.24 in FY15. We reduce our near and longer-term iron ore and met coal price forecasts, leading to a cut in fair value estimate from $19 to $17 per share. Finances are in relatively good shape with net debt of US$25.9bn. BHP has plenty of liquidity with US$11bn in cash and a further US$6bn revolving credit facility. Management flagged a potential turning of attention to acquisitions at the expense of organic growth. The settlement of the Samarco agreement is a positive for market sentiment.

Rio Tinto's (RIO) (no moat) progressive dividend policy is no more. A final dividend of US$1.075 took the 2015 dividend to a steady US$2.15 per share. Going forward, the board will adopt a more

Santos STO	
Recommendation	**Accumulate**
Fair Value ($)	5.50 →
Oil Search OSH	
Recommendation	**Hold**
Fair Value ($)	7.00 ↑
Woodside Petroleum WPL	
Recommendation	**Accumulate**
Fair Value ($)	33.00 ↑
CIMIC Group CIM	
Recommendation	**Sell**
Fair Value ($)	20.00 →
Downer EDI DOW	
Recommendation	**Reduce**
Fair Value ($)	2.75 →

flexible policy where dividends reference earnings, the outlook for commodities, long-term growth prospects, and the need for balance sheet strength. RIO expects to pay out 40%–60% of earnings through the cycle. The minimum dividend in 2016 will be US$1.10, and if paid represents a 49% fall on 2015. Underlying NPAT fell 52% to US$4.54bn, near our US$4.56bn forecast, with EPS halving to US$2.49. Falls in commodity prices were the major driver of lower profits, overwhelming small volume increases and self-help initiatives like cost cutting and reduced exploration expenditure. Revenue fell 30% to US$34.8bn. Consensus suggests 2016 EPS of US$1.54 before recovering strongly to US$4.00 in 2018. We are well below consensus and believe RIO is overvalued. Our fair value remains $32 per share.

Energy

Santos (STO) (no moat) reported a 90% slide in 2015 underlying NPAT to $50m, in line with our forecast. A final dividend of 5 cents per share was paid despite negative free cash flow and the considerable debt pile. We downgrade 2016 earnings to a loss of $98m or 6 cents per share after management guided to lower-than-expected production of 57–63 million barrels of oil equivalent (mmboe). We had assumed Gladstone's ramp up would generate more volume sooner. Despite a forecast 2016 loss, we anticipate positive operating and free cash flow of $830m and $340m, respectively. 2015 net operating cash flow fell 44% to $630m with free cash flow a negative $1.0bn. The dividend reinvestment plan will likely remove most of the cash impact but we forecast no dividends in 2016 or 2017 with a focus on debt repayment. Thankfully, there are no material debt maturities until 2019. Our fair value estimate is unchanged at $5.50 with a very high uncertainty rating.

Oil Search (OSH) (no moat) reported a 25% fall in 2015 underlying NPAT to US$360m, 12% below our forecast. Higher operating costs and depreciation charges were the reason for the shortfall, but there were one-off restructuring costs as well. Net operating cash flow fell 10% to a better-than-expected US$697m while free cash flow was US$417m. Management will concentrate on maximising cash flow and progressing LNG expansion options. 2016 capex is expected to be 35% below 2015's US$556m, with a focus on optimising production from mature fields. Operating costs are expected to fall 25% in 2016 and we anticipate steady annual production of 29 mmboe through 2020. After increasing our near-term oil price assumptions our fair value increases by 4% to $7 per share. The combination of single project, oil price and sovereign risk see the uncertainty rating set at very high.

Woodside Petroleum's (WPL) (no moat) 2015 underlying NPAT slumped 60% to US$1.13bn, marginally ahead of our US$1.08bn forecast. The underlying NPAT excludes US$1.1bn in after-tax non-cash impairments. 2H15 dividend was 43 U.S. cents per share fully franked, down from US$1.44 in 2H14. Sharply reduced energy prices were only partly offset by reduced operating costs. We estimate operating costs have halved since mid-2012. Cash generation was stronger than expected. Net operating cash flow fell 60% to US$1.66bn and free cash flow excluding Apache assets was US$550m. Management targets 2016 production of 86–93 mmboe against 2015's 92.2 mmboe and we sit at 92 mmboe. Better cash flow improves an already healthy balance sheet. An increase in near-term oil price expectations sees our fair value estimate lift from $31 to $33 per share. We continue to merit in a WPL/STO tie-up.

Engineering & Construction

CIMIC Group's (CIM) (no moat) FY15 result was better than expected, up 20% for continuing operations after meaningful divestments to $521m, at the upper end of guidance and 14% above our $458m estimate. The final fully franked dividend of 50 cents took the 2015 dividend to 96 cents per share, down 23% from $1.25 in 2014. Despite the solid result we expect a little more pain for contractors before a muted turnaround in 2018. Work in hand stands at $29bn, down 10% on a like-for-like basis from 31 December 2014. Free cash flow, excluding the $1.2bn in proceeds from the sale of John Holland, surged to $1.3bn. All debt was repaid and the balance sheet boasts $1.1bn in net cash. Our 2016 NPAT forecast increases 30% to $562m, within the guidance range of $520m–$580m with EPS of $1.66. Fair value is unchanged at $20.

Downer EDI (DOW) (no moat) reported better-than-expected 1H16 earnings of $72m, but we retain our recently downgraded fair value of $2.75 per share. Cash conversion was a weak 64%, principally reflecting $65m in unresolved Barrup ammonium nitrate plant claims. Pleasing was the mining division's result with stable revenue and EBITDA margin expanding from 17% to 19%. After a three-year decline engineering, construction and

Lend Lease LLC	
Recommendation	**Hold**
Fair Value ($)	12.50 ↓

Aurizon AZJ	
Recommendation	**Reduce**
Fair Value ($)	3.20 ↓

Monadelphous MND	
Recommendation	**Hold**
Fair Value ($)	8.00 →

Fairfax Media FXJ	
Recommendation	**Hold**
Fair Value ($)	0.71 →

News Corporation NWS	
Recommendation	**Accumulate**
Fair Value ($)	24.00 ↓

maintenance revenue was flat and EBITDA margin lifted from a low of 2.4% to 4.0%. Net operating and free cash flow of $178m and $55m were in line with expectations but we forecast free cash flow and earnings to bottom out in FY17. The dividend was surprisingly maintained at 12 cents per share on a 72% payout.

Lend Lease (LLC) reported a 12% increase in 1H16 NPAT and EPS to $353.8m and 60.9 cents respectively over 1H15. The distribution increased 11% from 27 to 30 cents per security unfranked, a payout of 50%. The result was slightly ahead of expectation on a higher rate of residential settlements and a lower tax rate of 16.9%. The low tax rate will reverse in 2H with a full-year rate over 20%. Key forecast revisions include increased near-term residential settlements. Stronger-than-expected presales on Melbourne apartments lift medium-term forecasts, offset by lower long-term construction margins, reflecting increased competition. Our FY16 NPAT forecast of $697m is below the $720m consensus. Due to lower outer-year apartment earnings expectations and construction activity our fair value estimate trims from $13 to $12.50 per share.

Mining Services

Aurizon's (AZJ) (narrow moat) 1H16 results were uninspiring with underlying NPAT down 23% to $237m on 1H15, while underlying EBIT was 17% lower at $403m and in line with December guidance. The dividend surprisingly increased 12% to 1.3 cents per share, 70% franked and a 100% payout of underlying NPAT. Non-cash impairments of $426m resulted in a statutory loss of $108m. Lower coal, iron ore and freight tonnages hurt the above-rail operations, driving EBIT 32% lower to $185m, while the more defensive below-rail operations lifted EBIT by 12% to $245m. Haulage contract renegotiations are likely to see reductions, adding to existing pressures. Management guidance is for FY16 underlying EBIT of $845m–$885m and we reduce our estimate by 4% to $855m. We trim our FY17 and FY18 forecasts marginally. Operating margins should improve with cost-cutting initiatives. Management guided to long-term "non-growth" capital expenditure of $500m–$600m, higher than we expected. Our fair value estimate falls 9% to $3.20.

Monadelphous (MND) (no moat) reported a 40% decline in underlying 1H16 NPAT to $37.6m or 49 cents per share on 1H15, well below our 49 cents per share forecast. The dividend was also down 40% to 28 cents per share fully franked. Free cash flow was better than expected, with little in the way of capital expenditure. Engineering Construction revenue slumped 43% to $415m while Maintenance & Industrial Services revenue was steady at $323m. MND can expect more pain with the company almost entirely exposed to the troubled resources and energy markets. Diversification into water and infrastructure is in its early days. Management expects FY16 revenue to be 25% below FY15, but the fall in earnings should be greater as lower-margin maintenance and service become more prominent. Fair value is unchanged at $8.00 with very high uncertainty.

Traditional Media (Print & Television)

Fairfax Media's (FXJ) (no moat) 1H16 underlying NPAT fell 2.2% to $79.8m from 1H15. EPS eased a similar degree to 3.4 cents and the dividend was unchanged at 2 cents per share fully franked, a 59% payout. After two consecutive half years of positive top-line growth, management indicated 2H16 revenues are tracking modestly below 2H15. With overall advertising conditions soft it remains to be seen how long Domain can continue to offset structural pressures in the traditional print business. Domain's growth was impressive with EBITDA up 74% to $65.7m and a margin of 43%. Revenue from metropolitan print advertising, community media and New Zealand media fell by 14%, 11.2% and 7.4%, respectively. It is difficult to see how Domain's value can be liberated any time soon such is the intricate relationship with metropolitan media units. Fair value is unchanged at 71 cents per share.

News Corporation (NWS) (no moat) reported a 34% decline in 2Q16 underlying profit to US$114m. Underlying EPS of 20 U.S. cents was down 33% on 2Q15. The underlying result was materially affected by adverse currency movements. The digital real estate services division (DRES) was the standout with underlying EBITDA up 19%, reflecting the strong growth in REA Group's results. A 22% fall in news and information services on continued structural weakness in print advertising offset the DRES result. FY16 forecasts are upgraded slightly on a positive outlook for DRES. Fair value has been trimmed from US$18 to US$17 (A$24) per share and the stock is meaningfully undervalued. We remain wary of the challenging trading environment and long-term structural challenges facing the print media assets.

Nine Entertainment NEC	
Recommendation	**Hold**
Fair Value ($)	1.70 →
Seven West Media SWM	
Recommendation	**Hold**
Fair Value ($)	1.00 →
Carsales.com CAR	
Recommendation	**Hold**
Fair Value ($)	11.00 →
REA Group REA	
Recommendation	**Reduce**
Fair Value ($)	43.00 →
Seek SEK	
Recommendation	**Reduce**
Fair Value ($)	13.00 →
JB Hi-Fi JBH	
Recommendation	**Sell**
Fair Value ($)	15.00 ↑
Harvey Norman HVN	
Recommendation	**Sell**
Fair Value ($)	2.70 →

Nine Entertainment (NEC) (no moat) reported a 6.1% decline in 1H16 underlying NPAT to $78.4m while EPS eased just 1.1% to 8.8 cents as a result of the share buyback. Reported NPAT was supported by a $410m gain on the sale of Nine Live (Ticketek), offset by $54.8m in write-downs. NEC has net cash of $52.5m, announced another $150m share buyback and lifted the dividend 90% to 8 cents per share fully franked. Cash flow continued to impress. We diverge from consensus obsession with near-term cost cutting. While management must maintain tight cost control in a challenging market it needs to continue to invest in content (especially self-owned) and digital. Our EPS forecasts are largely intact, but dividends have been upgraded. Our fair value estimate is unchanged at $1.70 per share. Investors seem concerned about NEC's strategic intent on a change in media laws.

Seven West Media (SWM) (no moat) reported a 2% lift in 1H16 underlying NPAT to $140.3m but EPS fell 32% to 9.3 cents after the new share issue and the conversion of convertible preference shares to ordinary shares in April 2015. The dividend was cut by 33% to 4 cents per share fully franked, ahead of our 3.5-cent estimate. 1H16 EBIT fell 9% to $205.4m and management retained FY16 guidance for a 10% fall in EBIT. Television (86% of group earnings) achieved a 2% increase in EBIT to $185.4m on strong cost control. Print-based operations struggled with a 22% fall in Newspaper EBIT to $24m and Magazine down 39% to $7m. We lift our FY16 underlying NPAT and EPS forecasts by 6% to $204.6m and 13.6 cents respectively, reflecting faster-than-expected deleveraging and a lower tax rate. Estimates beyond FY16 remain intact and our $1.00 per share fair value estimate is unchanged.

New Media

Carsales.com (CAR) (narrow moat) lifted 1H16 NPAT 9.9% to $51.3m with underlying EPS up 9.0% to 21 cents. The fully franked dividend increased by 9.9% to 18 cents per share, an 84% payout ratio. The core Australian automotive advertising division achieved a 9% increase in dealer revenue and 15% from private customers. Group EBITDA margin edged higher from 48% to 49%. Cash flow was strong. The result was largely in line with our forecasts. Management expects "solid" revenue and EBITDA growth in 2H but only "moderate" NPAT growth. Fair value is unchanged at $11 and the stock is fairly valued on a one-year forward P/E ratio.

REA Group's (REA) (narrow moat) 1H16 underlying profit of $115m was 35% above 1H15 despite losses from minority holdings in Move Inc. and IProperty Group. Underlying EPS of 87 cents were also up 35%. The dividend of 36 cents per share fully franked was up 22% and represented a 41% payout. Earnings quality was good with cash conversion of 101%. Group EBIT margin expanded from 50% in 1H15 to a record 52%. The impressive result was in line with our expectations. IProperty is now incorporated into our model and fair value is unchanged at $43.00 per share. REA is modestly overvalued and is selling at a slight P/E ratio premium of 28 against peers Carsales.com and Seek of 26.

Seek (SEK) (narrow moat) reported a flat 1H16 underlying NPAT of $93.4m with EPS down 1% to 27 cents. The dividend increased 11% to 21 cents, a payout of 77%. Management retained FY16 underlying NPAT guidance of $195m before minorities. Our forecast is $200m and after minorities $162.9m or 47.3 cents per share. The lower FY16 NPAT reflects the sale of the 50% stake in IDP Education for $280m. Impressively, revenue increased 22% to $482m, 16% due to organic growth and 6% from acquisitions. The weaker A$ was a tailwind, but constant currency growth was still a strong 16%. The balance sheet is strong with gearing at just 10% and robust cash generation a feature. Fair value is unchanged at $13 as is the narrow moat rating.

Retailers

JB Hi-Fi's (JBH) (no moat) 1H16 underlying NPAT increased a solid 7.5% to $95m with EPS also up 7.5% to 96.1 cents. Revenue increased 7.1% to $2.1bn with comparable sales up a good 5.2%. The fully franked dividend was up 6.8% to 63 cents, a 66% payout ratio. FY16 guidance of $143m to $147m implies a tougher 2H with NPAT growth of 3.7% at the midpoint. The 2H will cycle the small business tax incentive in 2015. Our forecasts are unchanged with NPAT at $145m, the midpoint of guidance. JBH should benefit from the demise of Dick Smith to some extent. Our fair value increases from $14 to $15 and we see the stock as well overvalued. The balance sheet is strong with net cash of $101m.

Harvey Norman (HVN) (no moat) reported a solid 22% increase in 1H16 underlying NPAT to $170.7m from 1H15. EPS jumped almost 19% to 15.3 cents and the dividend was hiked 44% to 13 cents per share fully franked on an 85% payout.

Wesfarmers WES	
Recommendation	**Hold**
Fair Value ($)	40.00 →

Woolworths WOW	
Recommendation	**Accumulate**
Fair Value ($)	28.00 ↓

Breville BRG	
Recommendation	**Hold**
Fair Value ($)	7.00 →

Domino's Pizza Ent. DMP	
Recommendation	**Sell**
Fair Value ($)	37.00 ↑

Greencross GXL	
Recommendation	**Accumulate**
Fair Value ($)	9.00 →

Group revenue increased 9.5% with franchises and favourable currency movements driving growth. Franchise fee income increased 10.2% to $413m, driven by comparable sales growth of 8.8%. Operating margin widened from 18.2% to 21.7%. Management's outlook is positive with franchise sales to 25 February up 6.7% and comparable sales 7.3% higher than 2015. We upgrade our near-term underlying NPAT and EPS estimates (FY16–FY18) modestly and dividend estimates are similarly upgraded. In the near term, HVN could benefit from the demise of Dick Smith. The balance sheet is sound and franking credits of $576m could accommodate special dividends in the future. Our fair value estimate of $2.70 is unchanged.

Wesfarmers (WES) (narrow moat) reported a mixed 1H16 result with strong performances from retail operations offset by weakness in industrial divisions, particularly resources. Underlying NPAT increased 1.2% to $1.39bn with EPS up 2.6% to $1.24. The fully franked dividend was 2.2% higher at 91 cents per share, a 73% payout. Outlook comments were minimal and unquantified, but management was positive on the 2H outlook for retail. We trim our FY16 NPAT and EPS estimates marginally but lift FY17 and FY18 forecasts by 4% to 5%. Dividend forecasts increase by 5% in FY16 and by 10% in FY17 and FY18. Coles EBIT increased 5.6% to $945m on revenue growth of 3.1% to $16.5bn. Despite the supermarket price war, margin increased from 4.6% to 4.7% and we estimate Food & Liquor margins increased from 5.2% to 5.3%. Bunnings lifted revenue by 10.9% to $5.5bn with comparable store sales up 7.9%. EBIT increased 13.7% to $701m with the margin up from 12.5% to 12.7%. Kmart's revenue was up 12.6% to $2.95bn with EBIT 10% higher at $319m. Fair value estimate is unchanged at $40 per share and the narrow moat rating is retained.

Woolworths (WOW) (narrow moat) as expected reported a 33% slide in 1H16 underlying NPAT to $926m, towards the lower end of $900m–$1bn guidance. Underlying EPS also fell 33% to 73.4 cents and the dividend was cut 34% to 44 cents per share fully franked, a 60% payout. Group revenue declined 1% to $32bn, as petrol revenue reflected lower global oil prices against 1H15. Australian Food & Liquor sales increased 0.7% to $22.3bn with comparable sales down 0.8%. The $350m investment in lower prices caused EBIT margin of Australian Food, Liquor and Petrol (AFLP) to slump from 7.4% to 5.2%, although we estimate Food & Liquor margin was 5.5%, better than Coles. Management expects an FY16 AFLP margin of 5.0%, driven by further investment in prices and a traditional lower 2H margin. Our FY16 NPAT and EPS estimate is trimmed by 5% with FY17 and FY18 trimmed by 3%. The Masters withdrawal saw a pre-tax impairment of $3.25bn. The appointment of Brad Banducci is seen as positive. We trim our fair value estimate from $29 to $28 per share and retain our narrow moat rating. Patience is required while the turnaround strategy is implemented.

Small Retailers

Breville (BRG) (narrow moat) lifted underlying NPAT by 4% in 1H16 to $30.8m from 1H15. Underlying EPS also increased 4% to 23.7 cents and the dividend rose 3.6% to 14.5 cents per share, 75% franked on a 61% payout. Management guided to FY16 earnings of mid-single digits, consistent with 1H16 where EBIT was 5.7% above 1H15. Group revenue increased 12.7% to $331m with the North American division lifting revenue by 31% or 11% in constant currency terms to $152m. Australia and New Zealand operations struggled with a 2.8% decline in revenue to $139m due to intense competition, particularly in lower-end products, from cheap imports. Our near-term (FY16–FY18) NPAT and EPS estimates are trimmed by between 4% and 6% but the $7 per share fair estimate is unchanged as is the narrow moat rating.

Domino's Pizza Enterprises (DMP) (no moat) reported another strong result for 1H16 and management upgraded FY16 guidance for the second time in two months. Underlying NPAT increased 57% to $45.6m with underlying EPS up 55% to 52.4 cents. The dividend jumped 41% to 34.7 cents per share, 70% franked. FY16 underlying EBITDA and NPAT growth guidance was increased from 30% to 35%. The result reflected strong organic growth with comparable store sales up 10.3% with Australia and New Zealand and Europe contributing strongly, while Japan was soft with comparable sales down 1.2%. 2H16 started well with comparable store sales up 10.5% in the first five weeks. We lift our FY16 NPAT estimate by 6.4% to $88.6m, 3% above management's guidance, which we consider conservative as it implies growth of just 17%. Acquisitions of Sprint in France and Joey's Pizza in Germany will help 2H performance. We lift our fair value estimate from $34 to $37 per share. DMP is priced for perfection and so far is delivering.

Ardent Leisure AAD	
Recommendation	**Accumulate**
Fair Value ($)	2.40 →
Ainsworth Game Tech AGI	
Recommendation	**Accumulate**
Fair Value ($)	3.70 →
Crown Resorts CWN	
Recommendation	**Accumulate**
Fair Value ($)	17.00 →
Star Entertainment SGR	
Recommendation	**Reduce**
Fair Value ($)	3.80 →
Tabcorp TAH	
Recommendation	**Reduce**
Fair Value ($)	3.60 →

Greencross (GXL) (no moat) reported a 12% increase in 1H16 underlying NPAT to $21.2m with EPS up 9% to 18.7 cents. The fully franked dividend increased 13% to 9 cents per share, in line with the 50% payout policy. A 17% lift in underlying EBITDA drove NPAT growth, which was partly muted by a 29% increase in depreciation and amortisation and a 31% lift in interest expense, reflecting several recent acquisitions. Solid momentum continued into 2H and management remain confident of delivering strong revenue and NPAT growth for FY16. Cash flow improved and should help reduce gearing. Earnings forecasts are maintained as is our $9.00 per share fair value. Predators continue to circle GXL.

Gaming & Leisure

Ardent Leisure's (AAD) (no moat) 1H16 result was in line with expectations with Main Event the key driver and Health Clubs in transition as it converts to a 24/7 format. Underlying NPAT fell 5% to $30.5m with EPS down 8.4%, primarily due to higher depreciation, tax and interest charges. The distribution was steady at 7 cents per security on a 103% payout. We expect a lower payout in 2H. Main Event increased revenue by 48% to $105m and EBITDA by 36% to $20.8m, helped by centre rollout and currency tailwinds due to a stronger US$. We anticipate strong growth in the near term. Health Clubs' margin was pressured by the change to a 24/7 format in a very competitive gym market. Bowling operations were a positive contributor as were Theme Parks but Marinas struggled. Earnings forecasts are largely intact and our fair value estimate is unchanged at $2.40 per security.

Ainsworth Game Technology (AGI) (narrow moat) reported a 6.9% increase in 1H16 underlying NPAT to $26.3m from 1H15. EPS increased a similar amount to 8 cents and the fully franked dividend was unchanged at 5 cents per share, a 49% payout. The International division was a little better than expected, while the Australian division was a little softer. Overall, there were no major surprises with the themes enunciated at the November update largely playing out. Group revenue increased 27% to $142m, driven by a currency-charged International division's 57% increase to $91.6m, accounting for 65% of total revenue. Australian revenue fell 6% to $50.3m. International EBIT soared 71% to $41.1m while Australian EBIT slumped 33% to $19m. Unit volumes fell 8% in Australia while prices increased 5%. Margin was pressured in a tough local market. Our FY16 estimates are unchanged and in line with management's guidance for flat underlying NPAT near $52.5m. No change to our $3.70 per share fair value estimate or narrow moat rating.

Crown Resorts (CWN) (narrow moat) reported a mixed normalised 1H16 profit with a strong performance in main-floor gaming and non-gaming in Crown Melbourne offset by a drop off in high-roller turnover and weakness in the Macau associate Melco Crown. Perth delivered a solid result in subdued conditions. Costs were higher than expected, but included one-off costs, most notably acquisition-related. Normalised NPAT (adjusted for a theoretical 1.35% VIP win rate) fell 35% to $210.3m. EPS also fell 35%. CWN passed on some of a US$120m special dividend from Melco Crown by lifting the dividend from 18 to 33 cents per share, 50% franked. We would have preferred debt was reduced. No earnings guidance was provided and our earnings estimates remain unchanged. FY16 dividend estimate increases from 40 to 55 cents per share. Our $17 fair value estimate is intact.

Star Entertainment (SGR) (no moat) reported a sound 1H16 result with table and electronic gaming machines (EGM) the feature. VIP normalised revenue was up slightly, cycling a very strong 1H15. Successful VIP gamblers pushed the actual VIP win rate to 0.88% against a theoretical rate of 1.43%, causing a large gap between reported and normalised results. Management has finally decided to cut the theoretical rate to 1.35% for the full year, bringing it in line with peers. On this basis normalised NPAT and EPS were up 29% to $130.2m and 15.8 cents, respectively. Reported NPAT and EPS fell 38% to $60.3m and 7.3 cents, respectively. The dividend increased from 5 to 5.5 cents per share fully franked. Trading conditions in early 2H followed 1H trends. Costs associated with the loyalty strategy are expected to increase and more disruptions are expected from upgrades at the Star Sydney and Jupiters Gold Coast. No changes to our earnings forecasts or our $3.80 fair value estimate.

Tabcorp's (TAH) (narrow moat) 1H16 net profit of $97.5m was up 7.3% on 1H15. Underlying EPS fell 1.7% on a higher capital base. Dividend increased 20% to 12 cents per share fully franked. The result was clouded by the soccer World Cup in 1H15 and a full six-month contribution from the ACTTAB acquisition. A 13.7% fall in interest expense helped the bottom line. We trimmed our FY16, FY17 and FY18 forecasts modestly. Our fair value is maintained at $3.60 per share. Subsequently, TAH

Tatts Group TTS	
Recommendation	**Reduce**
Fair Value ($)	3.30 ↓
APA Group APA	
Recommendation	**Hold**
Fair Value ($)	8.00 →
Sydney Airport SYD	
Recommendation	**Hold**
Fair Value ($)	6.00 ↑
Transurban TCL	
Recommendation	**Hold**
Fair Value ($)	10.70 ↑
AGL Energy AGL	
Recommendation	**Reduce**
Fair Value ($)	15.00 ↑

lost its appeal against the Victorian government for a $687m claim in relation to the loss of the gaming machine licence in 2012. While disappointing, it was expected. There is no financial impact and our fair value is retained at $3.60 per share. TAH remains expensive with investors enamoured with the yield.

Tatts Group (TTS) (narrow moat) posted a 6.2% lift in 1H16 underlying NPAT to $147.9m with EPS up 4.1% to 10.1 cents. The dividend increased from 9 to 9.5 cents per share fully franked. EBITDA was largely flat and EBIT was up 1.1% while the bottom line was helped by a 29% decline in interest expense. The result was mixed with Lotteries reporting a strong performance while Wagering was weak. Group EBITDA margin fell from 18.3% to 17.2% as a weak result from the higher-margin Wagering operations was offset by a stronger performance by lower-margin Lotteries. FY16–FY18 NPAT and EPS forecasts increase by an average 3.4% as do dividends. Fair value increased from $3.40 to $3.50 after the 1H16 result. But the High Court upheld the appeal of the Victorian government and TTS has to repay $541m plus yet-to-be-determined interest and costs. The $541m was compensation following the termination of TTS' Victorian gaming machine license in 2012, which was received in 2014. The proceeds were used to repay debt as it matured and TTS has almost $870m in undrawn facilities. The repayment should not impact ongoing profitability but will lift gearing. We trim the fair value back to $3.30 per share as a result.

Utilities & Infrastructure

APA Group (APA) (narrow moat) reported an 11% fall in 1H16 underlying NPAT to $99.5m. The result was dominated by the full period contribution of the Wallumbilla Gladstone Pipeline (WGP), which drove a 56% increase in revenue to $813m and a 66% lift in EBITDA to $668m. But significantly higher interest, depreciation and amortisation charges hit the bottom line. Earnings per security fell 33% to 8.9 cents after the new equity associated with the WGP financing was included. But importantly, operating cash flow per security jumped 38% on a comparable basis to 41.5 cents and is the key to distributions. The 1H16 distribution increased 9% to 19 cents and FY16 guidance was reaffirmed at 41.5 cents. Our medium-term earnings and distribution forecasts are maintained as is our $8 fair value estimate. Management continues to look for value-creating acquisitions to complement an already dominant asset footprint in gas transmission and energy distribution.

Sydney Airport (SYD) (narrow moat) reported a solid result for 2015. Underlying profit before tax (NPBT) and cash flow available for distribution are the most relevant as statutory profit is distorted by the tax implications of the stapled company and trust structure. We estimate underlying NPBT increased 26% to $344m from $273m in 2014 and pre-tax earnings per security also increased 26%. Cash flow available for distribution increased 10% to $578m and cash flow per average weighted security increased 9.7% to 26 cents, covering the 25.5-cent unfranked distribution. Management guided to an 18% lift in FY16 distribution to 30 cents per security, which is expected to be fully covered by cash flow. Capital expenditure of $1.3bn is budgeted over the five years to 2020, with $400m to be outlaid in 2016. After an analyst change our forecasts are upgraded and the fair value estimate increases to $6.00 per security. The narrow moat rating reflects the high-quality asset, while incorporating risks associated with a second Sydney airport and the potential dilution of returns on invested capital.

Transurban (TCL) (narrow moat) reported an operating profit of $62m for 1H16 against a $354m loss in 1H15. Cash flow available for distribution increased 22% to $461m and this figure, rather than statutory accounts, is the key when looking at TCL. The distribution per security was 22.5 cents and management lifted FY16 guidance from 44.5 to 45.5 cents. We expect a five-year compound average growth rate in distributions of 11% through FY20. Group proportional toll and fee revenue increased 19.3% to $960m and like-for-like EBITDA jumped 11.2% to $707m. A change in analyst and a comprehensive remodelling of financials sees fair value increase to $10.70. The narrow moat rating is unchanged. TCL is a top-quality infrastructure stock.

AGL Energy (AGL) (narrow moat) lifted underlying NPAT by 24% to $375m in 1H16. Underlying EPS increased by 17% to 55.6 cents with the fully franked dividend up 7% to 32 cents on a 58% payout. Key drivers included a full period contribution from Macquarie Generation, rising wholesale electricity prices, improved retail margins and good cost control. Group EBITDA margin expanded from 14.2% to 15.8%. FY16 guidance was lifted to the upper end of the prior guidance range of $650 to $720m. This implies a

Origin Energy ORG	
Recommendation	**Hold**
Fair Value ($)	5.50 ↓

Telstra TLS	
Recommendation	**Accumulate**
Fair Value ($)	6.00 →

Amcor AMC	
Recommendation	**Reduce**
Fair Value ($)	12.00 →

Orora ORA	
Recommendation	**Reduce**
Fair Value ($)	2.10 ↑

Pact Group PGH	
Recommendation	**Hold**
Fair Value ($)	4.50 ↓

softer 2H as 1H positives are unlikely to repeat. Our FY16 NPAT forecast increases by 9% to $711m with EPS forecasts up by an average 7% over the next three years. Fair value increases from $14 to $15. We believe AGL is overvalued as increased competition in the retail market and structural growth in household solar and batteries hurt the core electricity generation business.

Origin Energy (ORG) (no moat) reported a 21% fall in 1H16 underlying NPAT from continuing operations to $243m from 1H15. The result was mixed with a good performance from energy markets and a poor performance from integrated gas, as expected. Write-downs of gas and other assets resulted in a statutory loss of $254m. The dividend was cut 60% to 10 cents per share unfranked, a 55% payout. Despite debt-reduction efforts, ORG remains highly geared and is likely to suspend dividends if oil prices remain at sub-US$35 levels. Management reiterated EBITDA guidance from existing operations (excluding LNG) of $1.45bn–$1.55bn in FY16 and $1.9bn–$2.1bn in FY17. LNG EBITDA guidance was downgraded from $110m–$130m to $30m–$80m for FY16 and from $1.2bn–$1.3bn to $0.65bn–$0.75bn in FY17 owing to lower oil price assumptions offset by cost reductions. We downgrade our forecasts in light of new guidance and increase the cost of equity from 9% to 11%. These changes see the fair value estimate fall 21% to $5.50 per share.

Telecommunications

Telstra's (TLS) (narrow moat) 1H16 underlying NPAT rose 1.3% on 1H15 to $2.1bn and was as expected. Underlying EPS increased 2.4% to 17.2 cents and the fully franked dividend increased 3.3% to 15.5 cents per share. The result demonstrated the strength of its mobile business and allays some of the market concerns regarding competitive tension. Underpinning earnings was a 7.6% increase in sales to $13.7bn, leading to a 1.7% lift in EBITDA to $5.4bn. Key features were the resilient performance from mobile, an improved showing in fixed data, higher profits from Network Applications and Services (NAS), and increased payments from the NBN--these more than offset declines in data and internet protocol and fixed voice. Free cash flow of $1.9bn and capital strength is such the 3.3% lift in dividend looks conservative. Management reaffirmed guidance on various financial metrics--FY16 EBITDA growth in low single digits, capital expenditure of 15% of sales, and free cash flow between $4.6bn and $5.1bn. Mobile revenue grew 3.7% to $5.5bn and EBITDA margin eased from 40% to 39%. No changes to our earnings or dividends forecasts or our $6.00 fair value estimate.

Industrials

Amcor's (AMC) (narrow moat) 1H16 NPAT fell 4.9% to US$305.5m, hurt by a strong US$. On a constant currency basis NPAT increased 6.6% to US$342.6m, reflecting good volume growth across Flexibles and strong cost control in the Rigids division. Constant currency EPS increased 10.2% after completion of the US$500m share buyback. The dividend was steady at 19 U.S. cents per share unfranked, but up 9.5% in A$ to 26.7 cents. Management upgraded guidance for both key divisions, anticipating strong growth in Rigids despite challenging conditions in Latin America. Our FY16 and FY17 earnings estimates are upgraded slightly on higher margins, reflecting product mix and cost-out initiatives. Our fair value estimate is unchanged at $12 per share and the narrow moat rating is maintained.

Orora (ORA) (no moat) reported a 19% increase in 1H16 underlying NPAT (excluding asset sales) to $82m from 1H15, ahead of our expectations and driven by a strong performance by the U.S. operations. Underlying EPS increased 19% to 6.8 cents and the dividend jumped 29% to 4.5 cents per share, 30% franked and a 66% payout. Group sales increased 14% to $1.89bn with a currency tailwind--we estimate constant currency sales growth of 4.4%. EBIT margin expanded from 7.1% to 7.6% and management is guiding to vaguely "higher" earnings for FY16. We forecast a 25% increase in FY16 EPS and a five-year CAGR of 8.6%, driven by an improving U.S. economy. Cash-flow generation was strong. Fair value estimate increases from $1.80 to $2.00 per share. The subsequent acquisition of IntegraColor in the U.S. is earnings-accretive and adds to fair value, now at $2.10.

Pact Group's (PGH) (no moat) adjusted 1H16 NPAT increased 10% to $45.9m, excluding $4m in restructuring costs. The result was slightly ahead of our estimate on strong contributions from acquisitions, but lower underlying volumes disappointed. Underlying EPS increased 10% to 15.6 cents while the dividend increased 5.3% to 10 cents per share, 65% franked and a 64% payout. Adjusting for acquisitions, underlying sales fell 4% to $607m and EBIT was essentially flat with margin expanding 50 points to 12.6%, helped by cost outs. Australian volumes were affected by lower demand from the agriculture and dairy sectors due to poor

Brambles BXB	
Recommendation	**Hold**
Fair Value ($)	12.00 →
Qantas QAN	
Recommendation	**Hold**
Fair Value ($)	3.70 ↑
Qube Holdings QUB	
Recommendation	**Hold**
Fair Value ($)	2.40 →
Adelaide Brighton ABC	
Recommendation	**Hold**
Fair Value ($)	4.40 ↑
Boral BLD	
Recommendation	**Reduce**
Fair Value ($)	4.90 →

weather and weak global dairy markets, weaker resource-related activity and net contract losses. International operations also saw lower volumes, with growth in materials handling offset by declines in industrial, agriculture and dairy. Recent acquisitions are performing well. Management guidance is for higher sales and underlying earnings, subject to global economic conditions. Our forecasts are trimmed by 5%, reflecting lower volume assumptions. Fair value eases from $4.60 to $4.50 per share.

Brambles' (BXB) (wide moat) 1H16 adjusted NPAT fell 2% to US$296.3m with EPS 3% lower at 18.8 U.S. cents, but the dividend was up 4.5% to 14.5 Australian cents, 25% franked. Organic growth surprised, particularly in the Americas pallet segment, driven by new contract wins and a 7% rise in sales in constant currency. Momentum in the U.S. increases our confidence in BXB's long-term targets of 7%–9% sales growth, US$100m in cost savings and 20% return on funds employed. Management upgraded FY16 constant currency sales growth from 6%–8% to 8%–10% with EBIT growth of 1.5% to US$1.015bn–$1.035bn. Our earnings forecasts are unchanged as is our $12 fair value estimate. A key sensitivity around future growth is the level of expected return on US$1bn of growth capex between 2017 and 2019.

Transport

Qantas Airways (QAN) (no moat) delivered one of the strongest results of the reporting season with a 230% increase in 1H16 statutory NPAT to $688m. Pre-tax profit was 150% higher at $921m and earnings per share (EPS) increased similarly to 30 cents. While no dividend was declared, a $500m share buyback was announced. Group revenue increased 5% to $8.46bn. The $554m increase in pre-tax profit reflected the powerful combination of a $425m reduction in fuel costs; transformation (self-help) benefits of $261m; and net passenger revenue growth of $287m, partially offset by $419m in higher other expenses. Management indicated it is on track to achieve transformation benefits of $2bn by end 2017 with $189m expected in 2H16. Return on equity was 13.1% with a target of 10% through the cycle. No earnings guidance was provided but management expects domestic seat capacity to increase 2% in 2H16 from 0.2% in 1H16 and FY16 fuel expense at $3.3bn from $3.9bn in FY15 assuming Brent remains around A$49/bbl. Net capital expenditure is estimated at $1bn with $3.6bn-$4.5bn spent between 2017 and 2019. We forecast FY16 NPAT of $1.6bn, peaking at $1.89bn in FY17 before declining to $1.56bn in FY18. We expect Brent to bottom in 2016 and to recover to US$70/bbl by 2020. Fair value increases from $3.60 to $3.70. Our no moat rating reflects the competitive international and domestic environment with a high uncertainty rating.

Qube Holdings (QUB) (narrow moat) reported flat 1H16 underlying NPAT before amortisation of $55.4m, while EPS fell 1.9% to 5.2 cents. The dividend was steady at 2.7 cents per share fully franked, a 52% payout. Underlying EBITA increased 2.8% to $99.3m and underlying revenue declined 3.7% to $690m, with margin expanding. No specific guidance was provided but management expects similar trading conditions to persist in 2H16--strong vehicle imports and log exports with near-term demand from resources and energy to remain subdued. Container volumes should increase in line with economic activity. The acquisition of integral parts of Asciano is the focus and is strategically important to QUB's long-term plans to be one of Australia's largest and most profitable logistics operators. Fair value is unchanged at $2.40 but excludes the potential acquisition of the Patrick business and involves a degree of uncertainty around the Moorebank development.

Building & Construction Materials

Adelaide Brighton (ABC) (narrow moat) increased 2015 NPAT by 20% to $207.9m, in line with guidance of $200m–$215m. NPAT included $34.9m in after-tax property profits. And we estimate underlying profit from "traditional" operations increased 5% to $174.3m. The final dividend increased 16% to 11 cents, topped up by a special 4 cents, both fully franked. Acquisitions aided the result along with cost reductions, and operating margins widened. Increasing infrastructure spending drives higher cement volume forecasts and modest increases in medium-term earnings. The balance sheet is in good shape and we expect further special dividends in both 2016 and 2017. Management guides to a positive 2016 supported by better volumes and prices. Fair value estimate lifts from $4.20 to $4.40 with no change in our narrow moat rating.

Boral (BLD) (no moat) reported a clean 1H16 result with NPAT up 30.7% to $136.6m with EPS up 28% to 18 cents. Group revenue was flat after divestments. The dividend increased 29% to 11 cents per share fully franked. The result was driven by a 200-basis-point expansion of the core Construction Materials & Cement division's (75%

James Hardie JHX	
Recommendation	**Reduce**
Fair Value ($)	14.50 →

of group EBITDA) EBITDA margin to 16.8%. Management guided to a lower 2H EBIT with a higher contribution from Property sales. Earnings forecasts are increased marginally with growth underpinned by a higher infrastructure spend by federal and state governments, and further strength in U.S. housing. Fair value is unchanged at $4.90.

James Hardie (JHX) (narrow moat) increased 3Q16 adjusted NPAT by 16% to US$56.2m with earnings for the nine months to 31 December up 13% to US$185m. Management lifted the lower end of FY16 guidance from US$230m–US$250m to US$240m–US$250m. Volume growth in the core U.S. operation increased 12% after a slowdown in previous quarters. Guidance assumes 2016 U.S. housing starts of 1.1 million and lower input prices, including both pulp and freight. The balance sheet is strong and further capital management initiatives (share buybacks and special dividends) are likely. Our fair value estimate is unchanged at $14.50 and the narrow moat rating is intact.

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