Australian Equity Market Outlook: Q2 2024

Market is slightly overvalued after strong rally; plenty of opportunities remain.

Morningstar Equity Research

Mathew Hodge
Regional Director of Equities Research, ANZ

Adrian Atkins
Senior Equities Analyst

Winky Tan
Associate Analyst

MORNINGSTAR®

Table of Contents

Market Outlook

Mathew Hodge | mathew.hodge@morningstar.com

Interest Rate Optimism Leaves Room for Some Disappointment

The market has surprised on the upside, with equity investors looking through the malaise to the green pasture of lower interest rates. The S&P/ASX 200 benchmark at close to 7,800 is up about 15% from the late October 2023 lows. On an unweighted average, our coverage trades at about a 5% premium to our fair value estimates, a modest overvaluation, and close to the 10-year average price/fair value of 1.04.

The market rally has come despite a slide in the iron ore miners from inflated levels. Rio Tinto, BHP, and Fortescue are down 9%, 11%, and 13%, respectively, for the year-to-date (April 3), with late 2023 generally a peak for the group. It's perhaps surprising the iron ore miners haven't come off more, given starting valuations and the much larger 27% fall in the iron ore price for the year to date. I don't think the market put much stock in the USD 140 plus iron ore price at the start of the year. The futures curve anticipates a further, albeit relatively modest, decline from the current price of USD 104 to USD 90 per metric ton in late 2025 and USD 83 in late 2026, still relatively favorable territory.

It's easy to imagine the iron ore miner dividend party continuing. All it takes is for President Xi to command a bigger return to the stimulus well in China. Prices for base metals, precious metals, and oil have been strengthening recently. But it's also easy to imagine a worse case after a once-in-a-lifetime boom and the property sector wobbles. I'd caution investors to be cognizant of history. Cyclical commodity prices and mining profits are generally not conducive to the generous and growing dividends of the recent past.

Key Commodity Prices Have Eased Lower in the Past Year

RBA index of commodity prices; nonrural component in AUD.

Source: Reserve Bank of Australia. Data as of March 31, 2024.

Interest Rate Optimism Leaves Room for Some Disappointment

Major bank gains have more than made up for the miners' pain. For the first time in a while, none of the banks are in 4-star or 5-star territory. National Australia Bank is now 2-star rated, and Commonwealth Bank is approaching 1-star.

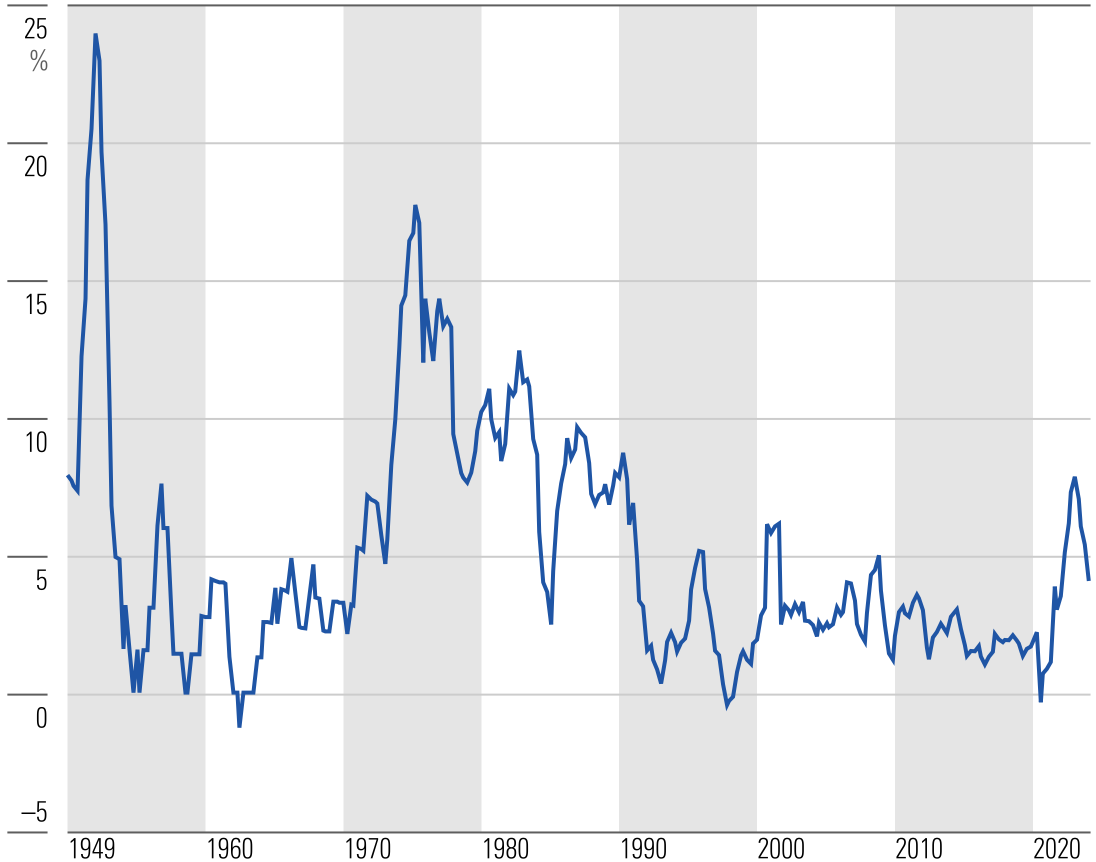
The market's increased optimism toward the banks has some merit. Falling inflation is positive as it lessens the risk of central banks going much harder on interest rates. Relatedly, the risks around the mortgage cliff—the shift from low-rate fixed to higher-rate variable loans—are so far being managed well. Immigration is incredibly strong, and the much-anticipated 2023 recession was avoided, both positive for mortgage repayments. Lastly, ongoing housing supply challenges, coupled with strong immigration, bodes well for the value of the banks' assets.

While we see plenty of tailwinds for the major Australian banks, the market may be too optimistic about interest rates. If inflation rears its head again, some of the optimism could come out of share prices for banks and other recent winners, including consumer cyclicals, REITs, and tech stocks. Geopolitics and global conflicts, China's stimulus inflating commodities, and an acceleration in deglobalization, such as shifting supply chains to domestic or friendly sources, could be triggers.

The February reporting season was a relatively normal one, stock-specific issues aside. In aggregate, we raised our fair value estimates by 2.3% on average and 71% of our fair value estimate changes were upgrades. We're seeing optimism in building materials, supported by population growth. Also noteworthy is elevated corporate activity, with nearly 5% of our coverage subject to takeover proposals.

As the 1970s and 80s Showed, Inflation Can Be Difficult to Tame

Australian Consumer Price Index inflation rate.



Source: Australian Bureau of Statistics. Data as of Dec. 31, 2023.

Economic Outlook

Mathew Hodge | mathew.hodge@morningstar.com

Lochlan Halloway | lochlan.halloway@morningstar.com

Rate Cuts Look More Likely as Economy Softens

Economic growth in Australia is flagging. In the final quarter of 2023, gross domestic product increased a meager 0.2% for annual growth of 1.5%. The RBA expects growth to improve in 2024 to reach a 1.8% annual rate by the December quarter. But this is still firmly below the 20-year prepandemic average of 2.8%.

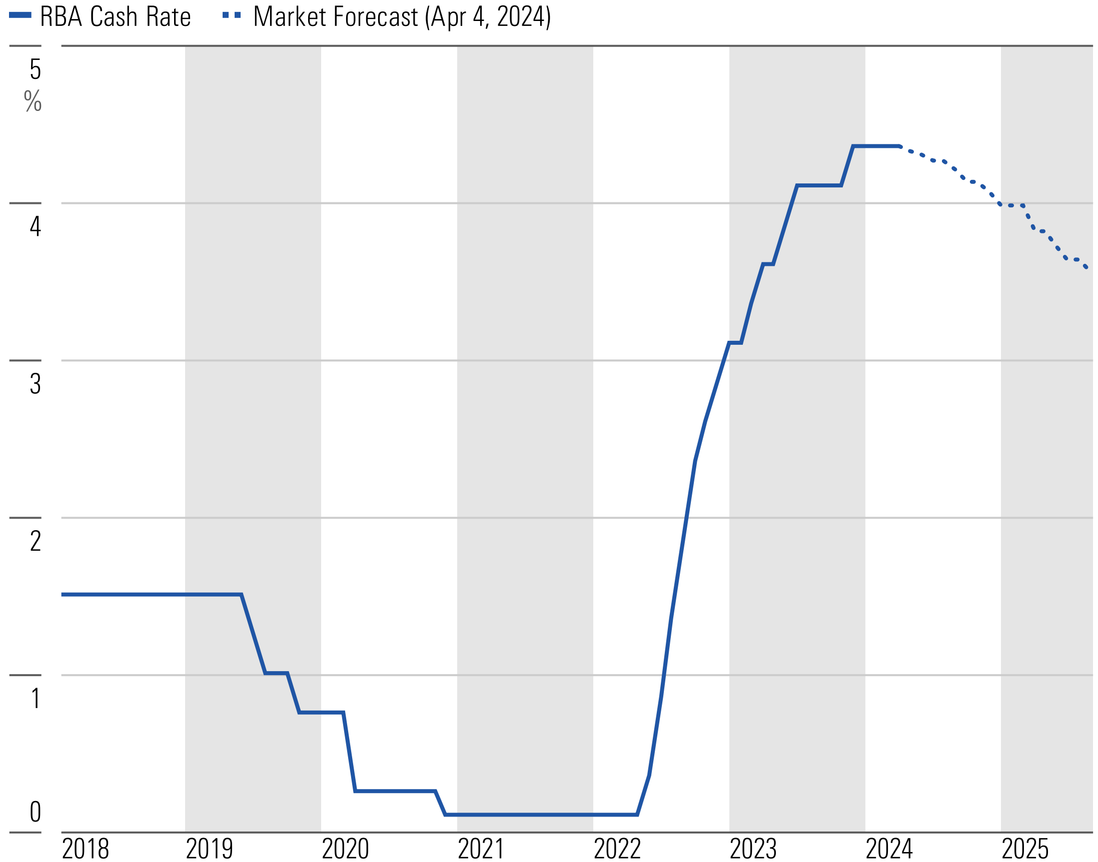
The RBA's efforts to dampen demand for goods and services are taking the heat out of inflation, with annual Consumer Price Index growth easing to 4.1% in the December quarter 2023 from 5.4% in September. Annual CPI growth was 3.4% in the month of February 2024. Most of the price pressure continues to stem from services inflation.

Softer GDP growth and cooling inflation nudge us closer to rate cuts. While the RBA left the cash rate steady in March, the board made a subtle change to the language in its decision statement. In February 2024, the board cautioned "a further increase in interest rates cannot be ruled out." However, this was amended to "the Board is not ruling anything in or out." The RBA knows markets closely scrutinize these announcements, and changes like this are deliberate. Our interpretation is that further rate hikes are unlikely in the absence of an unforeseen shock.

On current futures pricing, the market expects the first cut in September 2024 and a cumulative 70 basis point easing by June 2025. However, the timing and magnitude of any cuts depends on the data. Recent signs of sticky inflation, particularly in the United States, and strong employment suggest the market could be too optimistic.

Rate Hikes Likely Behind Us and Cuts Expected From September 2024

Reserve Bank of Australia cash rate and futures-implied forecast.



Source: Westpac Banking Corporation, Reserve Bank of Australia. Data as of March 31, 2024.

Rate Cuts Look More Likely as Economy Softens

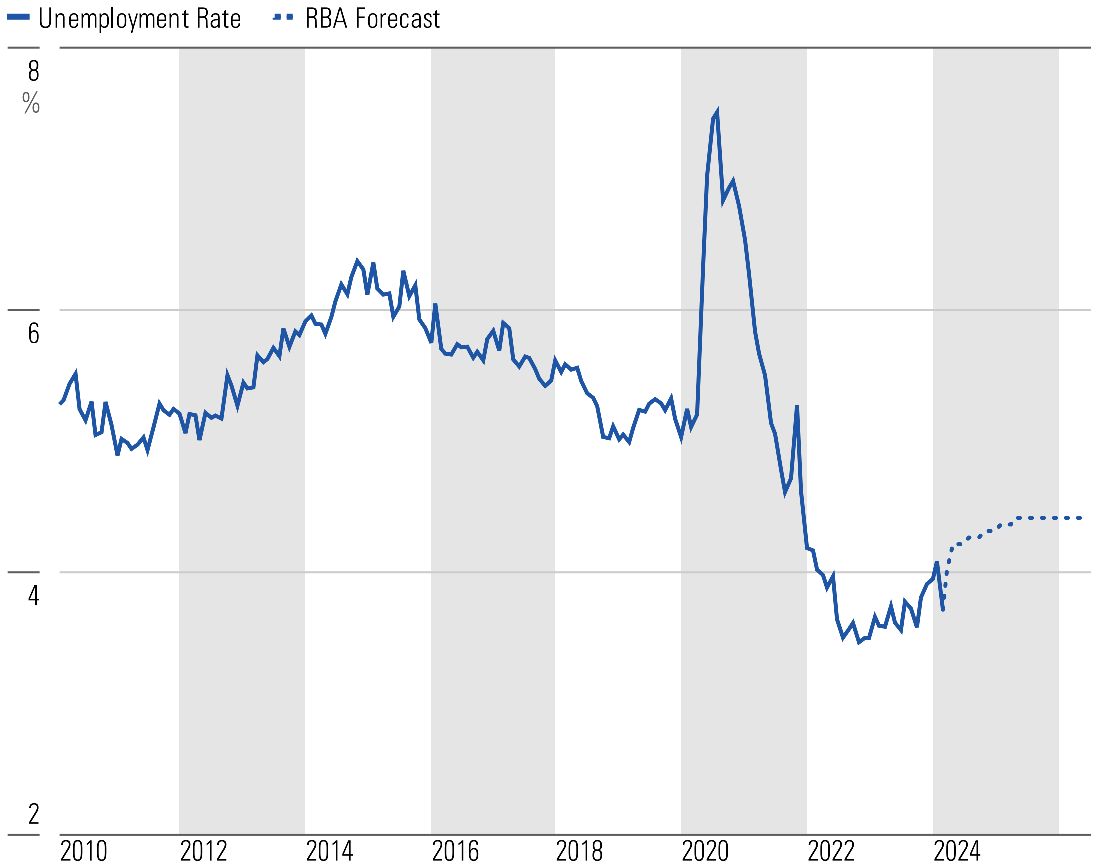
Rate cut timing largely hinges on the resilience of the household sector, which accounts for around half of economic activity. Households with meaningful debt are under significant pressure, paying 70% more in mortgage interest in 2023 than in 2022. Compounding this, the RBA expects the unemployment rate to rise to 4.3% by the end of the year from 3.7% in February 2024. Meanwhile, labor market slack should see wage growth cool to 3.7% from 4.2% in December 2023.

The Fair Work Commission's minimum wage decision for fiscal 2025 is due by June. While we're unlikely to see an increase as large as last year's 5.75%, we expect something higher than the pre-covid-19 norm. While only about 20% of Australians are paid award rates, it is much higher in retail. This should further pressure discretionary retail margins, especially given below-trend sales growth.

We don't think the upcoming fiscal 2025 budget will dramatically improve the consumer outlook. The recent cyclical stocks rally suggests markets are emboldened by potential fiscal support, but the Treasurer is urging Australians not to expect "big cash splashes." We estimate the much-anticipated stage 3 tax cuts could add 2% to fiscal 2025 household consumption if the windfall is spent. This is supportive but not enough to send the economy off to the races, paling against the AUD 89 billion of JobKeeper payments that fueled the pandemic spending boom. And with no big cash splashes this budget, we think household spending could miss market expectations in fiscal 2025.

Labor Market Set to Soften on Slowing Demand

Unemployment rate with RBA forecast.



Source: Australian Bureau of Statistics, RBA. Data as of February 29, 2024.

Valuation Overview and Top Picks

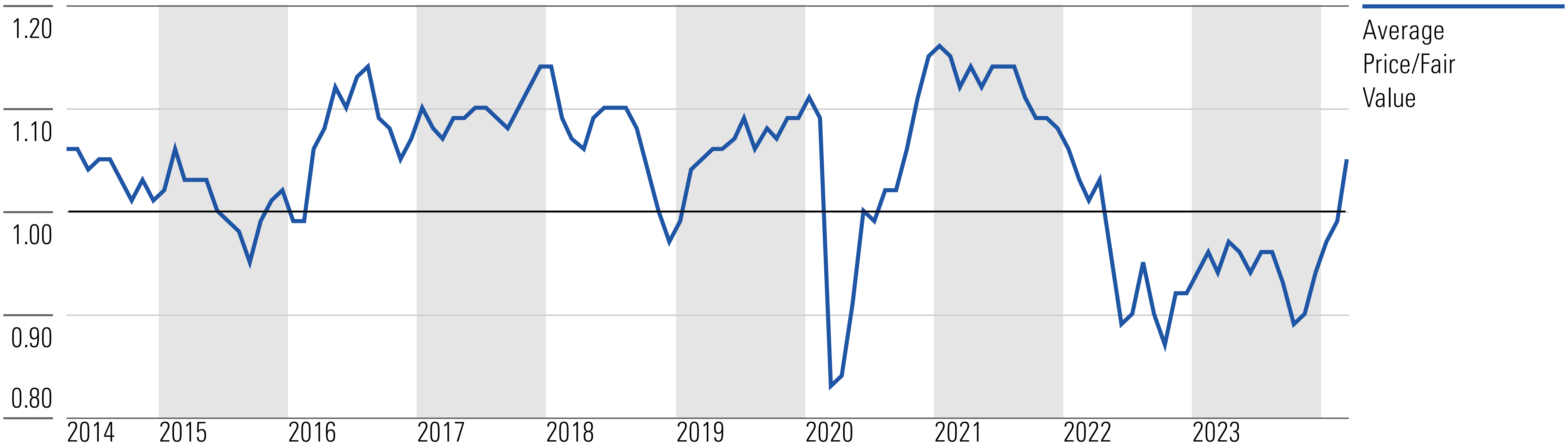
Adrian Atkins | adrian.atkins@morningstar.com

Market Trades at a Premium

Australia and New Zealand stocks rallied in the March quarter as waning inflation strengthened the case for rate cuts later in the year. As of March 28, 2024, our Australia and New Zealand coverage trades at a 5% premium to fair value on average, close to the 10-year average and up from a 15% discount at the September 2022 low.

Stocks Slightly Overvalued on Average

Morningstar Australia and New Zealand coverage: monthly average price/fair value estimate.



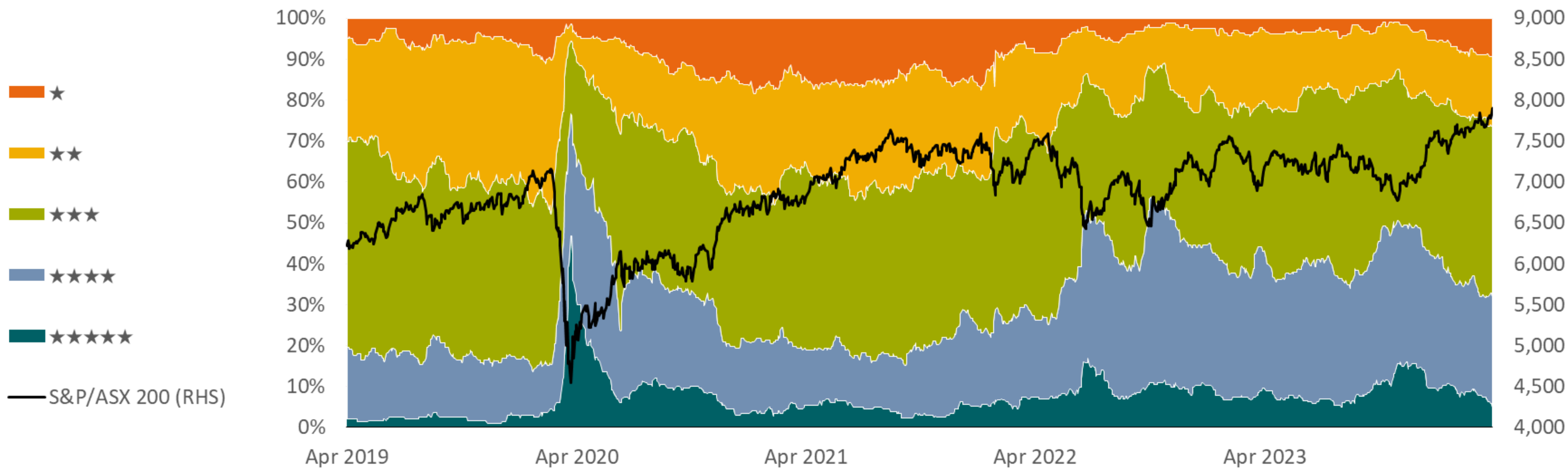
Source: Morningstar. Data as of March 28, 2024.

Plenty of 4- and 5-Star Ratings Despite Rally

A third of Australian and New Zealand stocks under coverage are either 4- or 5-star-rated, still better than the trailing 10-year average of 25% despite the recent market rally. We're seeing fewer opportunities to buy meaningfully undervalued stocks, with optimism around future interest rates boosting the market.

Fewer Undervalued Stocks but Still Above-Average Opportunities

Star rating distribution over time.



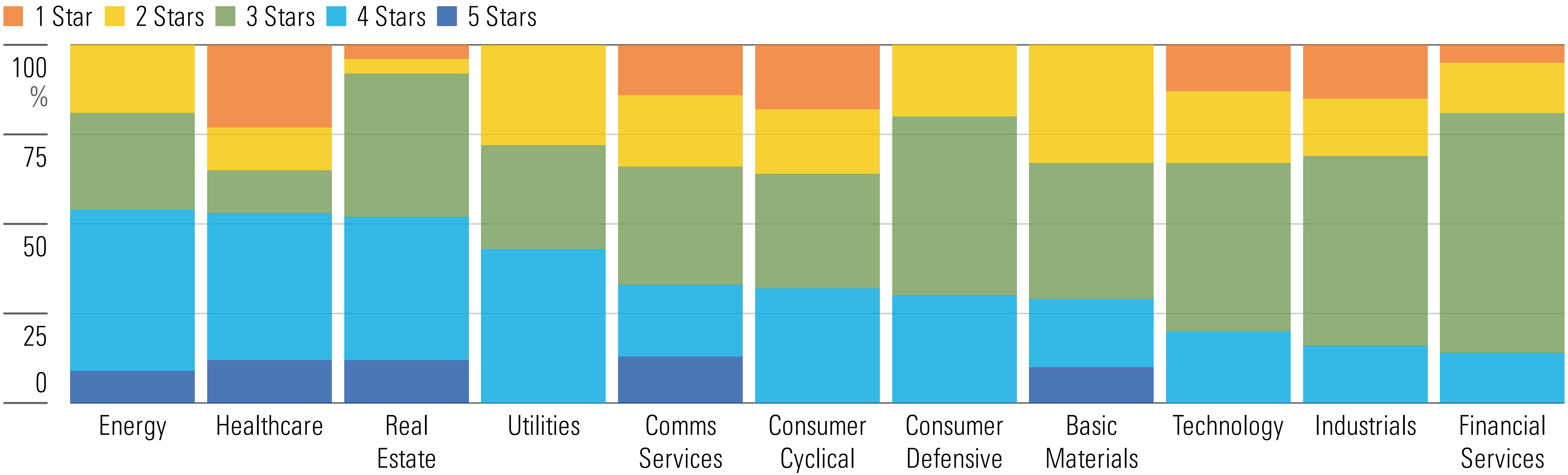
Source: Morningstar. Data as of March 28, 2024.

Positive Ratings in Many Sectors

The March quarter saw a large divergence between sectors, with those likely to benefit from lower interest rates, such as consumer cyclicals, financials, real estate, and technology, outperforming while basic materials, consumer defensives, healthcare, and utilities struggled. We see most 4- and 5-star-rated opportunities in energy, healthcare, and real estate. Financial services and technology are two of the most overvalued sectors and could come under pressure if interest rates don't fall as much as the market expects.

Plenty of Positive Ratings in Most Sectors

Star rating distribution by sector.



Source: Morningstar. Data as of March 28, 2024.

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Basic Materials							
Newmont (NEM)	★★★★★	AUD 76.00	AUD 53.71	Medium	None	0.68	AUD 63.35
Nufarm (NUF)	★★★★	AUD 7.70	AUD 5.50	High	None	0.68	AUD 2.10
Iluka Resources (ILU)	★★★★	AUD 9.50	AUD 7.21	High	None	0.74	AUD 3.09
Communication Services							
Nine Entertainment (NEC)	★★★★	AUD 2.70	AUD 1.71	High	None	0.62	AUD 2.76
TPG Telecom (TPG)	★★★★★	AUD 6.60	AUD 4.51	Medium	Narrow	0.67	AUD 8.39
Telstra (TLS)	★★★★	AUD 4.50	AUD 3.86	Medium	Narrow	0.84	AUD 44.60
Consumer Cyclical							
SkyCity Entertainment Group (SKC)	★★★★★	AUD 3.10	AUD 1.89	High	Narrow	0.61	AUD 1.45
Domino's Pizza Enterprises (DMP)	★★★★	AUD 61.00	AUD 43.39	High	Narrow	0.70	AUD 3.95
Bapcor (BAP)	★★★★	AUD 8.00	AUD 6.31	Medium	Narrow	0.76	AUD 2.14
Consumer Defensive							
IDP Education (IEL)	★★★★	AUD 24.50	AUD 17.92	High	Narrow	0.72	AUD 4.99
a2 Milk (A2M)	★★★★	AUD 7.40	AUD 6.25	High	Narrow	0.84	AUD 4.52
Endeavour Group (EDV)	★★★★	AUD 6.10	AUD 5.51	Low	Wide	0.89	AUD 9.87

Source: Morningstar. Data as of March 28, 2024.

TOP PICKS

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Energy							
Santos (STO)	★★★★	AUD 12.30	AUD 7.75	High	None	0.63	AUD 25.17
Woodside Energy (WDS)	★★★★★	AUD 45.00	AUD 30.50	Medium	None	0.67	AUD 57.91
Whitehaven Coal (WHC)	★★★★	AUD 9.50	AUD 7.10	Very High	None	0.71	AUD 5.94
Financials							
AUB Group (AUB)	★★★★	AUD 34.00	AUD 29.74	Medium	Narrow	0.86	AUD 3.22
ASX (ASX)	★★★★	AUD 75.00	AUD 66.42	Low	Wide	0.87	AUD 12.86
Perpetual (PPT)	★★★	AUD 27.50	AUD 25.09	Medium	Narrow	0.90	AUD 2.85
Health Care							
ResMed (RMD)	★★★★	AUD 39.00	AUD 30.15	Medium	Narrow	0.77	AUD 44.66
Ansell (ANN)	★★★★	AUD 30.00	AUD 24.58	Medium	Narrow	0.82	AUD 3.08
Ramsay Health Care (RHC)	★★★★	AUD 68.00	AUD 56.51	Medium	Narrow	0.83	AUD 12.97
Industrials							
Amcor (AMC)	★★★★	AUD 17.00	AUD 14.44	Medium	Narrow	0.83	AUD 21.08
Aurizon Holdings (AZJ)	★★★★	AUD 4.70	AUD 4.00	High	Narrow	0.85	AUD 7.36
Ventia Services Group (VNT)	★★★★	AUD 4.25	AUD 3.85	Medium	None	0.89	AUD 3.29

Source: Morningstar. Data as of March 28, 2024.

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Real Estate							
Dexus (DXS)	★★★★	AUD 10.80	AUD 7.91	Medium	Narrow	0.72	AUD 8.51
The GPT Group (GPT)	★★★★	AUD 5.55	AUD 4.57	Medium	None	0.81	AUD 8.75
Charter Hall Group (CHC)	★★★★	AUD 16.25	AUD 13.75	Medium	Narrow	0.83	AUD 6.50
Technology							
Fineos (FCL)	★★★★	AUD 3.10	AUD 1.69	Very High	Wide	0.54	AUD 0.57
Pexa Group (PXA)	★★★★	AUD 17.25	AUD 13.56	Medium	Wide	0.78	AUD 2.41
WiseTech Global (WTC)	★★★	AUD 100.00	AUD 93.95	High	Narrow	0.93	AUD 31.33
Utilities							
AGL Energy (AGL)	★★★★	AUD 11.50	AUD 8.34	High	None	0.72	AUD 5.61
Manawa Energy (MNW-NZ)	★★★★	NZD 6.30	NZD 4.55	Medium	Narrow	0.74	NZD 1.42
APA Group (APA)	★★★★	AUD 9.30	AUD 8.41	Medium	Narrow	0.89	AUD 10.79

Source: Morningstar. Data as of March 28, 2024.

Basic Materials

Jon Mills | jon.mills@morningstar.com

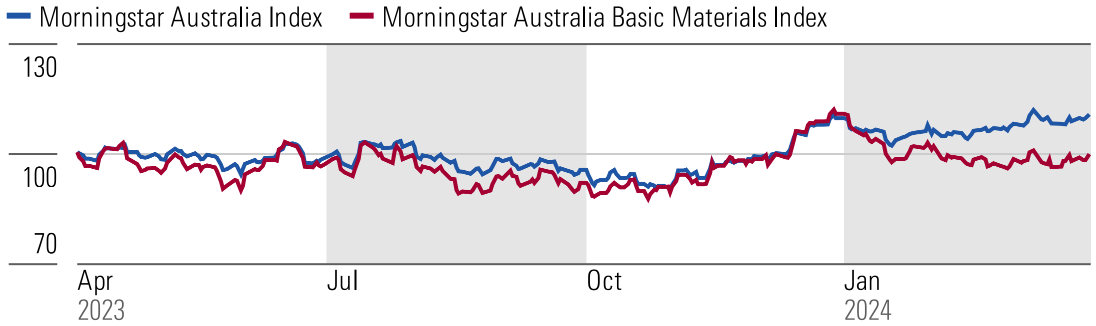
Miners Close to Fairly Valued on Average, but a Wide Divergence

Rising inventories in China, which consumes around 70% of seaborne traded iron ore, have driven iron ore prices lower recently. Metallurgical coal is also down. By contrast, copper has risen on persistently strong China demand and supply issues. Several miners have cut production guidance while the Panamanian government shut down the large Cobre Panama mine. Gold has also risen on inflation remaining higher than central bank targets, lowering real interest rates and the opportunity cost to own gold.

While our basic material coverage is close to fairly valued on average, there is a wide divergence. Despite higher gold prices, Newmont is materially undervalued, driven by production issues that we think should be resolved in time. There is also an opportunity in mineral sand miner Iluka Resources, given a cyclical downturn in property construction in China and elsewhere. The lower iron ore price means BHP and Rio Tinto are now close to fair value, though Fortescue is materially overvalued in our view.

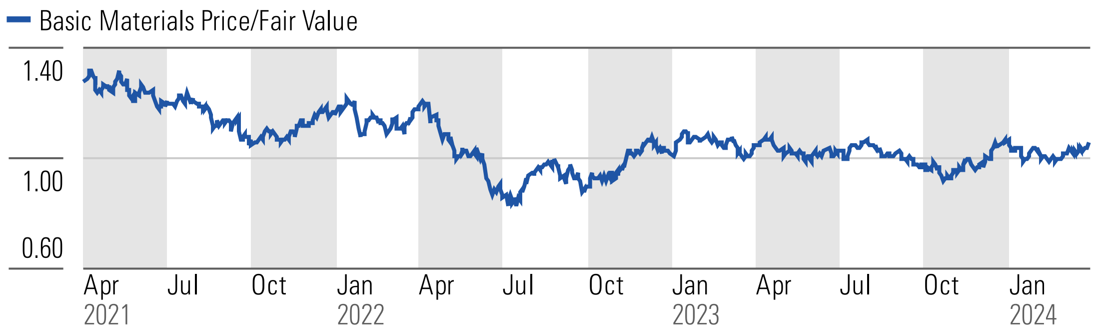
We expect Orica and IncitecPivot to report improved explosives earnings after recontracting into a tighter market, meaning better prices and margins. Orica is somewhat overvalued, but IncitecPivot still represents good value despite the recent share price appreciation. Earnings growth from seed technologies could see the price/fair value gap narrow at undervalued crop protection company Nufarm. We're also seeing elevated corporate activity in the sector, with proposals outstanding for AdBri, Alumina, Boral, and CSR. Three of the four companies have exposure to engineering construction expenditure, where we're reasonably optimistic about the outlook. Separately, Alumina has suffered some setbacks, and Alcoa's approach is arguably opportunistic.

Basic Materials Lagging on Concerns of Slowing Economic Growth



Source: Morningstar. Data as of March 28, 2024.

Sector Close to Fairly Valued on Average



Source: Morningstar. Data as of March 28, 2024.

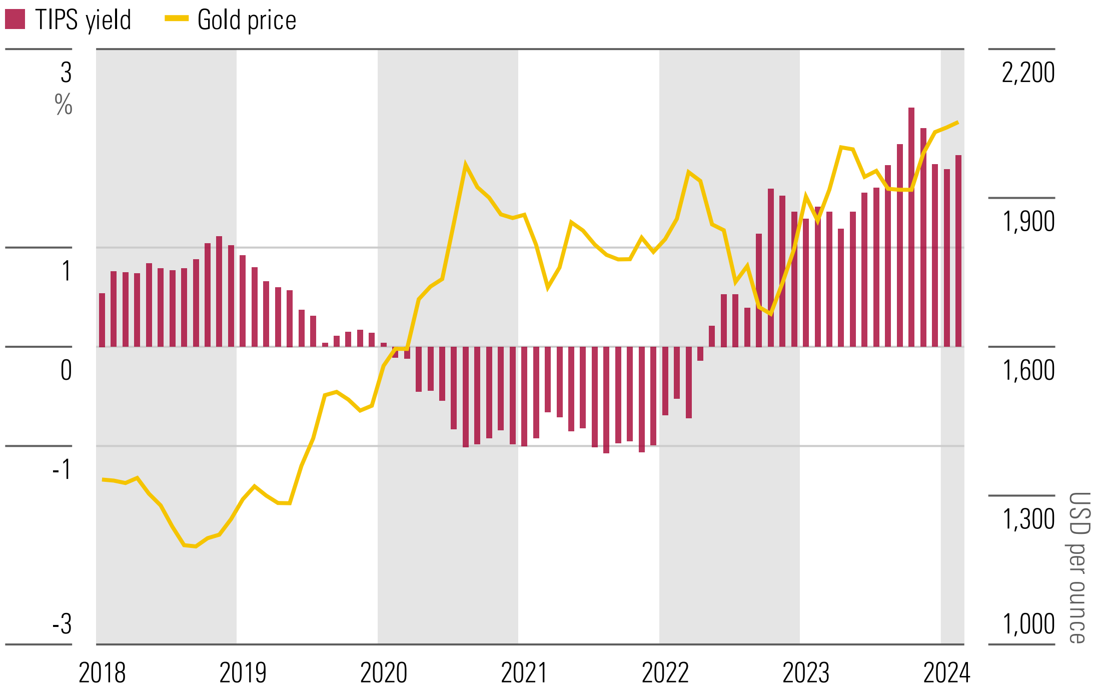
Miners Close to Fairly Valued on Average, but a Wide Divergence

While inflation remains above central bank targets, optimism that interest rate increases are nearly done means gold prices are rising as real interest rates fall. Increasing geopolitical tension is also a tailwind for gold.

China's steel production is high, but steelmakers are losing money, symptomatic of weak end user demand. A steel production cap is possible and would also be negative for iron ore. Steel demand from property and infrastructure development in China is key.

Gold Prices Rising on Expectations of Falling Interest Rates

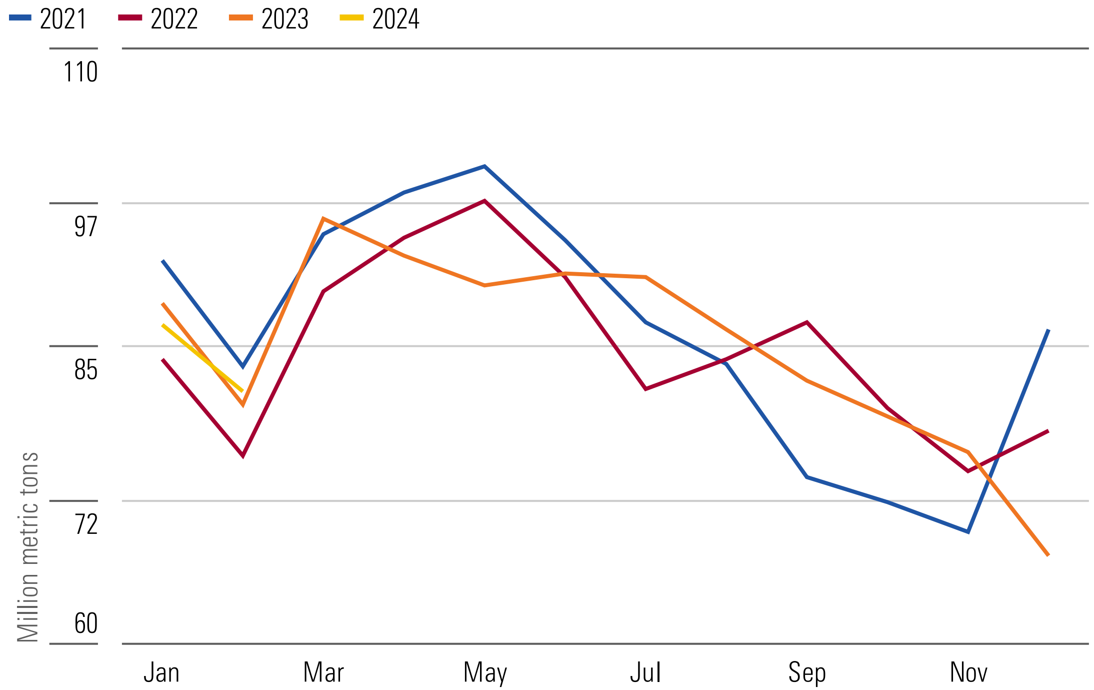
Gold price and yield on Treasury Inflation-Indexed Securities, or TIPS.



Source: Federal Reserve, Morningstar. Data as of Feb. 29, 2024.

China's Steel Production Still Strong Despite Headwinds

Monthly China steel production (million metric tons).



Source: World Steel Association. Data as of Feb. 29, 2024.

Basic Materials

Company (Ticker)		Rating
Newmont (NEM)		★★★★★
Price	**Fair Value**	**Uncertainty**
AUD 53.71	AUD 76.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 63.35	None	Standard

No-moat-rated Newmont acquired Australian Newcrest in November 2023. The acquisition extends Newmont's lead over Barrick Gold as the world's largest gold miner. We forecast 2024 attributable sales of roughly 6.9 million ounces of gold. The combined company also has material copper production and numerous development projects we think valuable and likely overlooked. We think Newmont's shares are undervalued given its weak sales volumes and elevated unit costs in 2023, and disappointing 2024 guidance. However, we think sales volumes are likely to recover and unit cash costs to commensurately fall to drive some improvement in Newmont's aggregate position which is currently around the middle of the cost curve.

Company (Ticker)		Rating
Nufarm (NUF)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 5.50	AUD 7.70	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 2.10	None	Standard

Australian agricultural innovator Nufarm is on track to meet fiscal 2026 revenue aspirations of more than AUD 4.6 billion, up 30% on fiscal 2023's AUD 3.5 billion. This captures new crop protection product introductions and accelerated seed technology growth via Omega-3 canola and bioenergy developments. Nufarm's modest dividend doesn't particularly appeal, but the stock is a growth story. We project a five-year EPS CAGR of 24% for an attractive prospective mid-single-digit P/E by fiscal 2028. Nufarm's top 22 pipeline crop protection projects have all passed proof of concept and target an addressable market of around USD 6.6 billion. As for seed technologies, Omega-3 canola revenue is growing fast and bioenergy carinata planting for biofuel offtake is agreed with BP.

Company (Ticker)		Rating
Iluka Resources (ILU)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 7.21	AUD 9.50	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 3.09	None	Exemplary

China's attempts to support its ailing property market aren't yet flowing through to increased zircon demand, though no-moat Iluka has had a solid start to 2024 zircon sales. While titanium dioxide demand is also muted, downstream inventory is low, and Iluka's customers believe the worst may have passed. We see significant supply challenges for zircon and high-grade titanium dioxide feedstocks longer-term given declining grades at existing mines and a general lack of investment in new mines. This bodes well for Iluka when demand recovers, as we think likely in the future. Its strong balance sheet—net cash was about AUD 230 million at the end of December 2023—gives us confidence it can ride out the cyclical downturn. And given the strategic nature of its Eneabba rare earths refinery to Australia and the developed world, we think additional government support is likely, thereby reducing the downside from inflation in capital expenditure to build the refinery.

Source: Morningstar. Data as of March 28, 2024.

Communication Services

Brian Han | brian.han@morningstar.com

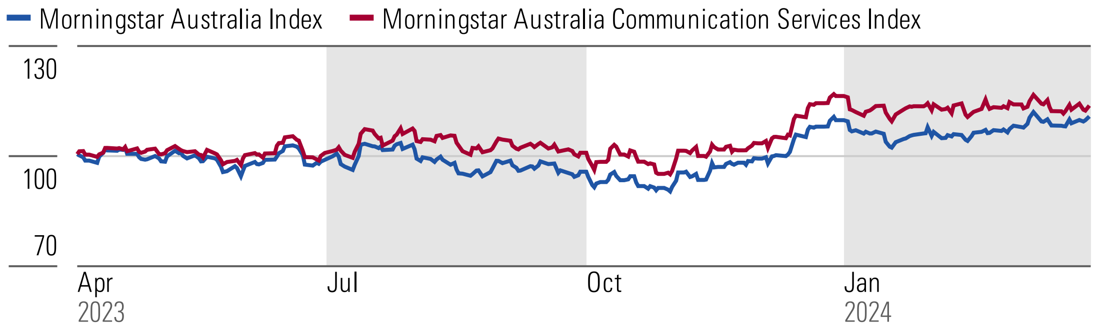
Mobile Strong and Fixed-Line Weak in Telecoms While Media Struggles

The telecom sector is travelling an industry dynamics dual track. On the plus side, mobile trends are positive. Average revenue per user is rising, as Telstra, Optus, and Vodafone lift prices in Australia, as do Spark and Vodafone in New Zealand. Postpaid ARPU for Telstra, Optus, and Vodafone improved 5%, 1%, and 10%, respectively, in the December half of 2023. Postpaid ARPU also increased 1% for Spark in New Zealand, whose mobile service revenue jumped 6% in the December half of 2023.

On the negative side, fixed-line broadband competition is intense, and legacy voice and service-related businesses are structurally challenged. Consequently, cost cuts and technology-driven efficiency gains are key for all telecom managers to reduce the drag of fixed-line and legacy businesses on ascending mobile earnings.

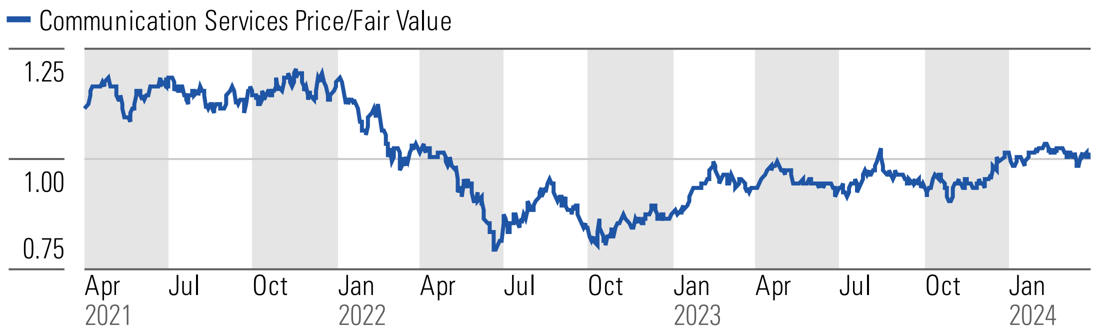
Advertising market weakness is persisting, given challenging economic conditions and weak marketer sentiment. Structural pressures on traditional media audiences show no sign of easing as digital entertainment alternatives proliferate. Against this backdrop, media groups are doing a few things. First, cut costs and enhance productivity using technology. Second, preserve balance sheet strength until the advertising cycle turns. Third, better monetize users of their own new media properties, such as video streaming, digital audio, and online subscriptions. Improved data analytics, audience measurement, and judicious marketing of their multichannel platforms are key to increasing traditional media companies' relevance to marketers.

Steady Telecoms Partly Diluted by Media Weakness



Source: Morningstar. Data as of March 28, 2024.

Selective Value in Telecom, Media Mostly Cheap



Source: Morningstar. Data as of March 28, 2024.

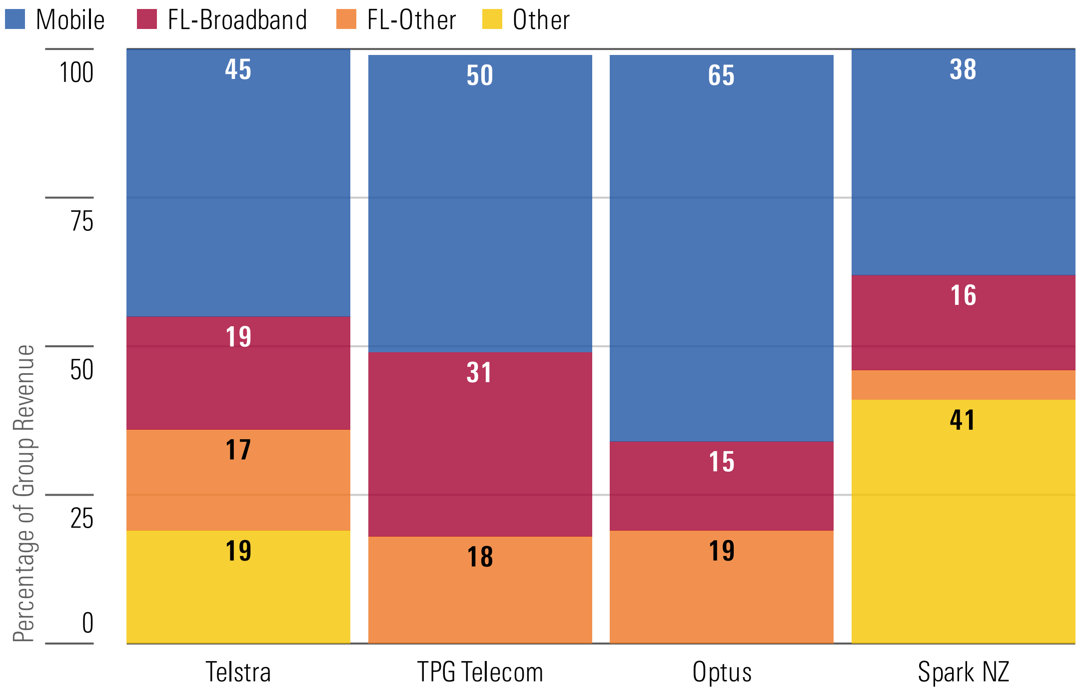
Mobile Strong and Fixed-Line Weak in Telecoms while Media Struggles

Low-margin broadband and structurally challenged legacy businesses are hurting telecom groups. Luckily, mobile is entering a golden era of higher prices, ARPU, and margins as it transitions to 5G and becomes the largest revenue source.

With advertising showing few signs of cyclical recovery, media companies are focusing on cost control and efficiency gains. Fortunately, balance sheets are solid across the board, ensuring all listed media groups are well-equipped to survive the downturn.

Golden Era of Mobile Outweighs Fixed-Line Weakness

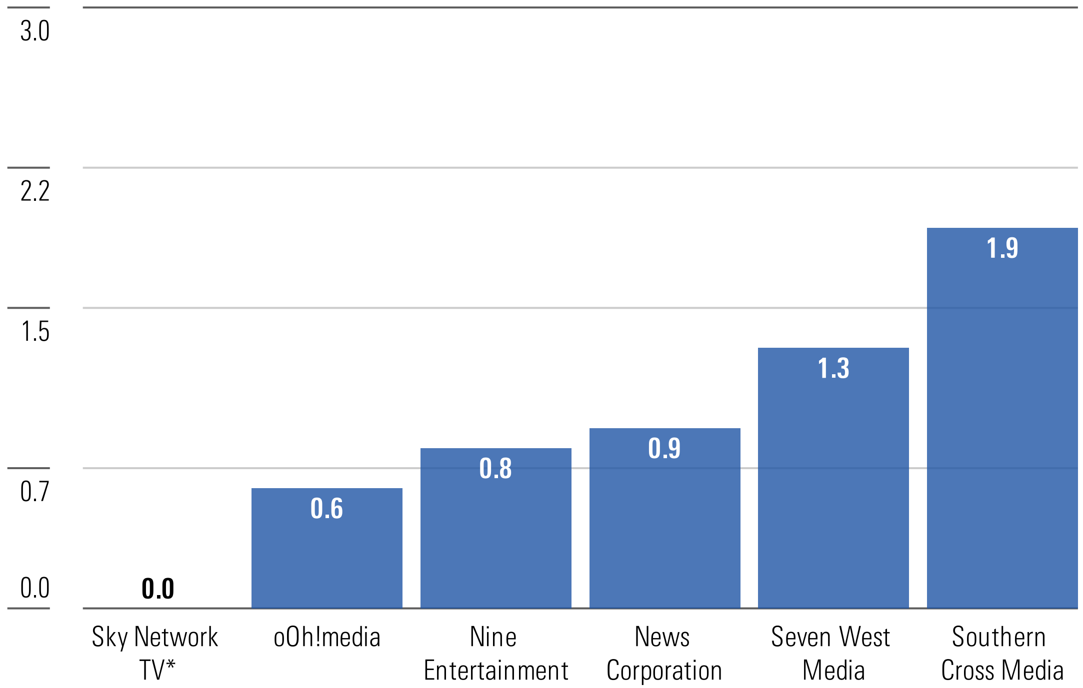
Revenue split by business (last 12 months).



Source: Company reports and Morningstar. Data as of December 2023.

Media Balance Sheets Well-Set for Cyclical Weakness

Net debt/EBITDA.



* Net cash

Source: Company reports and Morningstar. Data as of December 2023.

Communication Services

Company (Ticker)		Rating	
Nine Entertainment (NEC)		★★★★	No-moat Nine Entertainment spans advertising and entertainment in Australia. Exposure to the structurally challenged free-to-air television advertising market is complemented by a broadcast streaming offering, a subscription video-on-demand service, and 60% ownership of the digital real estate business Domain. The publishing unit has transformed to become a digital-first news provider, decreasing exposure to traditional print media. Business diversification and a solid balance sheet position Nine to weather the advertising downturn. The ability to flex costs and utilize efficiencies is not at the expense of the competitive position, with Nine's audience, revenue share, and subscriptions growing across all businesses.
Price	**Fair Value**	**Uncertainty**	
AUD 1.71	AUD 2.70	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.76	None	Standard	

Company (Ticker)		Rating	
TPG Telecom (TPG)		★★★★★	Shares in narrow-moat TPG Telecom screen as the most attractive under our Australia and New Zealand telecom coverage. We see catalysts for earnings recovery on several fronts and forecast an adjusted EBITDA CAGR of 5% over the next five years. Benefits from a more rational mobile market are coming through, augmented by fixed wireless and the corporate division growth. Transformation program cost outs are progressing slower than we had anticipated, curtailing near-term earnings growth amid the current 5G rollout-related capital expenditure hump. An overhang of shareholdings out of escrow after the Vodafone merger is also causing some investor concerns. However, these risks are more than reflected in the share price in our view, especially given the longer-term tailwinds from the transition to 5G and as transformation benefits are realized.
Price	**Fair Value**	**Uncertainty**	
AUD 4.51	AUD 6.60	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 8.39	Narrow	Standard	

Company (Ticker)		Rating	
Telstra (TLS)		★★★★	There is a defensive appeal to narrow-moat Telstra's earnings. Over 60% of the group's underlying EBITDA is generated by the mobile telephony unit, benefiting from favorable industry tailwinds. Mobile prices and average revenue per user are rising as competition becomes more rational and operators refocus on extracting appropriate returns from their considerable 5G network investments. As the market leader in the concentrated three-player space in Australia, Telstra's mobile business is firing, with mobile margins now above 47%, up from 35% in fiscal 2021. Continuing structural and competitive pressures on Telstra's fixed-line and legacy voice-related businesses take some shine off the mobile renaissance. However, management is stepping up its cost-cutting and efficiency improvement initiatives.
Price	**Fair Value**	**Uncertainty**	
AUD 3.86	AUD 4.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 44.60	Narrow	Standard	

Source: Morningstar. Data as of March 28, 2024.

Consumer Cyclical

Angus Hewitt, CFA | angus.hewitt@morningstar.com

Johannes Faul, CFA | johannes.faul@morningstar.com

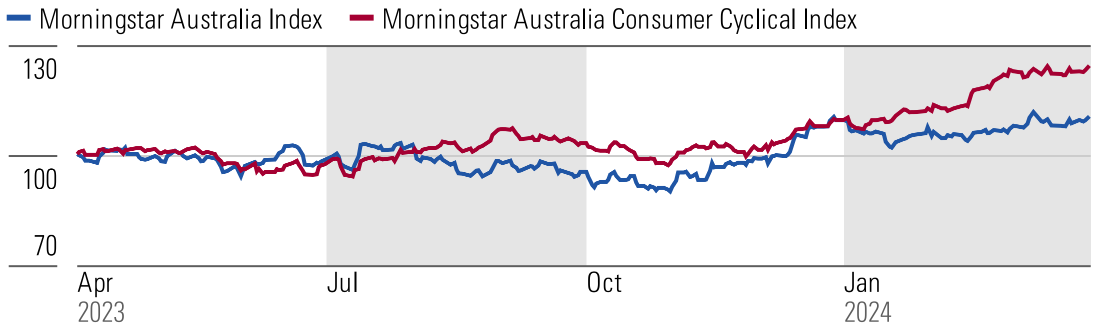
Sales Growth Unlikely to Return to Boom Levels

Talk of tax and interest rate cuts is driving a rally in discretionary retailers. These factors should improve the near-term outlook for household incomes and consumer spending, with cyclical retailers to benefit most. But we suspect the market expects a stronger recovery than is likely. Cyclicals currently trade at an average 6% premium to our fair value, although some value still exists.

While we expect retail to recover through fiscal 2026, we're not anticipating anything like the boom in the wake of the covid-19 pandemic, which was underpinned by pent-up demand, unprecedented fiscal stimulus, and emergency monetary policy settings. We think this rebound will look different. With supply constraints largely behind us, retailers no longer enjoy the supply-demand imbalance that bestowed significant pricing power during the pandemic. As discounting returns, we think gross profit margins will suffer. Rising labor costs could also temper any earnings recovery in fiscal 2025.

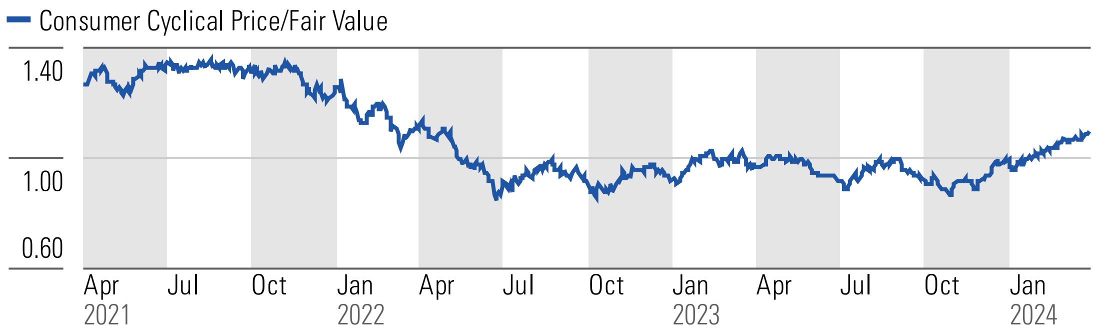
Operating restrictions, increased levies, and advertising limitations weigh on near-term gaming earnings. Exacerbating the regulatory pressure, weakness in consumer spending weighs on historically resilient categories like wagering and gaming machines. Casino operator Star is most at risk with an elevated chance of having to shut The Star Sydney with a second casino inquiry in New South Wales underway. But we think pessimism is overblown at New Zealand operator SkyCity, where there are fewer regulatory risks. Investors are likely overlooking the casino's strong earnings potential.

Cyclicals Have Beat the Market as Optimism Returns



Source: Morningstar. Data as of March 28, 2024.

But Cyclicals Probably Price in too Much Upside



Source: Morningstar. Data as of March 28, 2024

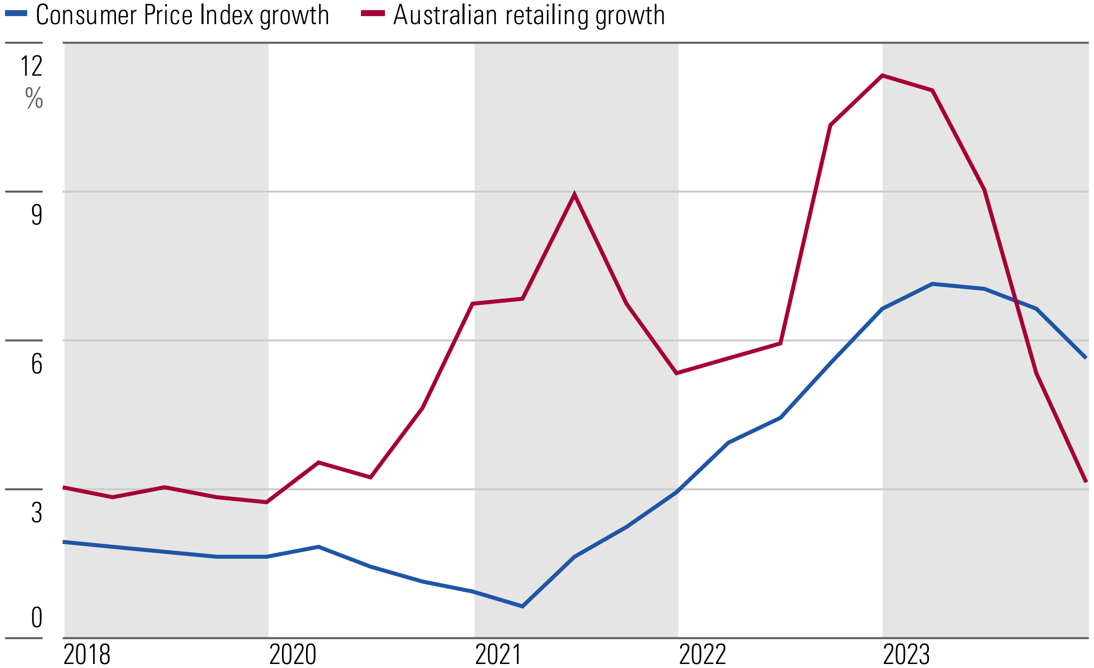
Sales Growth Unlikely to Return to Boom Levels

Inflation and population growth typically underpin retail sales. But this relationship has broken down in recent quarters. Inflation growth is now outstripping retail sales, meaning volumes shrunk in the 12 months to December 2023.

With supply bottlenecks largely in the past, we think retailers will compete more on price in the future. Cooling shelf prices and likely weak underlying demand will likely dampen near-term revenue growth and gross profit margins.

Volumes Negative With Sales Growth Below Inflation

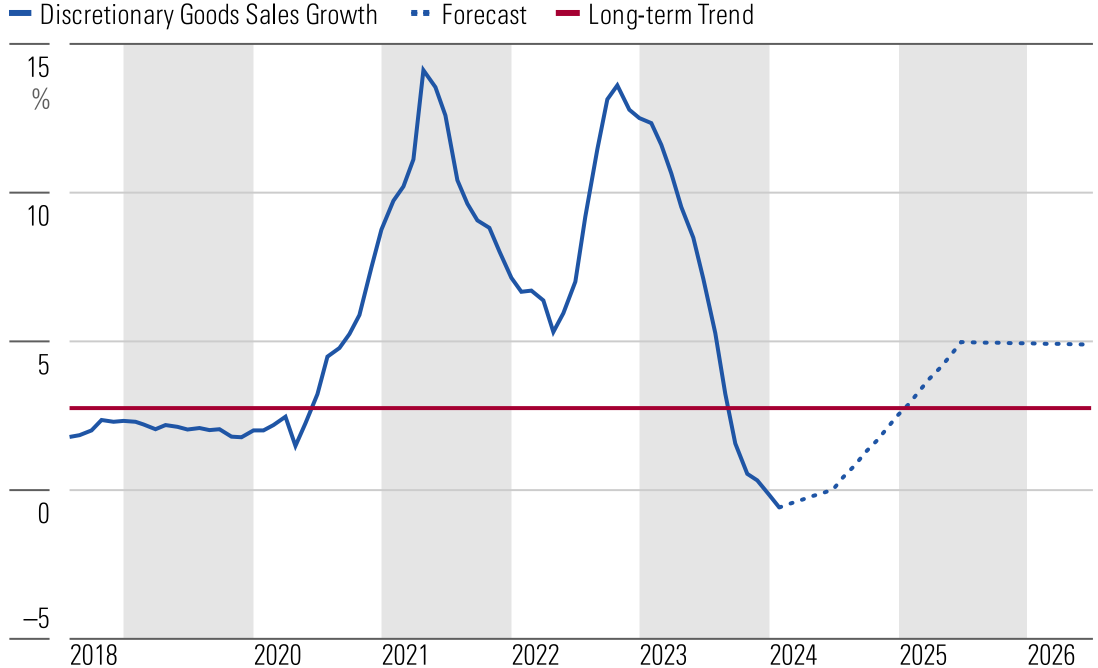
Annual CPI growth. Rolling 12-month retail sales growth versus the PCP.



Source: Australian Bureau of Statistics. Data as of Dec. 31, 2023

Discretionary Sales Growth is Below Trend

Discretionary goods retailing sales growth, excluding restaurant sales.



Source: Australian Bureau of Statistics, Morningstar. Note: Long-term trend 10-year CAGR to June 2019. Data as of Jan. 31, 2024.

Consumer Cyclical

Company (Ticker) SkyCity Entertainment Group (SKC)		**Rating** ★★★★★	Regulatory headwinds and weaker earnings weigh on SkyCity shares. A short-term suspension of the New Zealand casino license is likely; the Adelaide casino license is under review, and there is significant uncertainty around the AUSTRAC civil penalty against SkyCity Adelaide. Regulatory and compliance costs are up sharply, much of which we expect to be permanent. The weaker discretionary environment also weighs on the mass market consumer—notably in gaming machine play. But we think pessimism is overblown. We expect a recovery from the current cyclical downturn and for the core Auckland property to capitalize on the continued recovery in New Zealand tourism. Capital spending is also set to ease materially as about NZD 1 billion in major projects across Auckland and Adelaide near completion.
Price AUD 1.89	**Fair Value** AUD 3.10	**Uncertainty** High	
Market Cap (bil) AUD 1.45	**Economic Moat** Narrow	**Capital Allocation** Standard	
Company (Ticker) Domino's Pizza Enterprises (DMP)		**Rating** ★★★★	Domino's Pizza is a high-quality company with a long growth runway. We forecast a 24% earnings CAGR for the next five years, underpinned by its global store rollout. Domino’s sales growth can be volatile, and the share price tends to reflect near-term trading conditions rather than longer-term potential. The near-term outlook is uncertain and hinges on a moderation in elevated inflation. However, we believe Domino’s growth potential is unaffected by near-term woes. We forecast the network to expand to 6,200 stores by fiscal 2033, from some 3,800 as of June 2023, below management’s long-term target of 7,100. Hitting management's target would lift our valuation by 11%.
Price AUD 43.39	**Fair Value** AUD 61.00	**Uncertainty** High	
Market Cap (bil) AUD 3.90	**Economic Moat** Narrow	**Capital Allocation** Exemplary	
Company (Ticker) Bapcor (BAP)		**Rating** ★★★★	Negative sentiment amid both short-term headwinds and structural changes facing the automotive industry means the fundamental strength and resilience of Bapcor’s automotive parts business is underappreciated. A slowdown in discretionary spending weighs on retail in the near term, new management needs to prove itself, and the proliferation of electric vehicles is a long-term obstacle for the trade business. However, we think near-term pessimism overlooks fundamental resilience in automotive spare parts, and Bapcor is likely to successfully adapt to the gradual technological transition.
Price AUD 6.31	**Fair Value** AUD 8.00	**Uncertainty** Medium	
Market Cap (bil) AUD 2.14	**Economic Moat** Narrow	**Capital Allocation** Exemplary	

Source: Morningstar. Data as of March 28, 2024.

Consumer Defensive

Johannes Faul, CFA | johannes.faul@morningstar.com

Angus Hewitt, CFA | angus.hewitt@morningstar.com

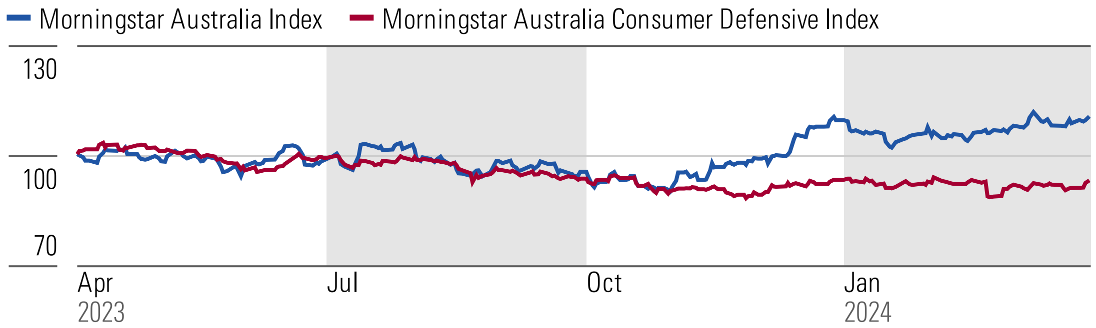
Defensives Sales Proving Unsurprisingly Resilient

Australia's supermarket chains face heightened public scrutiny. Concerns surround the grocery industry's high concentration and limited competition, which lead to excessive shelf prices and squeezed suppliers. However, we don't expect material implications from the Australian Competition and Consumer Commission's inquiry into the supermarket sector.

Food retailing is more competitive today than a decade ago. We estimate the combined market share of Coles and Woolworths is one percentage point lower than in fiscal 2018, while discounter Aldi and warehouse club Costo increased their shares. Supermarket EBIT margins haven't increased much after adjusting for accounting changes, despite huge investment in automation and other efficiency initiatives. We don't think the supermarkets are price gouging. Recent spikes in food price inflation are a global phenomenon. Peak food inflation exceeded Australia's in New Zealand, the US, the UK, and the Euro area. And Australian food price inflation is retreating from its highs; at about 4%, it is less than half the peak of 10% in December 2022.

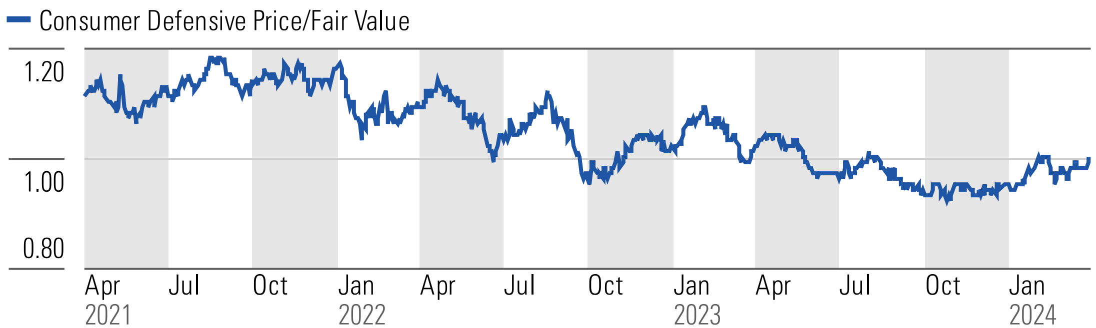
With cost-of-living pressures, consumers are trading down, and supermarkets are likely to pick up share at the expense of restaurants and cafes. But within this category, we see quick service restaurants as the least exposed to the headwinds. With a focus on value perception, Domino's Pizza and Collins Foods' KFC restaurants should fare better than independent eateries. A mix shift to supermarkets weighs on suppliers like Inghams, as we think the balance of power between suppliers and the major supermarkets lies firmly with the supermarkets, making it a less lucrative channel.

Defensives Have Underperformed the Market as Optimism Creeps Into Cyclicals



Source: Morningstar. Data as of March 28, 2024.

Most Defensives Are Trading at About Fair Value, With Some Bargains



Source: Morningstar. Data as of March 28, 2024.

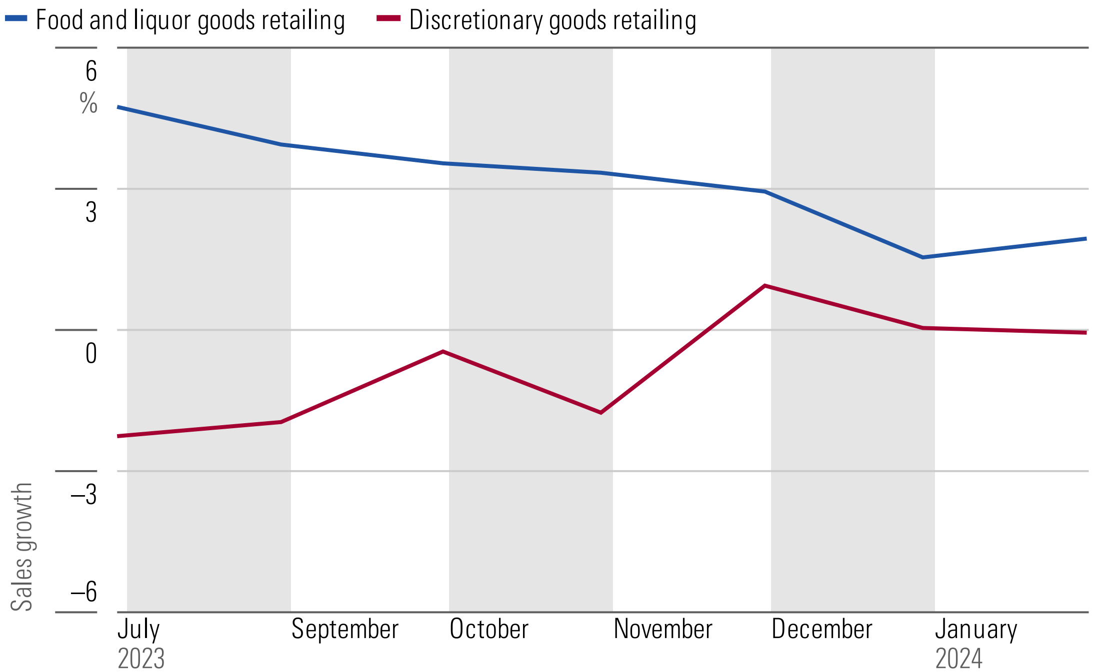
Defensives Sales Proving Unsurprisingly Resilient

We expect cyclicals sales to underperform defensives in the near term. But from fiscal 2025, we expect a resurgence in cyclicals to underpin total retailing sales with mid-single-digit growth compared with our estimate of only 2% growth in fiscal 2024.

Supermarkets are picking up share at the expense of restaurants and cafes, this time due to cost-of-living pressures. We expect this to continue with downstream headwinds for suppliers, given supermarkets are generally a less profitable channel.

Defensive Spending Growing Faster Than Discretionary

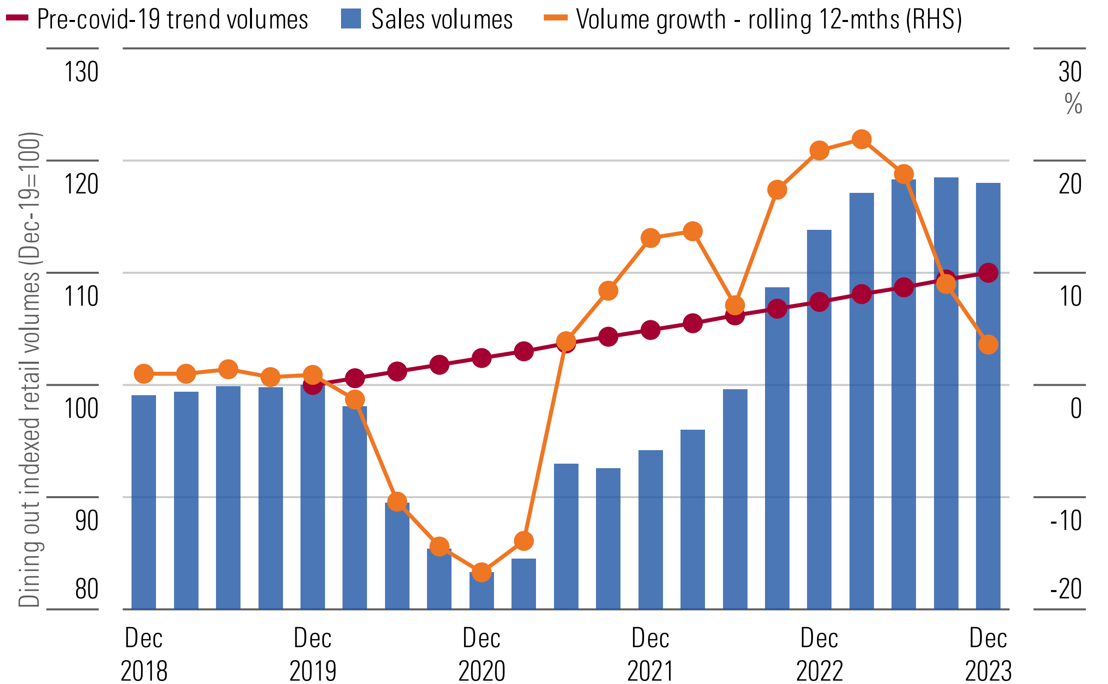
Monthly seasonally adjusted sales growth versus the PCP.



Source: Australian Bureau of Statistics. Note: Discretionary sales excluding cafes, restaurants, and takeaway. Data as of Jan. 31, 2024.

Weak Eating Out a Boon for Supermarket Volumes

Indexed dining out sales volumes on a rolling 12-month basis.



Source: Australian Bureau of Statistics. Data as of Dec. 31, 2023.

Consumer Defensive

Company (Ticker)		Rating
IDP Education (IEL)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 17.92	AUD 24.50	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 4.99	Narrow	Exemplary

We expect IDP Education to benefit from the long-term demand for higher education. First-half fiscal 2024 adjusted net profit after tax increased a strong 23% driven by impressive pricing power and significant market share gains in student placement. However, English language testing volumes are weak as tighter visa settings deter test-takers, particularly in India. While regulatory changes will likely see reduced near-term demand, the fragmented market is large with less-reputable players likely worse off. IDP is a high-quality operator, boasting superior average student visa approval rates, and is a part-owner of one of the world's most recognized and trusted certifiers of English proficiency.

Company (Ticker)		Rating
a2 Milk (A2M)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 6.25	AUD 7.40	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 4.52	Narrow	Standard

There is much to like about a2 Milk, notably in China, the key battleground. A2's share of Chinese-language-labeled infant formula is growing, supported by a2 Platinum's solid brand health, underpinning its narrow moat. Granted, there are hurdles. Births in China are declining and the tailwind of consumers preferring foreign brands no longer blows. Offsetting the falling number of births in China, we anticipate further premiumization and for a2 Milk to capture market share. We forecast 8% annual revenue gains to fiscal 2028 as channel inventory levels normalize and market share increases. We also see improved sales of higher-margin English-label products and operating leverage from higher revenue.

Company (Ticker)		Rating
Endeavour Group (EDV)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 5.51	AUD 6.10	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 9.87	Wide	Exemplary

We think the market's concerns regarding regulatory risk are overdone. Liquor demand is defensive and likely underpinned by inflation and population growth. The premiumization trend also likely counterbalances the structural decline in per capita liquor consumption. We forecast gaming restrictions proposed by the Victorian government to weigh on Endeavour's earnings, and we expect New South Wales to follow suit. But we estimate the combined impact to be moderate with our forecast for EPS to fall 1% in fiscal 2025. From fiscal 2026, we expect group profit to increase at an average rate of 6% to fiscal 2033.

Source: Morningstar. Data as of March 28, 2024.

Energy

Mark Taylor | mark.taylor@morningstar.com

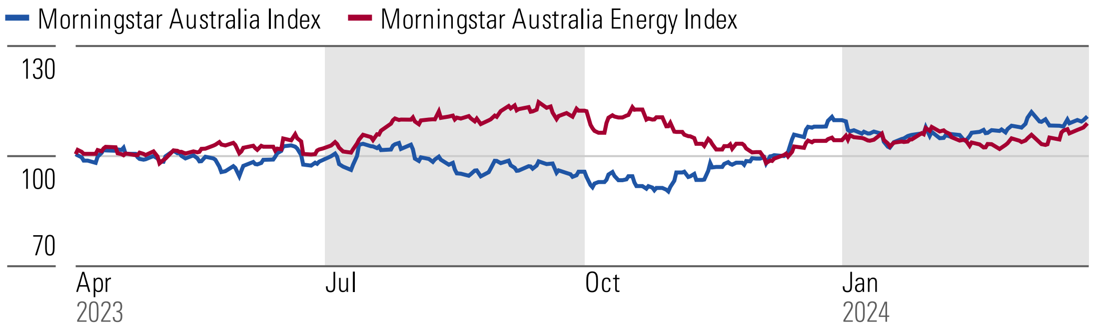
We Expect Global LNG Demand Growth to Accelerate

Liquefied natural gas is of prime importance for gas-heavy Australian upstream energy producers like Woodside and Santos. In addition to direct price exposure, LNG exports also influence the domestic gas price. Since 2010, global LNG demand has risen about 4% annually. We expect an acceleration to 7% annually between 2022 and 2027. China is the likely main demand engine, leading Asian consumption to rise at a 9% clip. Environmental considerations, particularly switching from coal, are a major factor.

Coal makes up 57% of China's energy mix but only 12% in the United States. While we expect the US LNG supply to increase significantly in the next few years, the strong demand outlook leaves plenty of room for Australian players' expansion projects. We expect the US LNG export capacity to be over 200 million metric tons per year by 2030, up from 93 million metric tons in 2022. However, this should be absorbed by global LNG demand increasing to 550 million metric tons from 370 in 2022.

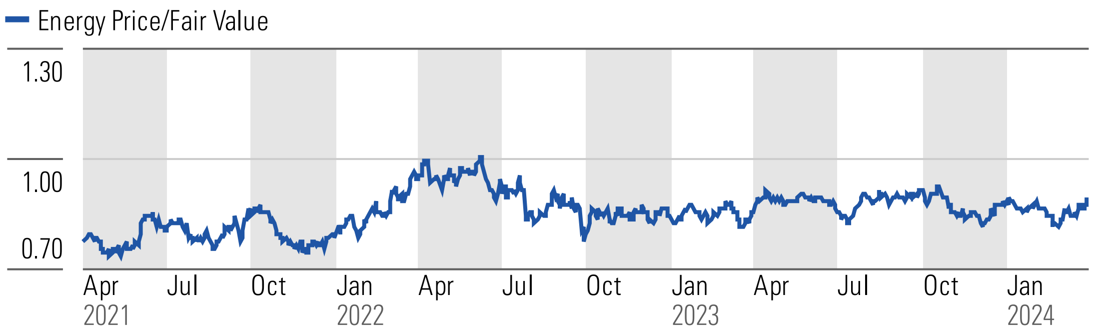
Our midcycle LNG price forecast remains USD 8.40 per mmBtu from 2026, founded on our estimate of the marginal cost of supply and equivalent to a standard 14% of our USD 60 per barrel midcycle Brent crude forecast. Brent is now about 40% above our midcycle near USD 85. Even the midcycle is a healthy price for Australian exploration and production companies. We expect Australian E&Ps to enjoy a multidecade growth runway and robust free cash flows, with much of this likely to go to shareholders via buybacks and dividends. Buybacks currently make sense, given deeply undervalued shares. We think the demand for high-energy, low-ash thermal coal is likely to persist. Along with likely restrained supply, this is supportive of long-term prices.

Energy Sector Has Underperformed in Past Six Months



Source: Morningstar. Data as of March 28, 2024.

Energy Stocks Are Undervalued Versus the Broader Market



Source: Morningstar. Data as of March 28, 2024.

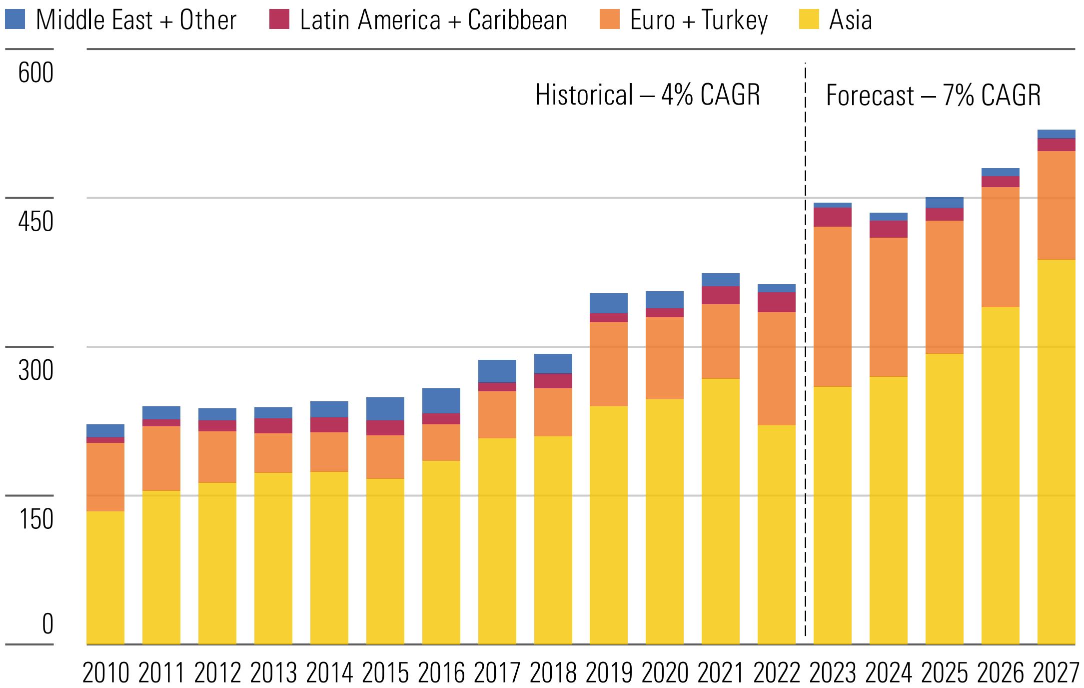
We Expect Global LNG Demand Growth to Accelerate

Despite near-term economic concerns, Chinese LNG demand should prove robust in support of Asian demand overall. Environmental considerations drive a switch away from coal.

Spot and futures prices are above our midcycle levels of USD 60 per barrel for Brent crude and USD 8.40 per million Btu for Asia LNG. If this persists, LNG producer earnings could be somewhat better than our base case.

Global LNG Demand Set to Accelerate

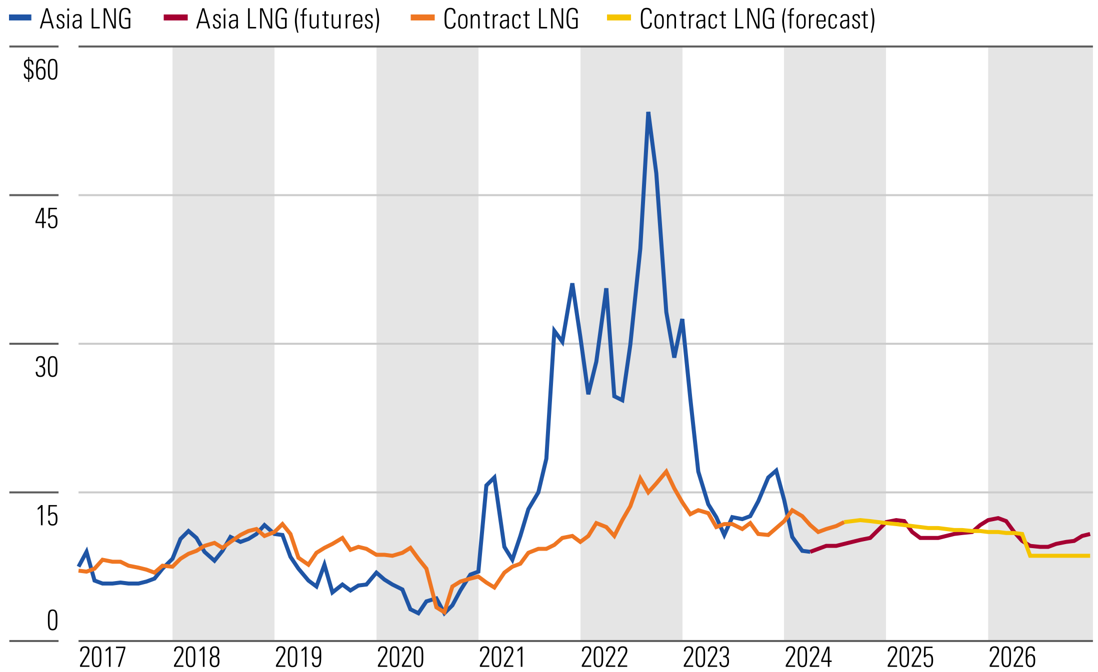
LNG demand – million metric tons.



Source: Morningstar, EIA, IEA, IMF, IGU. Forecasts as of Sept. 22, 2023.

LNG Futures Lag the Brent-Referenced Contract but Are Above Midcycle

LNG price – USD per mmBtu.



Source: Meti/investing.com/CME. Forecasts as of March 25, 2024.

Energy

Company (Ticker)		Rating
Santos (STO)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 7.75	AUD 12.30	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 25.17	None	Standard

We don't think Santos is being sufficiently credited for new oil and gas developments underway. A solid balance sheet and competitive cash operating costs, including a modest freight advantage to Asia, mean the company is well placed in cyclical price downturns. That said, less favorable capital costs preclude a moat. But crude and LNG prices are healthy now, and gas has a growing role in fueling the world, including complementing increasing renewable energy production. We forecast group hydrocarbon volume growth of 85% by 2028 from 2023, chiefly from the Pikka oilfield development in Alaska and the reinvigoration of Darwin LNG's output with the Barossa gas field development. We forecast a strong five-year EBITDA CAGR of 11.9% to USD 6.3 billion by 2028 versus 2023.

Company (Ticker)		Rating
Woodside Energy (WDS)		★★★★★
Price	**Fair Value**	**Uncertainty**
AUD 30.50	AUD 45.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 57.91	None	Standard

Woodside has meaningful developments underway, including Scarborough/Pluto T2 LNG and Sangomar oil. While net production growth is smaller than Santos', the increase is regardless material for returns given capital efficiency. We expect returns on invested capital to improve after 2026 with the start of Pluto T2 and to exceed WACC before the end of the decade. We credit group production growing 15% by 2028 versus 2023. Woodside's balance sheet is conservatively geared in support of a strong 80% dividend payout ratio and healthy, fully franked yield, despite capital expenditures. Woodside has some lesser elements of an infrastructure play, given LNG processing trains could treat third-party gas if the circumstance dictated.

Company (Ticker)		Rating
Whitehaven Coal (WHC)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 7.10	AUD 9.50	Very High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 5.94	None	Standard

Whitehaven continues to be penalized for ESG concerns. We think its purchase of two metallurgical coal mines from BHP is a good one, diversifying its production to roughly half thermal coal and half metallurgical coal. Debt to help finance the purchase is manageable, though returns to shareholders are likely to be constrained until it is repaid. New coal supply is restrained, affected by ESG concerns and opposition from regulators, which could bring longer-term price upside. In our view, demand for metallurgical coal for use in steelmaking is likely to persist, with alternative green steel technologies unlikely economic at scale for decades. We also think demand for Whitehaven's high-quality thermal coal is likely to be strong for at least the next decade, especially from Southeast Asia. High-quality thermal coal meets the energy needs of countries such as Japan and South Korea while meeting emissions targets under various international agreements.

Source: Morningstar. Data as of March 28, 2024.

Financial Services

Nathan Zaia | nathan.zaia@morningstar.com

Shaun Ler | shaun.ler@morningstar.com

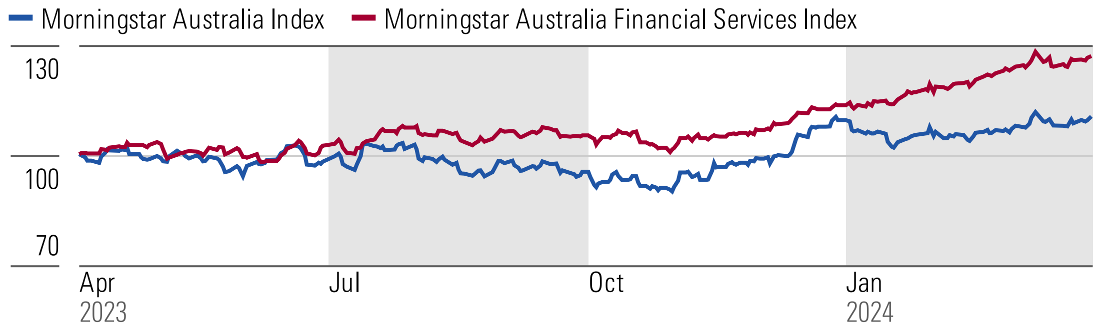
Lower Cash Rate Tailwind Sparks Rally

For the first time in a while, the big four banks are no longer cheap, rallying strongly on the outlook for interest rates to peak. There were no nasty surprises in recent results. Margins declined, but we don't think the trajectory will continue as it would mean subpar returns on equity for the whole industry. There are signs of less aggressive mortgage and deposit pricing, which we expect to be more pronounced once refinancing activity slows and the term funding facility is repaid. Bad debts are below long-term averages, and the potential for a short spike becomes less likely if the RBA lowers the cash rate. Thankfully, the fixed-rate loan cliff is so far shaping up to be a manageable event.

The earnings outlook for general insurers, IAG Group and Suncorp is positive. Higher claims are being matched with higher premium rates, while higher cash rates lift investment income on policyholder and shareholder funds. Investment income is likely to peak in fiscal 2024 but should remain well up on lows endured when interest rates were near zero. We prefer narrow-moat-rated insurance brokers Steadfast, AUB Group, and PSC Insurance Group over the insurers on valuation grounds, given they can ride industry tailwinds without taking on the underwriting risk.

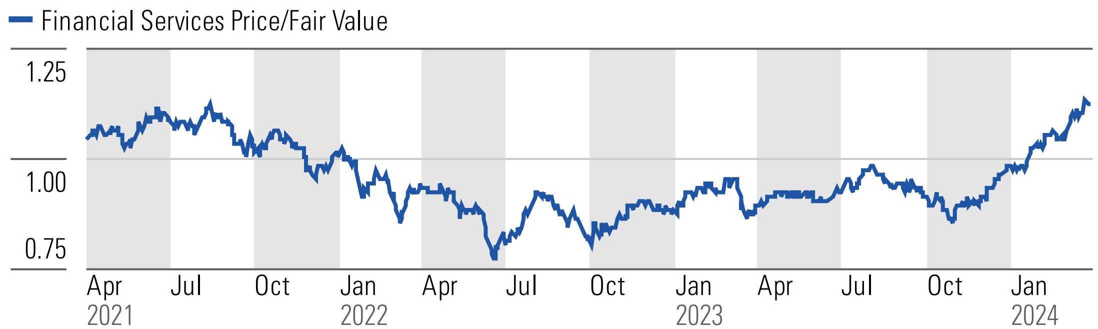
We believe stabilizing interest rates and the prospect of cuts in 2024 are likely to revive investor interest in growth assets. This should boost flows and support higher asset prices, helping to lift funds under management and earnings for most asset managers. Better-performing and more diversified firms, such as Challenger and Pinnacle, are likely to enjoy a swifter recovery in flows and earnings relative to their peers. Some others may need to enhance profitability through further cost-cutting measures.

More Dovish Interest Rate Rhetoric Supports Financials



Source: Morningstar. Data as of March 28, 2024.

Cheapest Names Are Now No-Moat-Rated



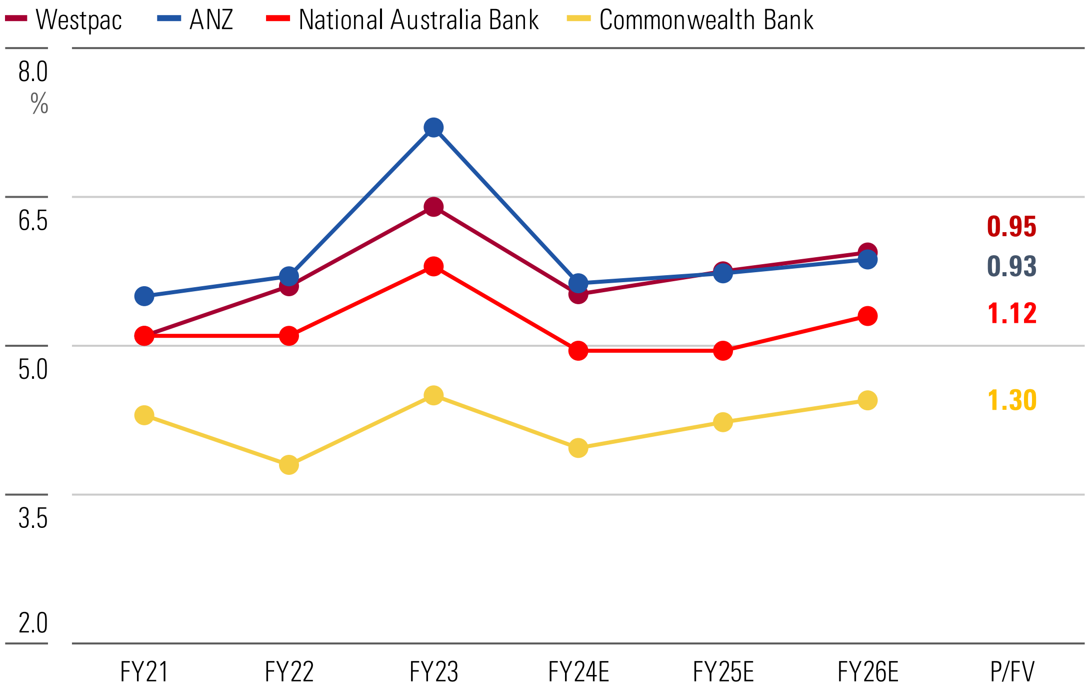
Source: Morningstar. Data as of March 28, 2024.

Lower Cash Rate Tailwind Sparks Rally

Despite major bank share prices rallying, on average, nearly 20% since December 2023, Westpac and ANZ Group traded at modest fair value discounts. In the medium term, we expect modest margin improvement and controlled bad debts to support dividend growth.

Modest Dividend Growth and Yield Attractive Above 5.5%

Forecast dividend/current share price.

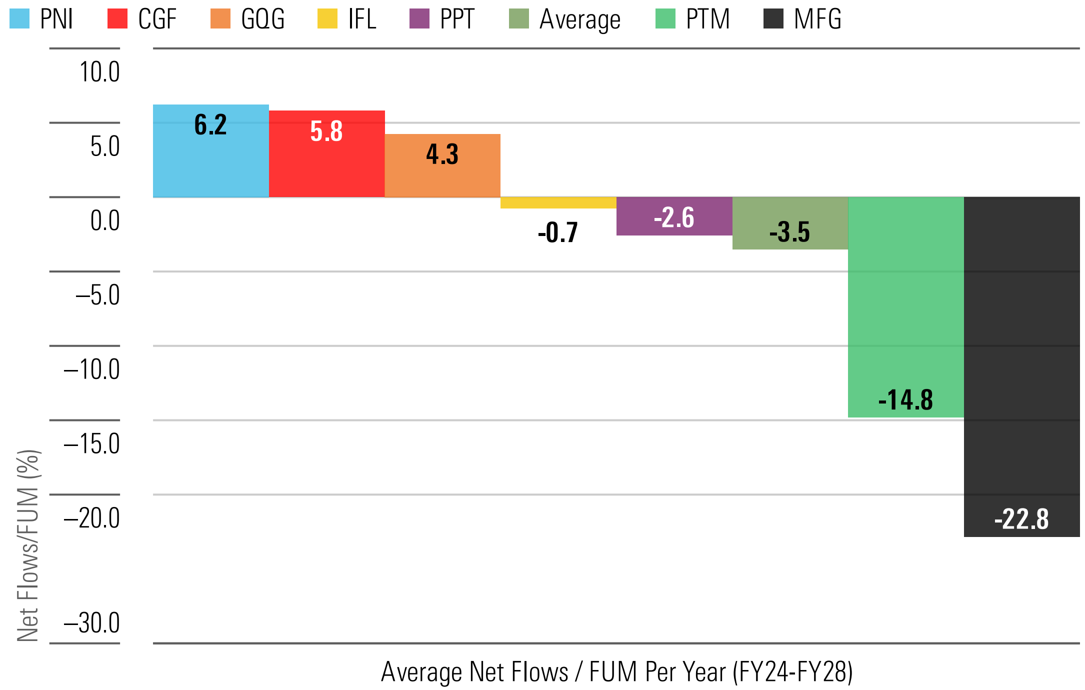


Source: Morningstar. Forecasts as of March 20, 2024

Better-performing, diverse, and recently established asset managers are poised to capture share from mature firms with lackluster performance and increase earnings faster. On average, we expect the traditional active managers we cover to be in outflows.

Recovering Industry Flows to Support Some, but Not All, Asset Managers

Projected net flow growth for asset managers.



Source: Morningstar. Forecasts as of March 11, 2024.

Financial Services

Company (Ticker)		Rating
AUB Group (AUB)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 29.74	AUD 34.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 3.22	Narrow	Standard

AUB is the second-largest general insurance broker network in Australia and New Zealand. Higher insurance premiums are an industrywide tailwind, with bolt-on acquisitions and operating leverage boosting earnings growth. We believe AUB has earnings upside from its market position, customer and insurer relationships, acquisition strategy, and organic growth opportunities. We expect the general insurance pie to expand with single-digit premium increases and for AUB to take share of the intermediated general insurance market. Ongoing marketing and operating efficiencies allow brokers to increase policies per client and service lower premium clients profitably. The investment in BizCover should attract smaller business clients.

Company (Ticker)		Rating
ASX (ASX)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 66.42	AUD 75.00	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 12.86	Wide	Poor

We view ASX as a natural monopoly providing essential infrastructure to Australia's capital markets. Despite the deteriorating regulatory environment, we believe the business is well supported by its wide economic moat based on network effects and intangibles. We also believe the energy transition is an underappreciated tailwind. We expect it to spark demand for resources in which Australia holds strong natural endowments, to deliver new listings, and a long tail of revenue from trading and clearing activity.

Company (Ticker)		Rating
Perpetual (PPT)		★★★
Price	**Fair Value**	**Uncertainty**
AUD 25.09	AUD 27.50	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 2.85	Narrow	Standard

We believe the market is overlooking narrow-moat Perpetual's likely earnings growth from better flows and cost reductions. While Perpetual's investments business is in net outflow, we believe improving investment performance supports new mandate wins and lower redemptions. Additionally, we anticipate improved flows for both wealth management and corporate trust with stabilizing interest rates and potential improvements in macroeconomic conditions. Both businesses face less competitive intensity than the investments business. Elsewhere, there is room for cost cuts by centralizing operations and removing duplication following the acquisition of Pendal. Perpetual itself is cycling off a period of elevated investment.

Source: Morningstar. Data as of March 28, 2024.

Healthcare

Shane Ponraj, CFA | shane.ponraj@morningstar.com

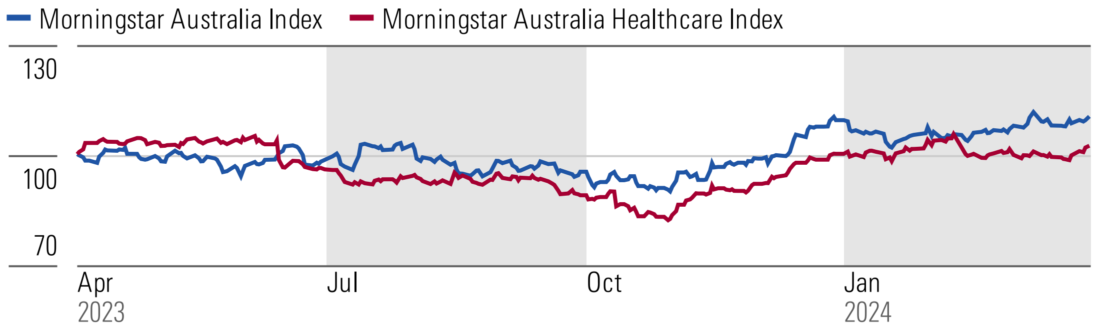
Buying Opportunities for High-Quality Healthcare Names

We view the healthcare sector as overvalued on average, but roughly half of our coverage still trades in 4- or 5-star territory. The most attractive names are ResMed, where we expect continued strong revenue growth, and Ramsay and Ansell where we see margins expanding. Meanwhile, Pro Medicus, Polynovo, Sigma, and Cochlear are our most overvalued stocks.

February reporting season for healthcare went largely as we expected. The market reacted favorably to Ramsay's result and negatively to Pro Medicus', but these, along with most other results, were close to our expectations. We changed our fair value estimates for just three healthcare names with an average reduction of 1%. The most significant change was decreasing our CSL fair value estimate 6% to AUD 310 given a negative readout for a pipeline drug. However, this is manageable given CSL's vast product portfolio.

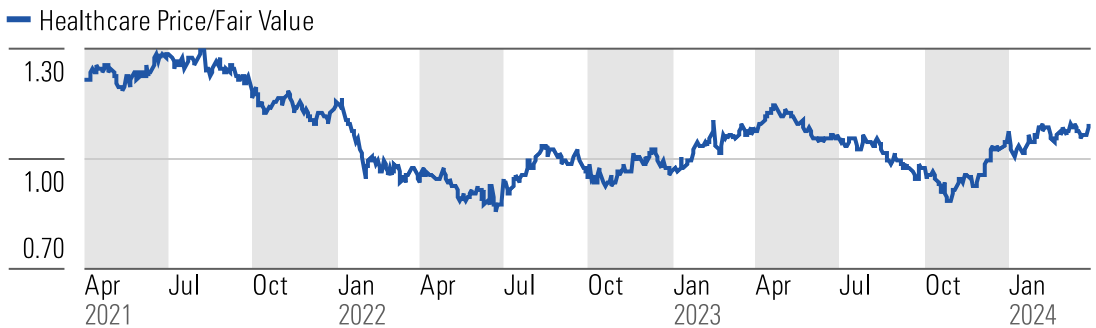
It has been a tough period for pathology providers Sonic, Healius, and ACL. Margins are under pressure from cost inflation in the main expenses, labor and rent, and from the cost to flex down operations as covid testing largely ceases. Pathology providers have limited pricing power to pass on rising costs for Medicare items. The industry is lobbying for indexation to resume after a 24-year hiatus. We could see a positive outcome in the federal budget in May 2024, but it is not guaranteed, and it may only apply to certain pathology items rather than the whole Medicare Benefits Schedule.

Healthcare Has Underperformed the Broader Market



Source: Morningstar. Data as of March 28, 2024.

Several Names Still Attract Despite Modest Overvaluation



Source: Morningstar. Data as of March 28, 2024.

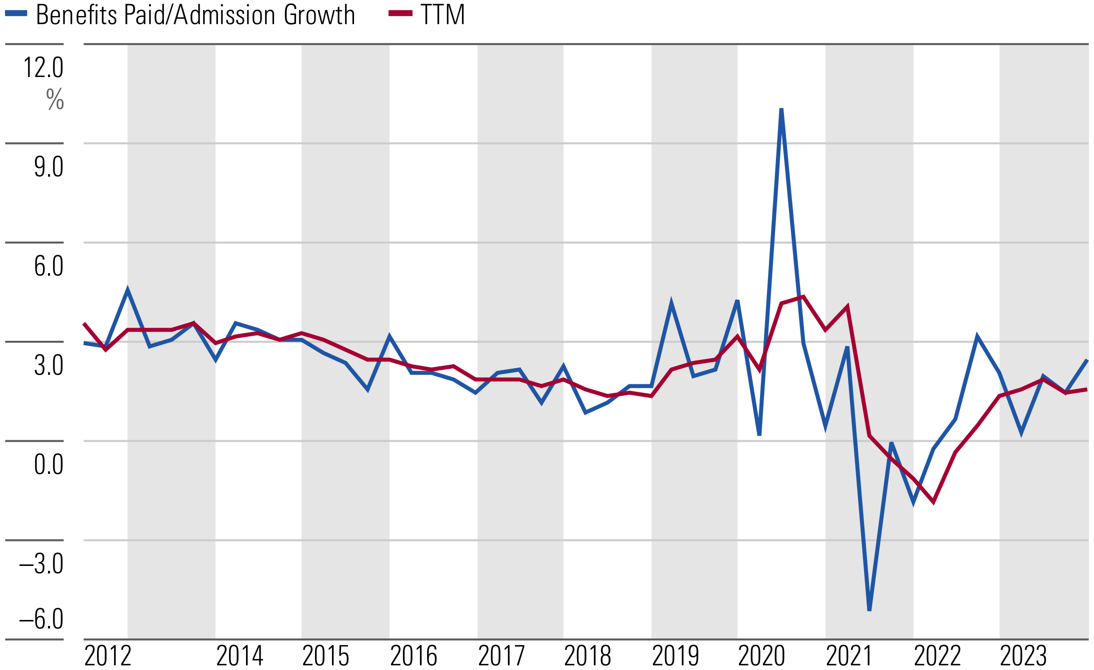
Buying Opportunities for High-Quality Healthcare Names

The recovery in average prices per hospital admission reflects increasing reimbursement rates with Australian health funds and a shift to more high-margin nonsurgical services. Ramsay is a key beneficiary.

ResMed's selling, general, and administrative expenses ticked down in the December quarter after the firm reduced its global workforce by 5% in October 2023. We expect ResMed to largely maintain the savings.

Recovery in Average Prices to Support Ramsay's Top Line

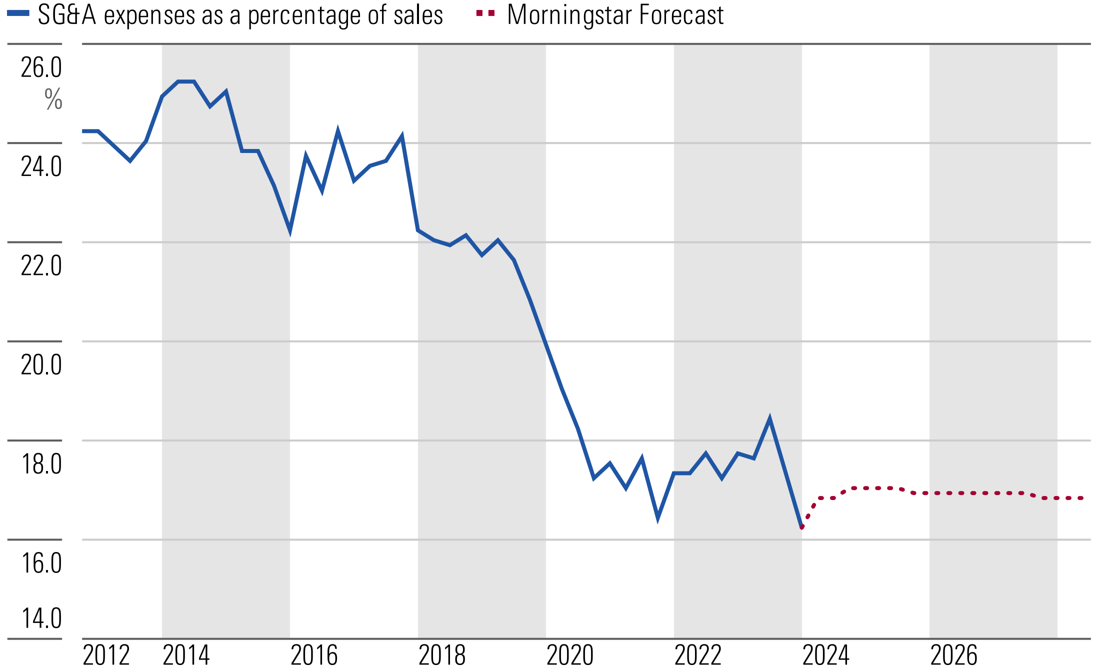
Australian private health insurance benefits paid per admission growth.



Source: APRA. Data as of Dec. 31, 2023.

Operating Leverage to Support ResMed's Margins

Selling, general, and administrative expenses as percentage of sales revenue.



Source: Morningstar, Company filings. Data as of Dec. 31, 2023.

SECTOR TOP PICKS

Healthcare

Company (Ticker)		Rating	
ResMed (RMD)		★★★★	ResMed is seeing record high patient flow with sleep apnea diagnosis rates recovering and device availability improving. Group EBIT increased 15% sequentially in the December quarter of 2023, reflecting cost control and strong sales across ResMed's larger installed base, given Philips' recall. We still think widespread adoption of weight loss drugs will take time, given the high cost, limited supply, and side effects. Obesity is also just one risk factor for sleep apnea, and many sleep apnea patients who experience weight loss are still obese. In most cases, they will likely still benefit from a Cpap device. See our special report, "The Start of Unconstrained Sales for ResMed" published on July 25, 2023, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 30.15	AUD 39.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 44.66	Narrow	Exemplary	

Company (Ticker)		Rating	
Ansell (ANN)		★★★★	We expect Ansell's margin pressures to abate. Pricing for undifferentiated single-use exam gloves has stabilized. A productivity program is set to deliver over USD 50 million of cost savings by fiscal 2026, roughly a third of annualized first-half fiscal 2024 EBIT. Employee expenses are falling through automation in packaging and streamlining management. Despite customer destocking, we see limited competitive pressure and reiterate Ansell's narrow moat based on intangible assets. We forecast gross margin expansion as Ansell "insources" more manufacturing, better utilizes its facilities, and improves the sales mix. See our special report, "Undervalued Ansell Provides Investors Adequate Margin of Safety" published on Nov. 10, 2022, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 24.58	AUD 30.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.08	Narrow	Exemplary	

Company (Ticker)		Rating	
Ramsay Health Care (RHC)		★★★★	Ramsay's first-half fiscal 2024 revenue was up a strong 8%, but group profitability was weighed by inflationary pressures and accelerated investment in digital. However, we expect margins to expand as Ramsay uses fewer agency employees, as case mix and volumes normalize for nonsurgical services, as capacity utilization improves, and as digital investment efficiencies are realized. Importantly, labor shortages are easing with immigration recovering, and Ramsay continues to invest in recruiting and training. The firm negotiated higher reimbursement rates to meet cost inflation and has deleveraged its balance sheet by selling its share of Ramsay Sime Darby. See our stock pitch "Margin improvement ahead; shares are cheap." published on Dec. 13, 2023, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 56.51	AUD 68.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 12.97	Narrow	Exemplary	

Source: Morningstar. Data as of March 28, 2024.

Industrials

Esther Holloway | esther.holloway@morningstar.com

Market Optimism May Be Getting Ahead of Itself

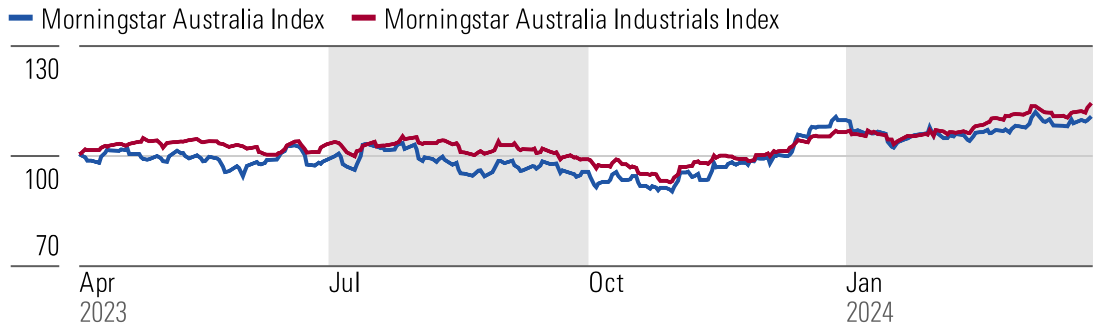
We think investors are optimistic about future US economic growth after the anticipated 2023 recession failed to materialize. Many Australian listed businesses have significant exposure to North America, including residential exposed companies James Hardie, Reliance Worldwide, and Reece, with about 70%, 70%, and 50% of revenue from the US, respectively.

Rate hikes are causing strains in the US economy and excess household savings accumulated in the pandemic are likely depleted for most income groups. But we expect a return to prepandemic spending on goods from mid-calendar year 2024. We forecast an uplift in earnings for US residential exposed companies from increased sales volumes, and mix-shift as consumers buy higher-quality—and higher margin—product.

Australian container imports recovered in recent months following an uptick in consumer sentiment, a good sign for logistics company Qube. With a diversified business, and strong immigration and employment, we expect solid earnings growth. Aurizon, too, has a favorable medium-term outlook given our expectation for resilient coal supply from Australia. It is one of our top picks.

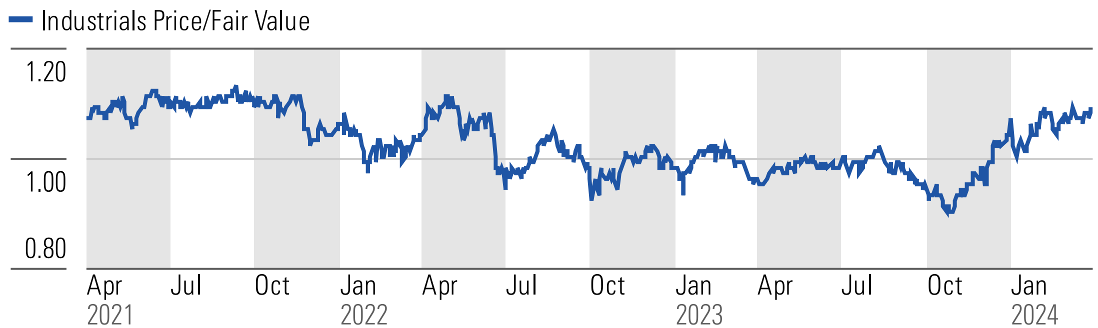
Toll roads have solid outlooks, with recovering traffic volumes and mostly CPI-linked tolls offsetting higher interest rates. But, with rapidly rising tolls and pressures on household disposable income, regulatory risk is rising. A new tax was levied on toll roads in France, and major reform of Sydney toll roads is being considered. Both Atlas Arteria and Transurban screen as fairly valued.

Industrials Trading Broadly in Line With Index



Source: Morningstar. Data as of March 28, 2024.

Few Industrials Bargains on Offer



Source: Morningstar. Data as of March 28, 2024.

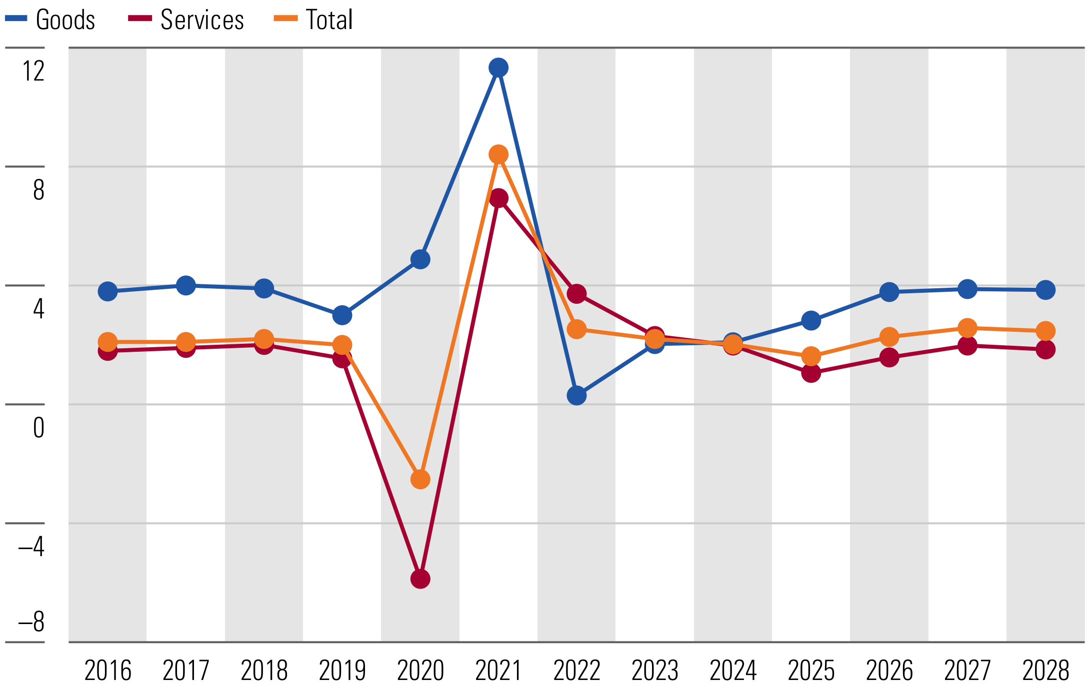
Market Optimism May Be Getting Ahead of Itself

We expect a normalization of US consumer spending on goods to drive earnings for residentially exposed companies James Hardie, Reece, and Reliance Worldwide from mid-calendar year 2024. This follows recent consumer caution, given interest rate headwinds.

Coal exports were hurt in recent years by wet weather stemming from La Nina. Mines are now drying out, and volumes are recovering, supporting Aurizon's earnings outlook. CPI-linked haulage tariffs and a higher regulated return on the rail track also help.

Goods Spending in the US Expected to Return to Prepandemic Levels Soon

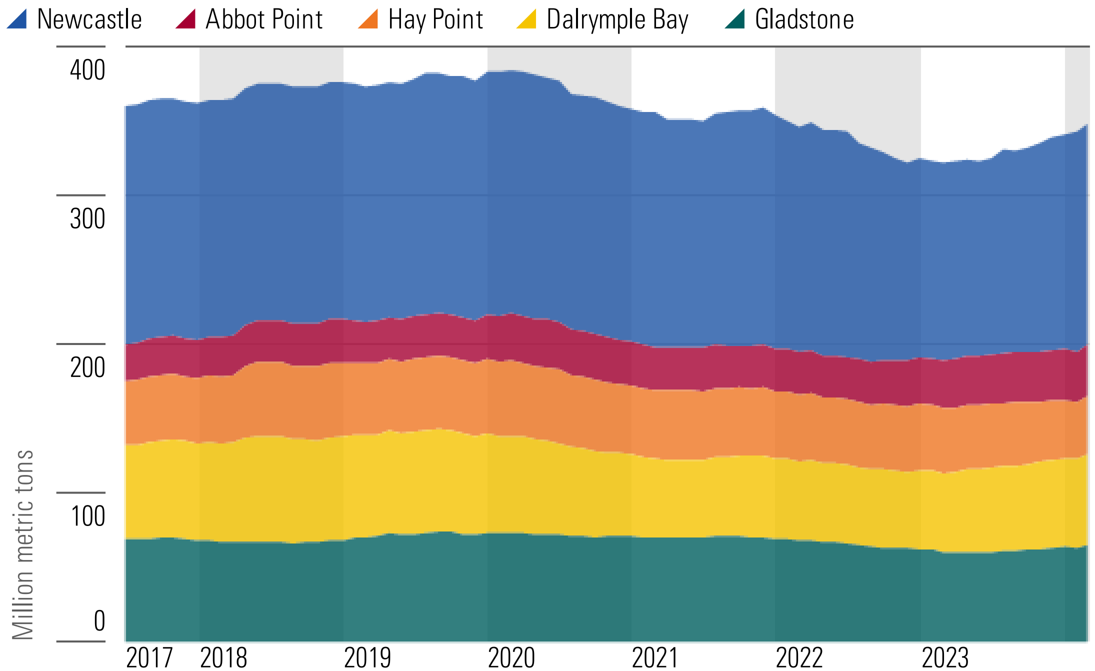
United States personal consumption expenditure (real), % growth



Source: United States Bureau of Economic Analysis, Morningstar. Data as of Feb. 29, 2024.

Coal Exports Recovering From Wet Weather

Coal export volumes (trailing 12-months) from Australia's main ports.



Source: North Queensland Bulk Ports, Gladstone Ports, Port of Newcastle. Data as of Feb. 29, 2024.

Industrials

Company (Ticker) Amcor (AMC)		**Rating** ★★★★	We think consumers fail to appreciate the underlying defensiveness of Amcor's mainly food and beverage customer exposure. While our short-term outlook is for cyclically soft volumes, we are positive for the longer term. We expect the company to incrementally improve future returns on invested capital. This reflects strong single-digit organic sales growth through the reinvestment of free cash flows into emerging markets and higher-margin differentiated products. Additionally, the Bemis deal in 2019 was transformative and value-accretive. It further cements the firm's position as the largest plastic packaging supplier in North America, with more than twice the market share than its nearest competitor. Earnings per share have almost doubled since the deal was done.
Price AUD 14.44	**Fair Value** AUD 17.00	**Uncertainty** Medium	
Market Cap (bil) AUD 21.08	**Economic Moat** Narrow	**Capital Allocation** Standard	
Company (Ticker) Aurizon Holdings (AZJ)		**Rating** ★★★★	The shares of narrow-moat Aurizon offer an attractive yield underpinned by high-quality rail infrastructure and haulage operations. Considerable downside is priced into the shares, and our analysis suggests that risks skew to the upside for investors. Haulage volumes were weak in fiscal 2023, given wet weather, but the outlook is for volumes to recover, haulage tariffs to rise with the Consumer Price Index, and as the regulated rail track is allowed higher returns. We think environmental concerns are overblown, providing an opportunity for investors to buy a better-than-average-quality company at a discount. Aurizon largely hauls coking coal from globally competitive mines, and a large-scale commercial alternative to coking coal for steelmaking is a long way off.
Price AUD 4.00	**Fair Value** AUD 4.70	**Uncertainty** High	
Market Cap (bil) AUD 7.36	**Economic Moat** Narrow	**Capital Allocation** Standard	
Company (Ticker) Ventia Services Group (VNT)		**Rating** ★★★★	The market seems to have caught on to Ventia’s attractions, backed by macro tailwinds including population growth, outsourcing volume rates, and environmental regulation. Despite this, we still see some value and like the defensive revenue streams with maintenance cash flows comparatively resilient to external shocks. We project a five-year EBITDA CAGR of 4.0% to AUD 490 million by 2028, and a generous fully franked yield, supported by relatively low capital investment needs. Sustainability and the energy transition investments are driving demand, while increased geopolitical risk is supports defense spending. Our confidence in the growth outlook is enhanced by recent 10%-plus growth rates and rising work levels.
Price AUD 3.85	**Fair Value** AUD 4.25	**Uncertainty** Medium	
Market Cap (bil) AUD 3.29	**Economic Moat** None	**Capital Allocation** Standard	

Source: Morningstar. Data as of March 28, 2024.

Real Estate

Alex Prineas | alexander.prineas@morningstar.com

Lower Inflation and Bond Yields Offer Hope but Balance Sheet Strength Key

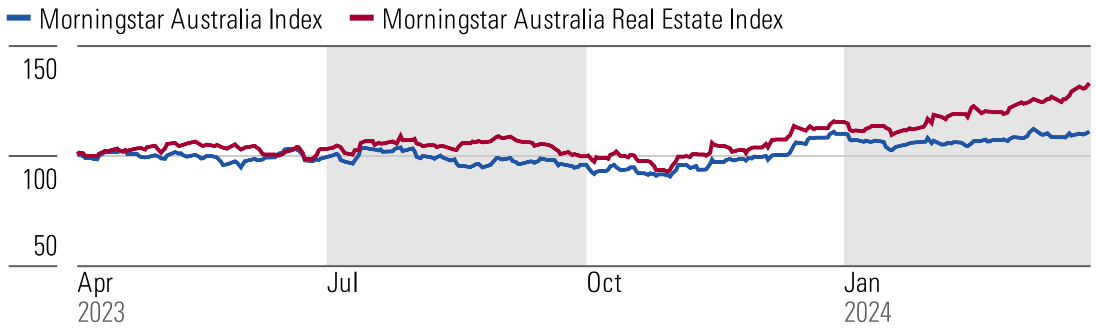
Real Estate further rallied in the March quarter, though not as broadly based as in the prior quarter. Many stocks were flat in the period. The strong performers included Goodman Group, Charter Hall, Scentre Group, Ingenia Communities Group, HPI, Charter Hall Group, and Unibail-Rodamco-Westfield. Despite this, we still see undervaluation in the sector, but Goodman looks overvalued. Optimism around artificial intelligence and big data is possibly contributing to excessive data center enthusiasm for Goodman.

Major office REITs Dexus, GPT, and Mirvac screen as undervalued, noting increasing people movements in the Sydney and Melbourne CBDs. We expect further growth, in part given record population growth, and the major eastern seaboard public transport projects due to complete in the next few years. This should support a gradual recovery in office rents. These are already rising from pandemic lows for good-quality buildings in core city locations. These are the types of assets typically owned by the office REITs we cover.

Mirvac is well-placed to increase residential sales volumes, given an acute residential dwelling shortage. Development margins have softened, but with dwelling prices rising and construction cost inflation stabilizing, development margins should remain robust.

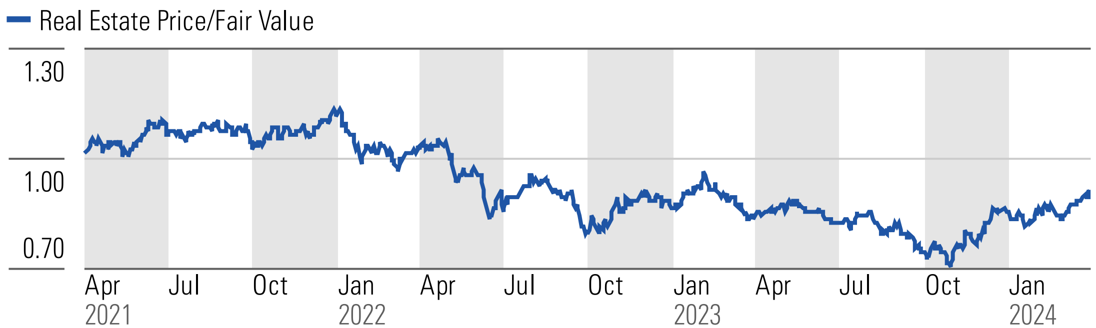
We are cautious about storage, noting that the sector has no leases, but its debt levels are comparable to those of other REITs. It currently offers a lower distribution yield than many REITs in other sectors. Storage could be vulnerable in a recession or if high-interest rates prompt consumers to tighten spending.

Property Outperformed as Inflation Moderated



Source: Morningstar. Data as of March 28, 2024.

Despite the Recovery, Property Still Undervalued



Source: Morningstar. Data as of March 28, 2024.

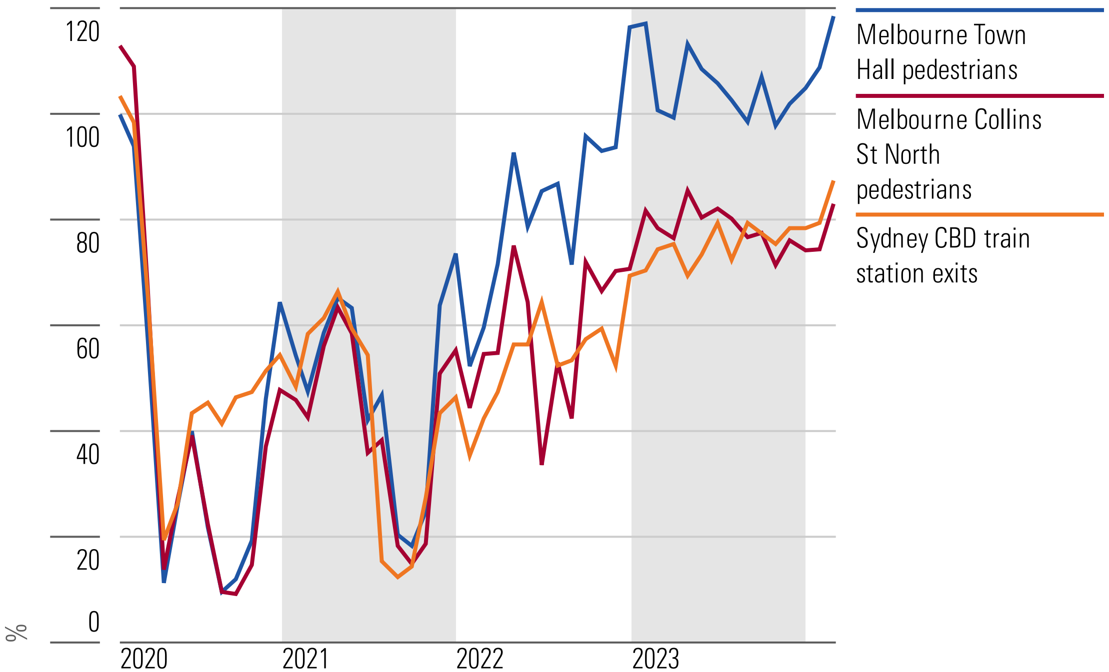
Lower Inflation and Bond Yields Offer Hope but Balance Sheet Strength Key

We anticipate rising activity in city centers, improved public transport, and population growth. Sydney Metro, Melbourne Metro, and Brisbane Cross River Rail will add new lines and stations when they open in 2024, 2025, and 2026, respectively.

Population growth is above Australia's historical average and way above the OECD average. Treasury projections suggest population growth will stay above average until 2027 and recent data suggests these projections may be exceeded.

City Centre Activity Still Increasing

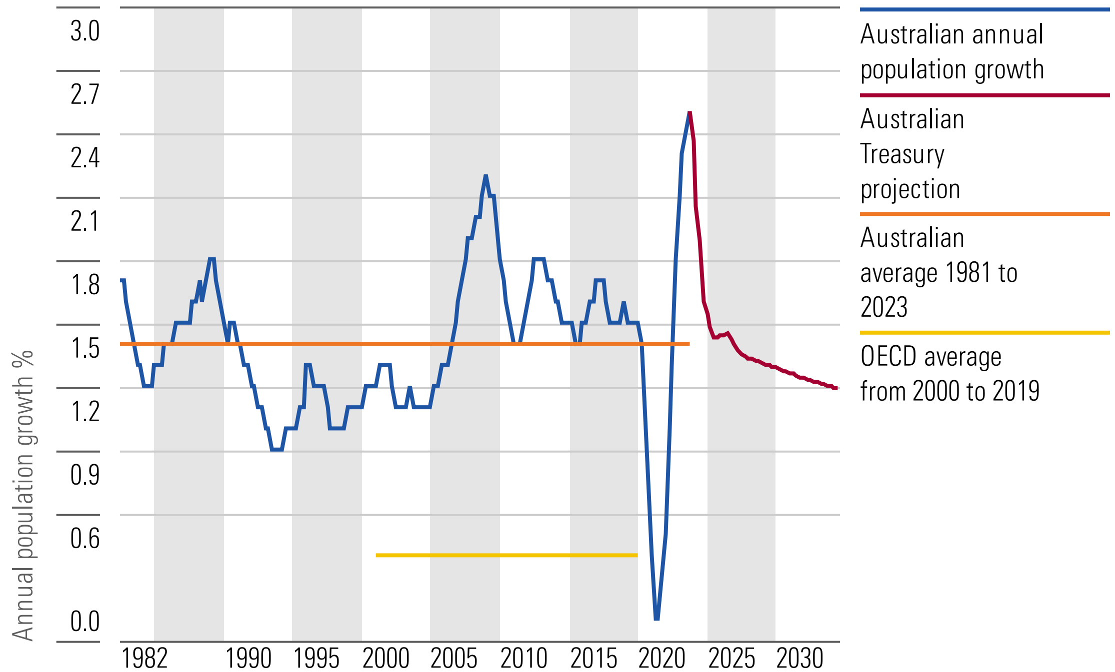
Monthly pedestrian/train passenger activity as a proportion of 2019 level.



Source: Transport For NSW (Circular Quay, Martin Place, and Wynyard train station exits); City of Melbourne pedestrian data. Data as of Feb. 28, 2024.

Massive Population Growth Supports Commercial Property Demand

Population growth projected to remain above Australian and OECD averages till 2027.



Source: Based on data from the Australian Government Centre for Population and OECD. Data as of Dec. 31, 2023.

Real Estate

Company (Ticker)		Rating
Dexus (DXS)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 7.91	AUD 10.80	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 8.51	Narrow	Standard

Dexus trades at a material discount to net tangible assets, which doesn't include the intangible value of the group's fund management business. Management operations contributed 20% of adjusted funds from operations in fiscal 2023, up from 14% in fiscal 2022. Dexus missed out on acquiring some AMP mandates, but we see this as a short-term setback and expect fund management contributions to grow. Meanwhile, Dexus' office portfolio looks to be stabilizing with lockdowns in the past and tighter financial conditions curtailing future office supply. We expect higher interest rates to weigh on office valuations, but not as much as implied by Dexus' security price. The group's industrial properties, about 25% of its portfolio, are performing well and are likely underappreciated by a market that views Dexus as purely an office play.

Company (Ticker)		Rating
The GPT Group (GPT)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 4.57	AUD 5.55	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 8.75	None	Standard

GPT Group offers a distribution yield comfortably above the current Australian 10-year bond yield. Tenant incentives such as fit-out payments are weighing on cash flow in the near term, but GPT's office occupancy stands at 92.3%, including nonbinding tenant agreements, up from 88.5% in June 2023. Its retail and industrial portfolios are nearly 100% occupied, with first-half rental growth strong. We believe GPT Group's industrial rents are below market, and in retail, GPT Group's centers achieved total sales growth of 11.8% in 2023, implying scope for more rent in both segments. Even GPT Group's city-retail assets appear to have recovered, with Melbourne Central 99.7% occupied and rents on new leases 5% above previous leases for the same space. GPT trades at about a 20% discount to net tangible assets of AUD 5.61 per security, which ignores the value of the fund management business. GPT increased funds under management to AUD 19.7 billion in December 2023, up from 13.3 billion in 2019.

Company (Ticker)		Rating
Charter Hall Group (CHC)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 13.75	AUD 16.25	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 6.50	Narrow	Exemplary

We think Charter Hall securities overly discount weaker operating conditions, and its development pipeline is likely to add to funds under management. About 80% of Charter Hall's EBITDA comes from funds management, mainly in the form of base management fees, and performance and transaction fees. Higher interest rates hurt performance and transaction fees, which more than halved in fiscal 2023. However, relatively repeatable base management revenue increased by 20% and is about two-thirds of Charter Hall's fund management revenue. We expect Charter Hall to reap longer-term inflows given its strong track record, rising tax, and management complexity, and as international investors seek local expertise. Charter Hall has minimal debt on its own balance sheet. Look-though gearing—net debt/assets including debt in its funds—is higher at 34% and while tough conditions are likely to last a while yet, we think Charter Hall is well-prepared.

Source: Morningstar. Data as of March 28, 2024.

Technology

Roy van Keulen | roy.vankeulen@morningstar.com

Shaun Ler | shaun.ler@morningstar.com

A Cautious Rebalancing Toward Expansion

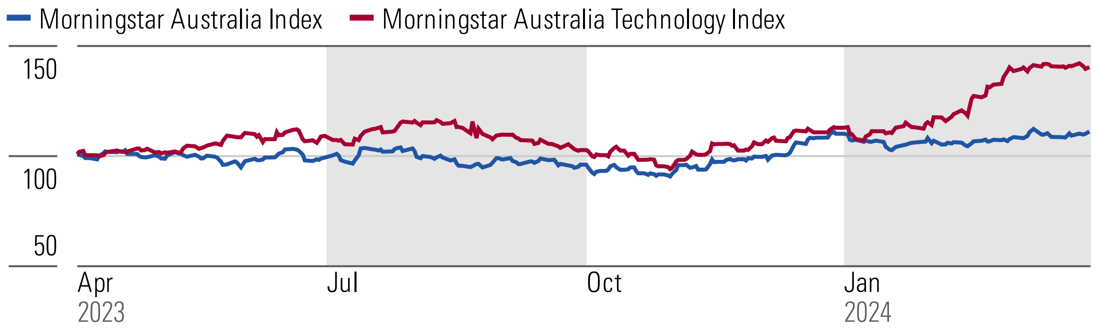
The technology sector has materially outperformed the broader Australian stock market year-to-date and now screens as 10% overvalued, the most overvalued since early 2022. The sector is cautiously looking to expand again.

For most of the past year, technology companies have adapted to a rapid change in investor sentiment from rewarding growth at any cost to a demand to show and maximize profitability. This meant headcount reductions and increasing prices, where possible. With many firms since proving their profit potential and share prices commensurately rising, we see more companies investing for growth again. This includes a return to headcount growth, but we expect relative discipline given the lessons from recent excesses.

We expect moat-rated companies with profitable growth to be better positioned to invest in growth and hence take market share in the near- to medium-term. These companies typically have strong balance sheets, positive cashflows, and attractive reinvestment opportunities. They include WiseTech, Altium, and Technology One. These firms all benefit from customer switching costs, bolstered by strong product utility for customers and significant product development costs, which form a challenging entry barrier for competitors.

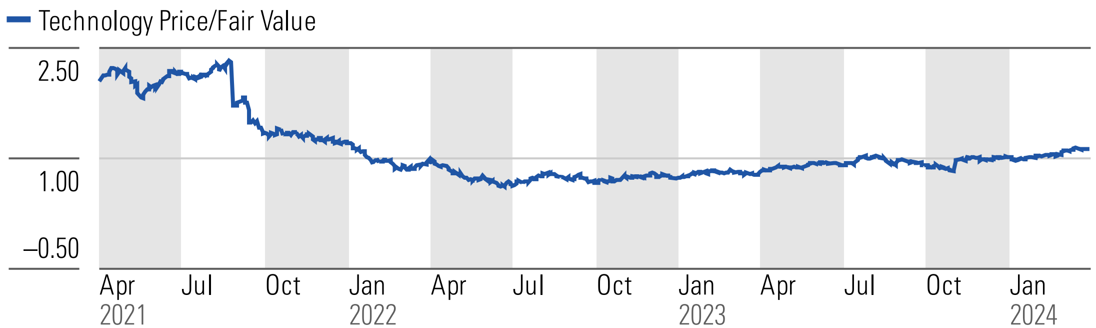
Conversely, unprofitable companies with weaker competitive positions are likely to remain focused on costs as their larger, better-resourced competitors increasingly outspend them on product development.

Technology Sector Outperforming



Source: Morningstar. Data as of March 28, 2024.

Sector Screens as Overvalued



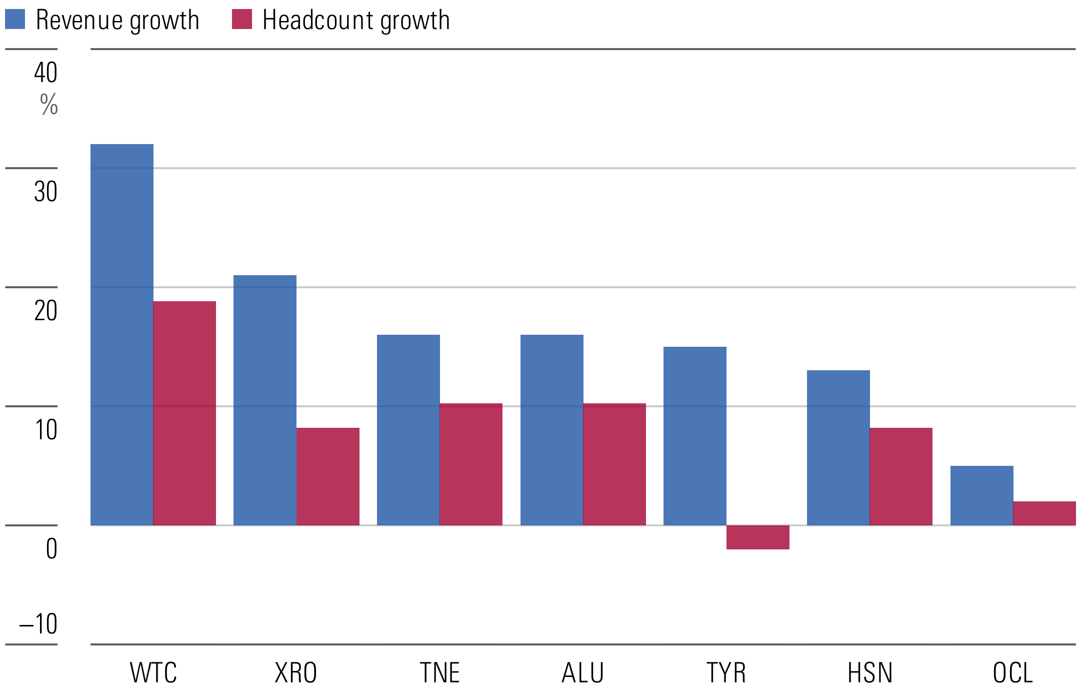
Source: Morningstar. Data as of March 28, 2024.

A Cautious Rebalancing Toward Expansion

Profitable technology companies are nearly uniformly growing headcounts again, but at around half the rate of their revenue growth. Tyro is the exception, likely because it only recently became profitable.

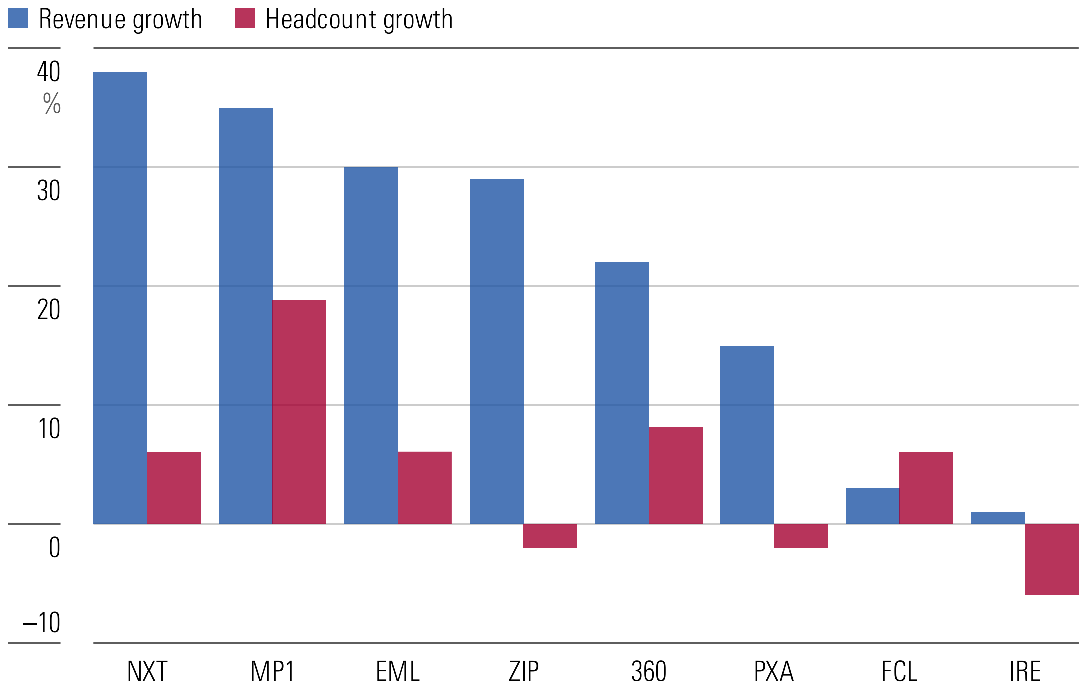
Unprofitable technology companies are showing more dispersion, but headcount growth is only half of what it is for profitable companies. Even the fastest growing companies are growing their headcounts at less than 20% of their revenue growth.

Profitable Technology Companies' Revenue Growth and Headcount Growth



Source: Company filings and LinkedIn data. Revenue growth is year on year for the most recent period. Headcount growth is annualized from LinkedIn data for the past six months, as of March 20, 2024.

Unprofitable Technology Companies' Revenue Growth and Headcount Growth



Source: Company filings and LinkedIn data. Revenue growth is year on year for the most recent period. Headcount growth is annualized from LinkedIn data for the past six months, as of March 20, 2024.

Technology

Company (Ticker)		Rating
Fineos (FCL)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 1.69	AUD 3.10	Very High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 0.57	Wide	Standard

We believe wide-moat Fineos has investment merits not generally found within the broad band of profitless technology companies. Progression toward profitability is reaffirmed by its 2023 earnings results, which saw EBITDA turn positive from a previous loss. We think the market underestimates revenue upside from the adoption of cloud software by insurers and the increasing stickiness of Fineos' insurer customers. Fineos is well-placed to win new business supported by long-standing customer relationships and their referrals. Business reinvestments solidify switching costs with its sticky customer base, help win new business, and maintain its lead over would-be competitors. We anticipate share gains from more products per client, new client adds, and expansions into new regions and adjacent businesses. There are also opportunities for cost efficiencies from client transitions to the cloud, noncore staff reductions, and hiring in emerging economies.

Company (Ticker)		Rating
Pexa Group (PXA)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 13.56	AUD 17.25	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 2.41	Wide	Exemplary

We believe the market is overly focused on wide-moat Pexa’s costly expansion into the UK and overlooks the strength of Pexa's Australian exchange business. Pexa’s Australian exchange business is demonstrating the potential for exceptional margins and profits, in line with other financial exchange businesses, such as the ASX. Moreover, this is becoming evident despite subdued property market turnover and elevated costs as the company develops and rolls out its exchange infrastructure across additional regions and use cases. We expect the UK business to either become profitable or be abandoned in the next few years.

Company (Ticker)		Rating
WiseTech Global (WTC)		★★★
Price	**Fair Value**	**Uncertainty**
AUD 93.95	AUD 100.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 31.33	Narrow	Exemplary

We view narrow-moat WiseTech as a well-managed, high-quality company with a large and highly winnable market opportunity. We see WiseTech as providing technology to help logistics companies outperform their competition through increased productivity. The market for logistics services naturally selects the lowest-cost providers, and with the cost advantages WiseTech provides, we think the large market opportunity is highly winnable, leading to a long runway of profitable growth. Influential in its sector, we also see strong pricing power supporting a high take-rate of the value it creates for customers.

Source: Morningstar. Data as of March 28, 2024.

Utilities

Adrian Atkins | adrian.atkins@morningstar.com

Lagging Utilities Offer Decent Value

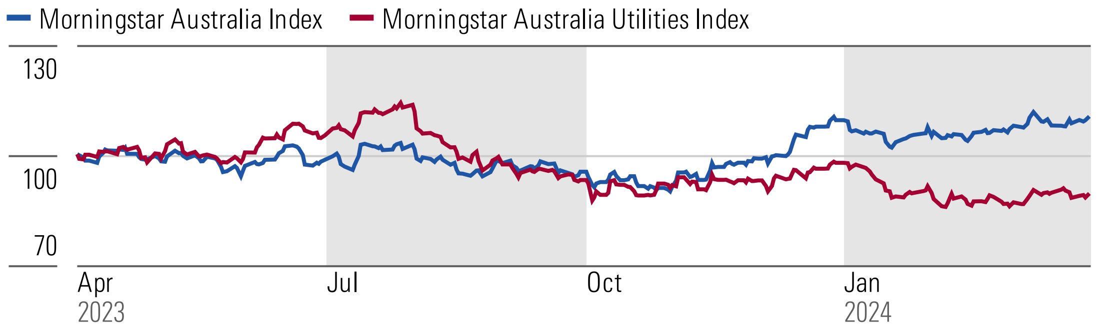
Australian utilities significantly underperformed in the past quarter with headwinds from lower wholesale electricity prices and regulatory risk. Value has emerged in APA Group and AGL Energy. In New Zealand, conditions are more favorable, given strong wholesale electricity prices and low-cost renewable generation assets. Manawa Energy is our best value pick there.

Electricity futures prices in Victoria have fallen to just AUD 60 per megawatt hour for the next few years. We think AGL's Loy Yang A is only modestly profitable at these levels, and prices are not high enough to encourage the huge investment needed to transition to renewable energy. Thus, we think Victorian wholesale prices will rise toward AUD 100 per MWh over the longer term. Fortunately for AGL, prices are much better in New South Wales, where it also produces power cheaply.

New Zealand power producers have good outlooks as they progressively pass high wholesale prices through to end customers. The key risk is the potential closure of the aluminum smelter at the end of the year. While not expected, it would put a major dent in the earnings outlook for several years and likely weigh on share prices.

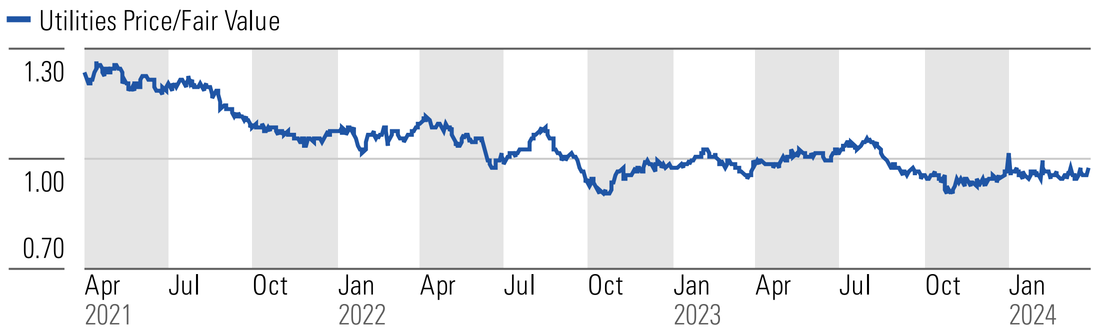
Former market darling APA Group's share price is down 30% in the past 18 months, hit by rising interest rates, a discounted equity raising, an expensive acquisition and, most recently, a regulatory attack which could see its best performing pipelines become fully regulated. We think it now looks attractive considering its big yield and given headwinds from higher rates and regulation won't materially hurt earnings in the medium term.

Australian Utilities Missed the Recent Stock Market Rally



Source: Morningstar. Data as of March 28, 2024.

Utilities are Fairly Valued on Average



Source: Morningstar. Data as of March 28, 2024.

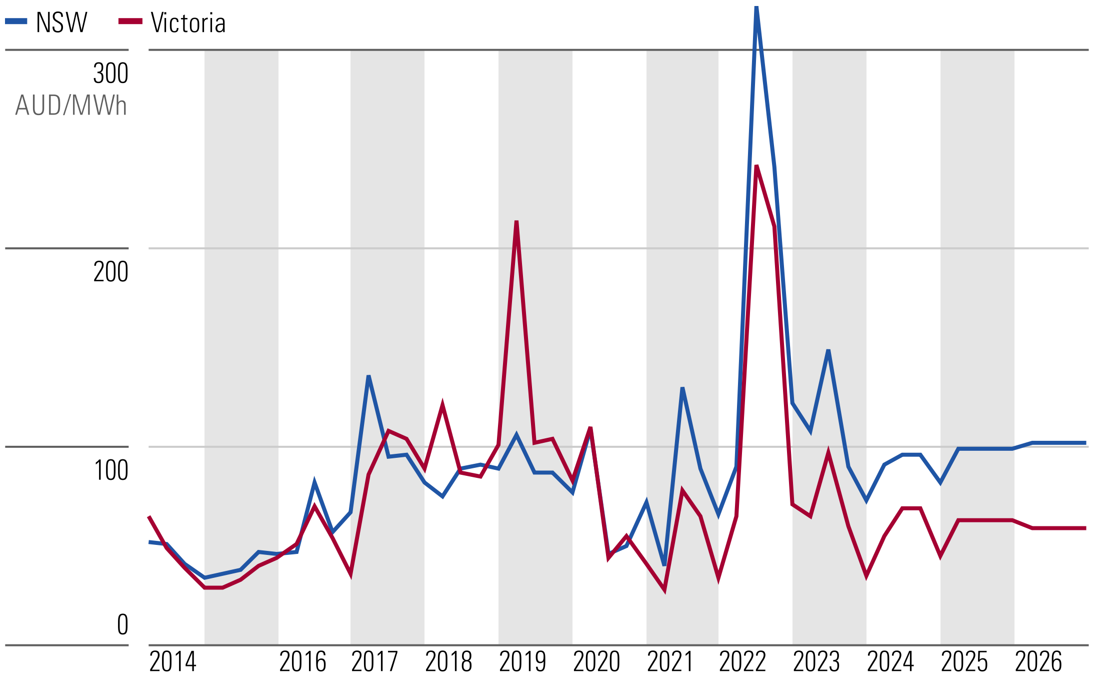
Lagging Utilities Offer Decent Value

Growth in rooftop solar, sunny weather, and government subsidies to keep aging coal power stations operating have depressed Victorian power prices. We think prices need to rise if the state is to attract enough investment to transition to renewables.

Higher interest rates are a headwind for highly geared infrastructure companies such as APA Group. But revenue should also increase as elevated inflation flows through via CPI-linked tariffs on unregulated assets and higher allowed returns on regulated assets.

Power Prices are Attractive in New South Wales, Not in Victoria

Quarterly electricity prices (AUD/MWh).



Source: Australian Energy Regulator. Forecasts as of March 14, 2024.

Cost of Debt Rising as BBB-Rated Bond Yields Triple From Lows

Yield on BBB-rated nonfinancial corporate bonds.

Source: Reserve Bank of Australia. Data as of Feb. 29, 2024.

Utilities

Company (Ticker)		Rating	
AGL Energy (AGL)		★★★★	Narrow-moat AGL Energy's recovery is gaining traction and the rebound in electricity prices of the past two years should underpin a strong fiscal 2024 earnings recovery. Also, the planned early closure of coal power stations alleviates ESG concerns and allows continued bank support. As one of Australia's largest generators and retailers of electricity, we see substantial long-term value. We expect slowing renewable energy supply additions, the closure of coal power stations, and high gas costs to support electricity prices, which benefits earnings. Caps on domestic gas and coal prices have reduced electricity futures prices, but they're still conducive to a strong earnings rebound.
Price	**Fair Value**	**Uncertainty**	
AUD 8.34	AUD 11.50	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 5.61	None	Poor	
Company (Ticker)		**Rating**	
Manawa Energy (MNW-NZ)		★★★★	Narrow-moat Manawa Energy, a New Zealand renewable energy producer, owns a fleet of small hydroelectric generators and, with a strong balance sheet, is well-positioned to expand via wind and solar farm developments. It sells most power to Mercury NZ under long-term CPI-linked contracts, with earnings benefiting from elevated inflation. We also expect earnings to benefit from diverting more sales to tight wholesale markets as lower-priced contracted volumes progressively reduce in the medium term. The stock offers a decent yield, fully imputed for New Zealand residents.
Price	**Fair Value**	**Uncertainty**	
NZD 4.55	NZD 6.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
NZD 1.42	Narrow	Standard	
Company (Ticker)		**Rating**	
APA Group (APA)		★★★★	Narrow-moat APA Group is a good-quality company with an attractive yield. We expect near-term revenue growth to pick up as elevated inflation boosts CPI-linked tariffs, and on completion of developments. APA Group should benefit from the transition to renewable energy. We expect ongoing investment in wind and solar farms while its core gas transmission networks benefit from growing gas use to back up intermittent renewable power supply. APA is also set to help remote mines in Western Australia replace diesel generators with a mix of solar panels, batteries, and gas turbines. This should reduce the mines' carbon emissions and operating costs.
Price	**Fair Value**	**Uncertainty**	
AUD 8.41	AUD 9.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 10.79	Narrow	Poor	

Source: Morningstar. Data as of March 28, 2024.

General Disclosure

"Morningstar" is used throughout this section to refer to Morningstar, Inc., and/or its affiliates, as applicable. Unless otherwise provided in a separate agreement, recipients of this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Research Services LLC, a USA-domiciled financial institution.

This report is for informational purposes only, should not be the sole piece of information used in making an investment decision, and has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient. This publication is intended to provide information to assist investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed and recommendations made herein may not be suitable for all investors; recipients must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status, and financial position.

The information, data, analyses, and opinions presented herein are not warranted to be accurate, correct, complete, or timely. Unless otherwise provided in a separate agreement, neither Morningstar, Inc., nor the Equity Research Group represents that the report contents meet all of the presentation and/or disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar, Inc., and the Equity Research Group and their officers, directors, and employees shall not be responsible or liable for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions within the report. The Equity Research Group encourages recipients of this report to read all relevant issue documents—a prospectus, for example) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

The report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to law or regulation or that would subject Morningstar, Inc., or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, Inc., nor the Equity Research Group guarantees the accuracy of the translations.

This report may be distributed in certain localities, countries, and/or jurisdictions ("territories") by independent third parties or independent intermediaries and/or distributors ("distributors"). Such distributors are not acting as agents or representatives of the analyst, Morningstar, Inc., or the Equity Research Group. In territories where a distributor distributes our report, the distributor is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes, and guidelines established by local and/or regional regulatory bodies, including laws in connection with the distribution of third-party research reports.

Risk Warning

Please note that investments in securities are subject to market and other risks, and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not continue in the future and is no indication of future performance. A security investment's return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost.

A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating is a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Conflicts of Interest

- No interests are held by the analyst with respect to the securities subject of this investment research report.
- Morningstar, Inc., may hold a long position in the securities subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click https://www.morningstar.com/company/disclosures/holdings.
- Analysts' compensation is derived from Morningstar, Inc.'s overall earnings and consists of salary, bonus, and in some cases restricted stock.
- Morningstar's overall earnings are generated in part by the activities of the Investment Management and Research groups, and other affiliates, that provide services to product issuers.
- Neither Morningstar, Inc., nor the Equity Research Group receives commissions, compensation, or other material benefits in connection with providing research, nor do they charge companies to be rated.
- Morningstar employees may not pursue business or employment opportunities outside Morningstar within the investment industry (including, but not limited to, working as a financial planner, an investment professional or investment professional representative, a broker/dealer or broker/dealer agent, a financial writer, reporter, or analyst) without the approval of Morningstar's Legal and if applicable, Compliance teams.
- Neither Morningstar, Inc., nor the Equity Research Group is a market maker or a liquidity provider of the securities noted within this report.
- Neither Morningstar, Inc., nor the Equity Research Group has been a lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer.
- Morningstar, Inc.'s Investment Management group has arrangements with financial institutions to provide portfolio management/investment advice, some of which an analyst may issue investment research reports on. In addition, the Investment Management group creates and maintains model portfolios whose underlying holdings can include financial products, including securities that may be the subject of this report. However, analysts do not have authority over Morningstar's Investment Management group's business arrangements or allow employees from the Investment Management group to participate or influence the analysis or opinion prepared by them.
- Morningstar, Inc., is a publicly traded company (ticker: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section at https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx.

Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arm's-length basis, including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship, and website advertising. Further information on Morningstar's conflict-of-interest policies is available at http://global.morningstar.com/equitydisclosures.

For a list of securities the Equity Research Group currently covers and provides written analysis on, or for historical analysis of covered securities, including fair value estimates, please contact your local Morningstar office.

For recipients in Australia: This report has been issued and distributed in Australia by Morningstar Australasia Pty. Ltd. (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty. Ltd. is the provider of the general advice ("the service") and takes responsibility for the production of this report. The service is provided through the research of investment products. To the extent the report contains general advice, it has been prepared without reference to an investor's objectives, financial situation, or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide, or FSG, for more information at http://www.morningstar.com.au/s/fsg.pdf.

For Recipients in New Zealand: This report has been issued and distributed by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd (together 'Morningstar'). This report has been prepared and is intended for distribution in New Zealand to wholesale clients only and has not been prepared for use by New Zealand retail clients (as those terms are defined in the Financial Markets Conduct Act 2013).

The information, views and any recommendations in this material are provided for general information purposes only, and solely relate to the companies and investment opportunities specified within. Our reports do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. We recommend seeking financial advice before making any investment decision.

For recipients in Canada: This research is not prepared subject to Canadian disclosure requirements.

For recipients in Hong Kong: The report is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research and investment advisory services to professional investors only. Neither Morningstar Investment Management Asia Limited nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited.

For recipients in India: This investment research is issued by Morningstar Investment Research India Private Limited (formerly known as Morningstar Investment Adviser India Private Limited). Morningstar Investment Research India Private Limited is registered with SEBI as a Research Entity (registration number INH000008686). Morningstar Investment Research India Private Limited has not been the subject of any disciplinary action by SEBI or any other legal/regulatory body. Morningstar Investment Research India Private Limited is a wholly owned subsidiary of Morningstar Investment Management LLC. In India, Morningstar Investment Research India Private Limited has one associate, Morningstar India Private Limited, which provides data-related services, financial data analysis, and software development. The research analyst has not served as an officer, director, or employee of the fund company within the last 12 months, nor have they or their associates engaged in market-making activity for the fund company.

For recipients in Japan: This report is distributed by Morningstar Japan, Inc. for informational purposes only. Neither Morningstar Japan, Inc. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Korea: This report is distributed by Morningstar Korea Ltd., which has filed to the Financial Services Committee, for informational purposes only. Neither Morningstar Korea Ltd. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Singapore: This report is distributed by Morningstar Investment Adviser Singapore Pte Limited, which is licensed and regulated by the Monetary Authority of Singapore to provide financial advisory services in Singapore. Recipients of this report should contact their financial advisor in Singapore in relation to this report. Morningstar, Inc., and its affiliates rely on certain exemptions (Financial Advisers Regulations, Section 28(1)(e), Section 32B and 32C) to provide its investment research to recipients in Singapore.

MORNINGSTAR®

22 West Washington Street
Chicago, IL 60602 USA

About Morningstar® Equity Research™
Morningstar Equity Research provides independent, fundamental equity research differentiated by a consistent focus on durable competitive advantages, or economic moats.

Information on Morningstar's Equity Research methodology is available from https://www.morningstar.com/research/signature.