MORNINGSTAR Market Outlook

Australian Equity Market Outlook Q2 2025

Sharp selloff uncovers value.

Table of Contents

Morningstar Equity Research

Adrian Atkins
Senior Equity Analyst

Lochlan Halloway
Australian Equity Market Strategist

Oriana Pham
Associate Equity Analyst

Market Outlook

Lochlan Halloway | lochlan.halloway@morningstar.com

Correction Knocks the Froth Off Richly Priced Market

President Trump's tariff pronouncements rattled global markets in the first quarter of 2025. Australia was not immune. The benchmark S&P/ASX 200 index briefly entered correction territory in February, defined as a peak-to-trough fall of between 10% and 20%. However, over the entire quarter, the ASX 200 declined by just 4%.

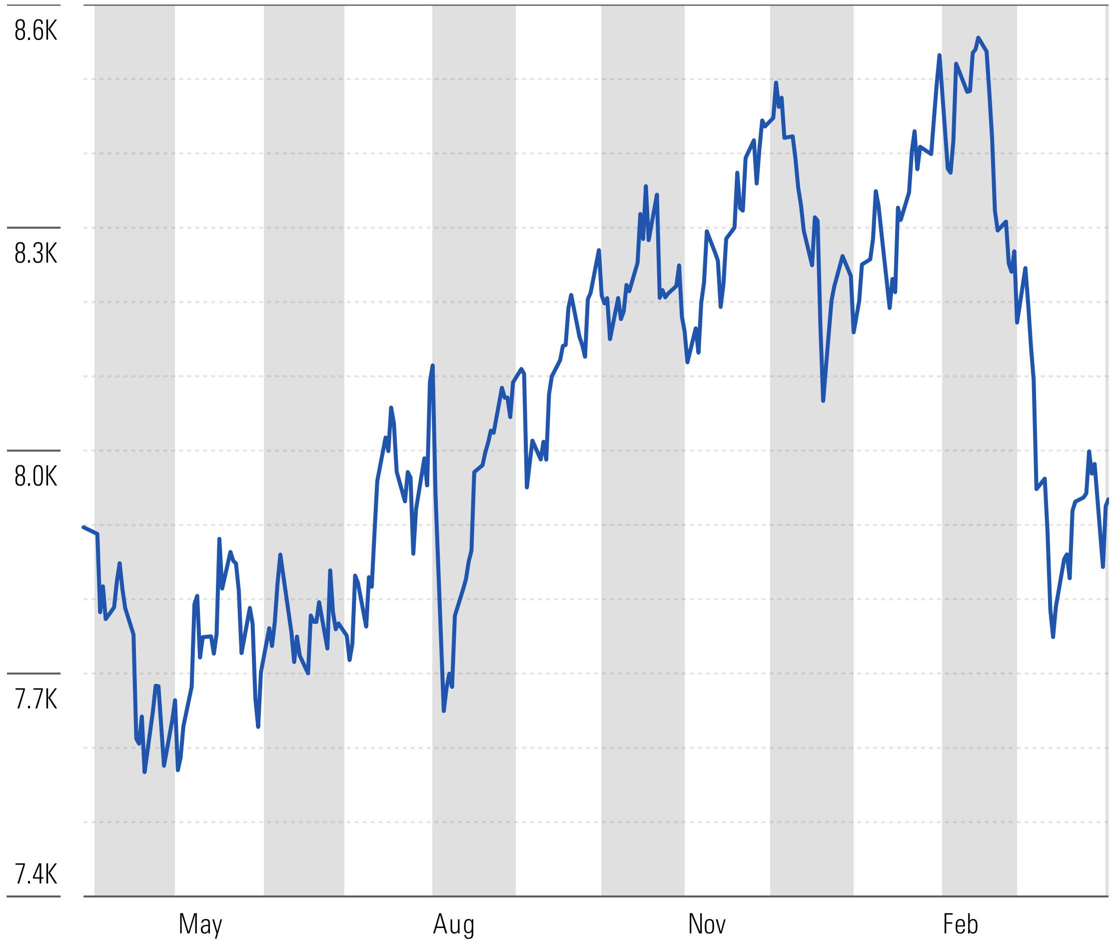
Perhaps the sell-down isn't surprising, given the ebullient reaction to Trump's election victory in the final months of 2024. Before the correction, large-capitalization stocks traded at a premium we'd only seen once in the past decade. We questioned why Australian investors reacted so positively to Trump's America-first, anti-China agenda. A good deal of that unwarranted optimism has been checked.

On April 3, Trump announced sweeping changes to US import tariffs. This included a 10% minimum tariff on all imports, as well as more punitive tariffs on specific jurisdictions, such as China, the EU, and Japan. This suite of changes is far more severe than we originally anticipated and, if maintained, would return US trade restrictiveness to a level not seen in about a century.

Compared with the rest of the world, Australia got off lightly. All Australian imports to the US will be subject to a 10% tariff, the global minimum. Companies will be affected to varying degrees. Domestically focused businesses and moat companies with pricing power appear best-placed to withstand the shock.

Australian Market Enters Official Correction

S&P/ASX 200 Price Return Index.



Source: Morningstar. Data as of April 2, 2025.

Correction Knocks the Froth Off Richly Priced Market

We're more concerned about the indirect impact of tariffs—specifically, the impact on China's slowing economy. Risks are most pronounced for our iron ore miners. China controls approximately 75% of the global seaborne iron trade, and demand is closely tied to steel-hungry, economically sensitive industries such as property and infrastructure construction. That said, long-awaited stimulus from China's authorities could more than offset the damage. Shares in our big miners, BHP, Rio Tinto, and Fortescue, have pulled back in recent months, and now appear fairly valued.

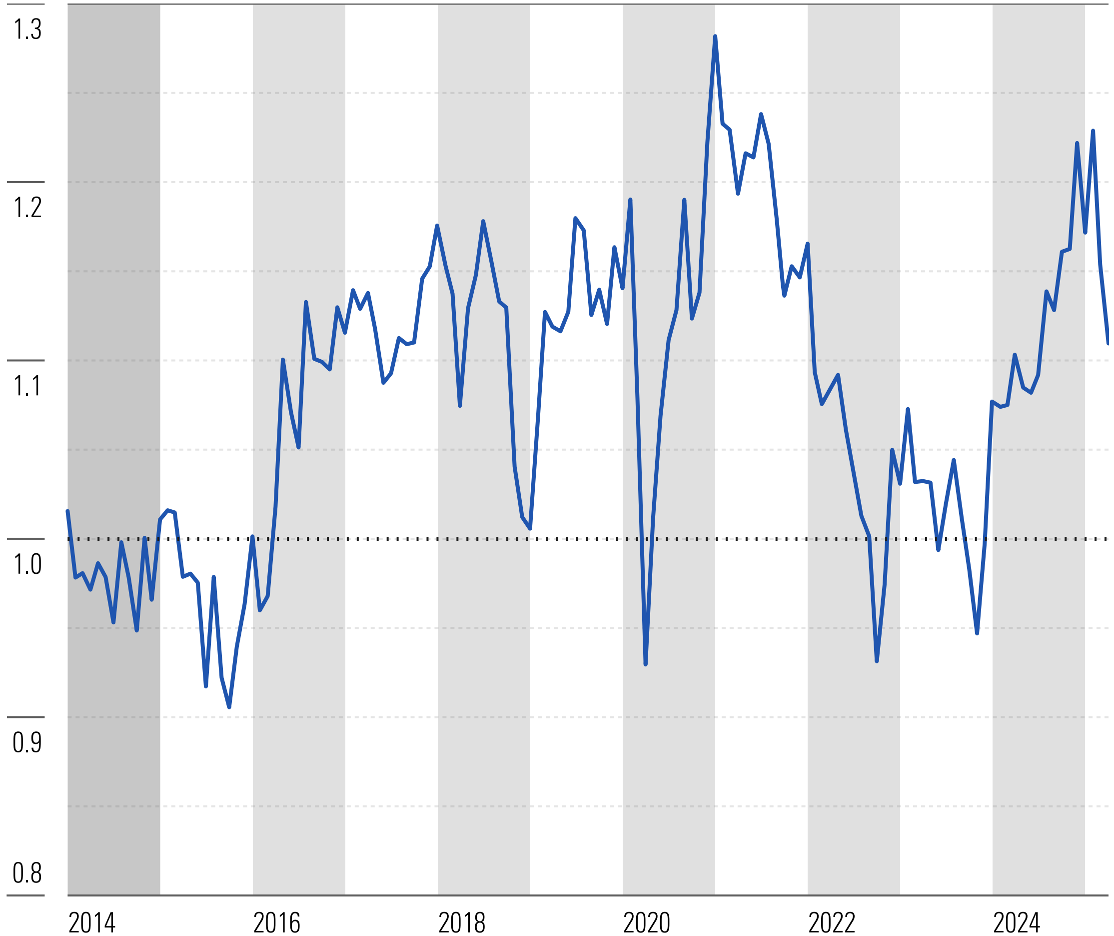
After the correction, how does the market appear? On a market cap-weighted basis, it still looks moderately overvalued. Of course, this is skewed by larger companies, many of which trade above fair value. Only four companies in the ASX 20 (CSL, Woodside, Santos, and James Hardie) are 4- or 5-star-rated.

Yet many opportunities exist outside the blue chips. The correction means that some of these names now trade at even steeper discounts. On an equal-weighted basis, our coverage trades at an 11% discount. It was at a premium of 8% when our last Market Outlook was published in December 2024.

Approximately 45% of our coverage falls within 4- or 5-star territory, which is higher than usual. We see the most opportunities in smaller stocks. We have a few on our Top Picks list, including Bapcor, Domino's Pizza, and SiteMinder. However, we generally think smaller companies play a satellite role in a portfolio rather than a core role.

Valuations Looking More Reasonable

Market-cap weighted price/fair value estimate.



Source: Morningstar. Data as of April 2, 2025.

Economic Outlook

Lochlan Halloway | lochlan.halloway@morningstar.com

Risks Shift From High Inflation to Low Growth

Global uncertainty is rife. But domestically, the economic picture improved during the first quarter of 2025. In both January and February, annual Consumer Price Index growth was near the middle of the RBA's 2%-3% target band. The trimmed mean figure, which strips out volatile items such as subsidized electricity, is also within the band, albeit at the upper end. With inflation waning, the RBA lowered the cash rate by 25 basis points to 4.10% in February—the first cut since November 2020.

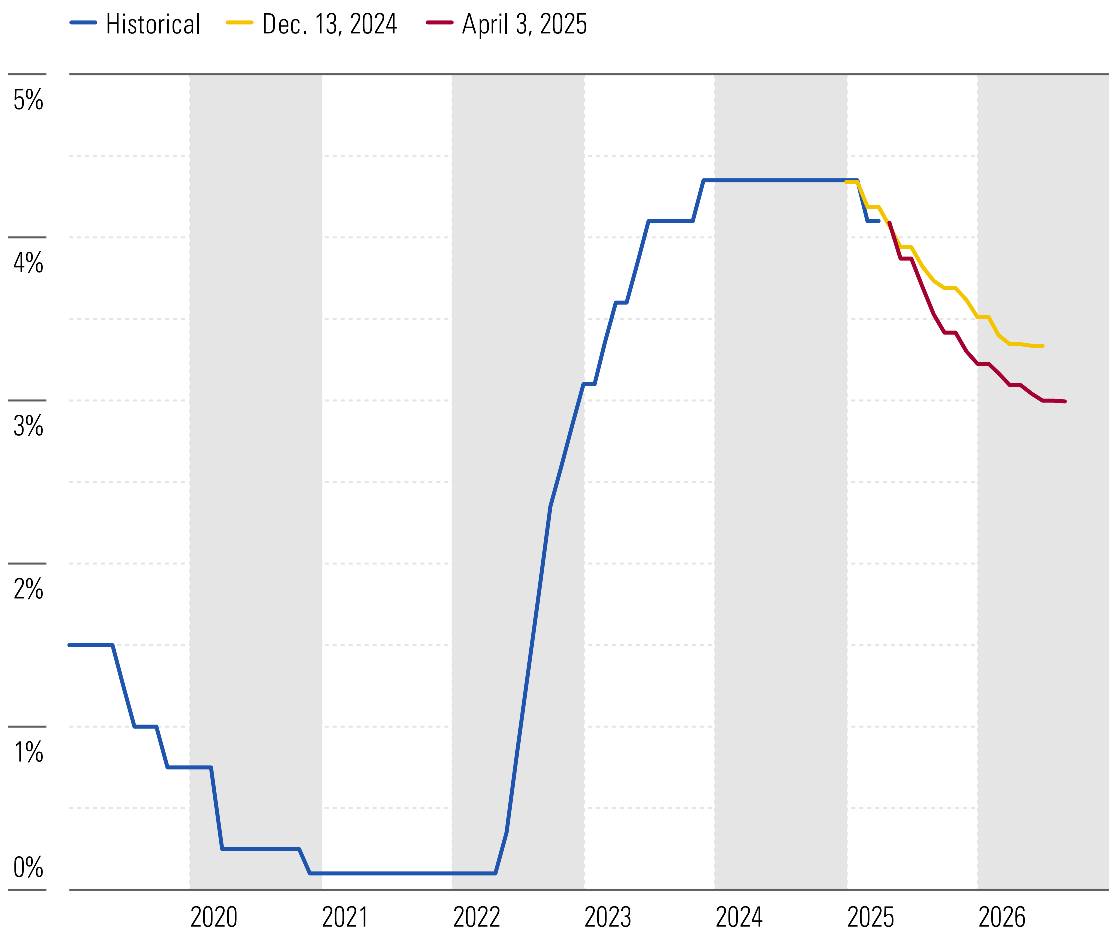
Although the RBA left rates unchanged in April, the door remains open for a cut in May. The bank still considers monetary policy "restrictive," so further easing is expected to follow. Immediately after Trump's Liberation Day announcements, the market priced at least three more cuts by year-end. However, the balance of risks is rapidly shifting. Low growth from the trade shock is now a more pressing concern than runaway inflation. The bank may need to ease more than the market currently expects.

The labor market is Australia's economic bright spot. At 4.0% in February 2025, unemployment is near a 50-year low and has barely budged since the RBA began raising rates in May 2022. However, most of the employment gains are from the public sector. This must change if the Treasurer hopes to achieve a private-sector-led recovery.

The 2025-26 Budget was largely as expected. The big surprise was a "top up" tax cut, which reduces the tax rate for the lowest income bracket by two percentage points by fiscal 2027. Costed at AUD 17 billion over the next four years, it's hardly a needle mover for inflation or household consumption, which amounts to AUD 1.4 trillion annually.

Market Pricing Higher Likelihood of Cuts

Futures-implied RBA cash rate.



Source: Westpac, Morningstar. Data as of April 3, 2025.

Risks Shift From High Inflation to Low Growth

Aside from the tax cut, the federal budget threw up few surprises. Australia is forecast to remain in deficit for the next decade, though the magnitude is not alarming. At a little over 1% of GDP, our forecast deficit for fiscal 2026 compares favorably with the US at almost 6%. Although gross debt is set to increase to more than AUD 1 trillion next year, or 36% of GDP, this is much lower than other developed economies, including the US, UK, Canada, Japan, and the EU. The government has work to do, but the fiscal outlook is not all doom and gloom.

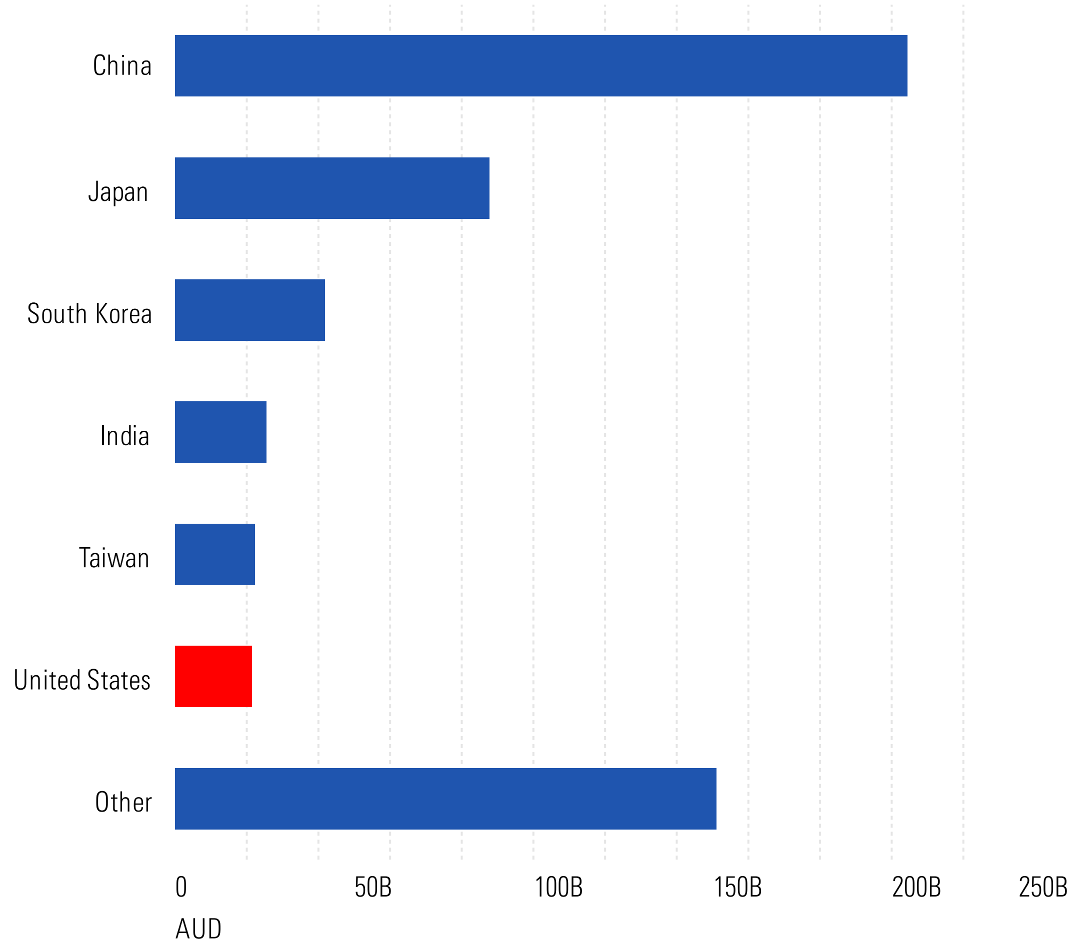
Geopolitics is the wildcard. Trump's Liberation Day tariffs were more severe than we expected, but Australia's direct economic exposure looks modest. In 2023, the US was Australia's sixth-largest goods export market, accounting for AUD 22 billion, about 4% of total goods exports. Beef is the largest category, at just under AUD 3 billion. Gold and pharmaceuticals were next, at roughly AUD 1.5 billion, but both appear to be exempt. While there may be localized pain, the direct impact on GDP should be subdued.

However, Australia is a small, open economy, and global economic growth matters. The US, the world's largest economy, accounts for about a fourth of global GDP, and how it fares in the near term has implications for us. The big swing factor, however, is whether China chooses to stimulate, the nature of the stimulus, and its magnitude.

Trump's latest announcements increase the risk of a US recession, but this is not our base case at this stage. Nonetheless, we expect to revise down our US and global growth forecasts as we work through the implications of the tariffs.

US Accounts for a Small Share of Australia's Goods Exports

Value of exports (AUD) to Australia's biggest export partners.



Source: Australian Department of Foreign Affairs & Trade, Morningstar. Data as of Dec. 31, 2023.

Valuation Overview and Top Picks

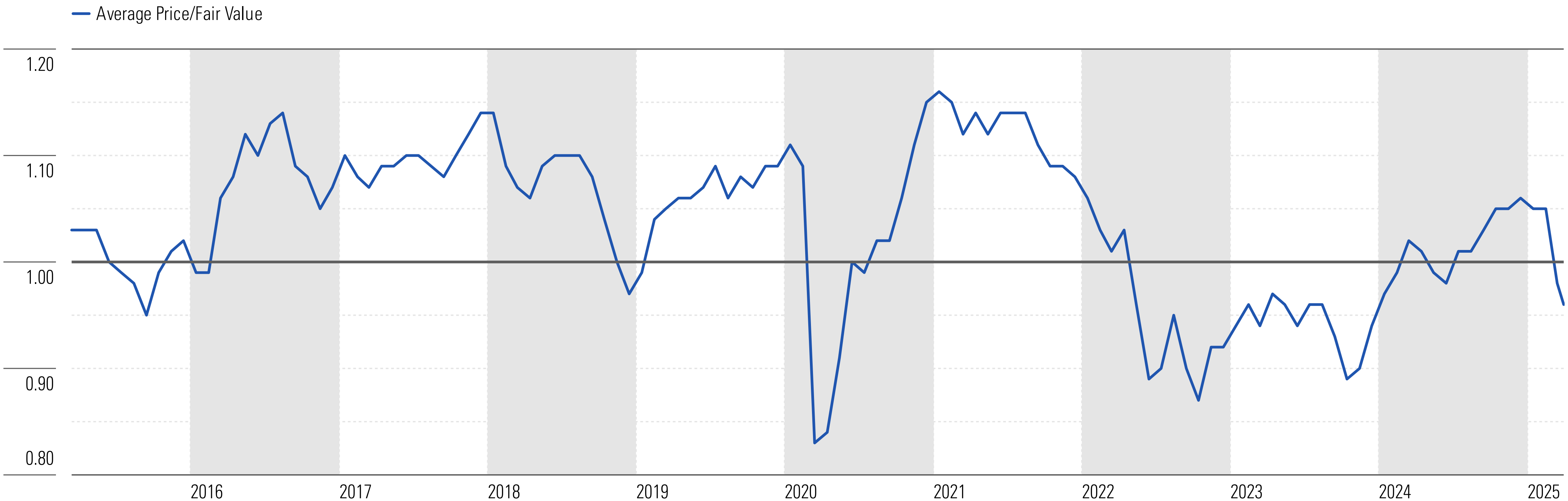
Adrian Atkins | adrian.atkins@morningstar.com

Selloff Uncovers Better Value

The sharp selloff in recent weeks has brought valuations back to similar levels experienced during the 2022 and 2023 corrections. While not shown in the exhibit, which cuts off at the end of March, our Australia and New Zealand coverage was at an 11% discount to fair value on average as of April 7, 2025. This compares with a nearly 10% premium earlier in the year. In the past decade, valuations were only cheaper during the 2020 pandemic crash.

Stocks Undervalued on Average

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



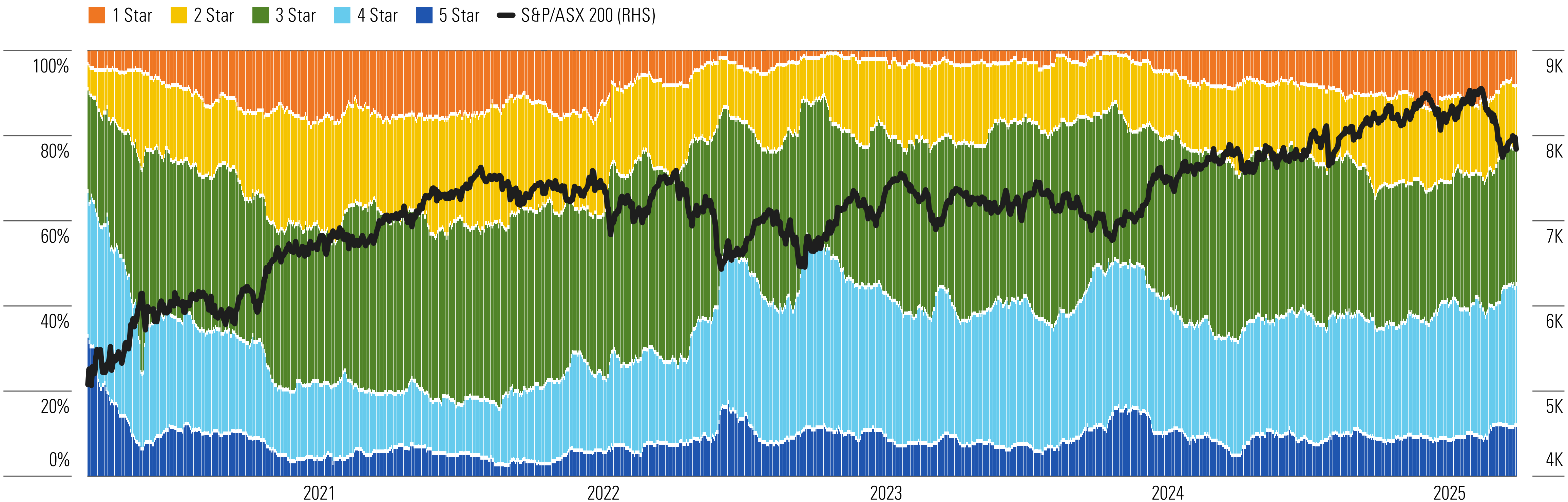
Source: Morningstar. Data as of March 31, 2025.

Plenty of 4- and 5-Star Ratings

As of April 7, more than half of Australian and New Zealand stocks under coverage are 4- or 5-star-rated, well above the trailing 10-year average of 25%. High-quality, large capitalization stocks were generally expensive before the selloff, but many are now attractively priced. About 22% of S&P/ASX 50 stocks have economic moats and are 4- or 5-star-rated.

Positive Ratings Are Plentiful

Star rating distribution over time.



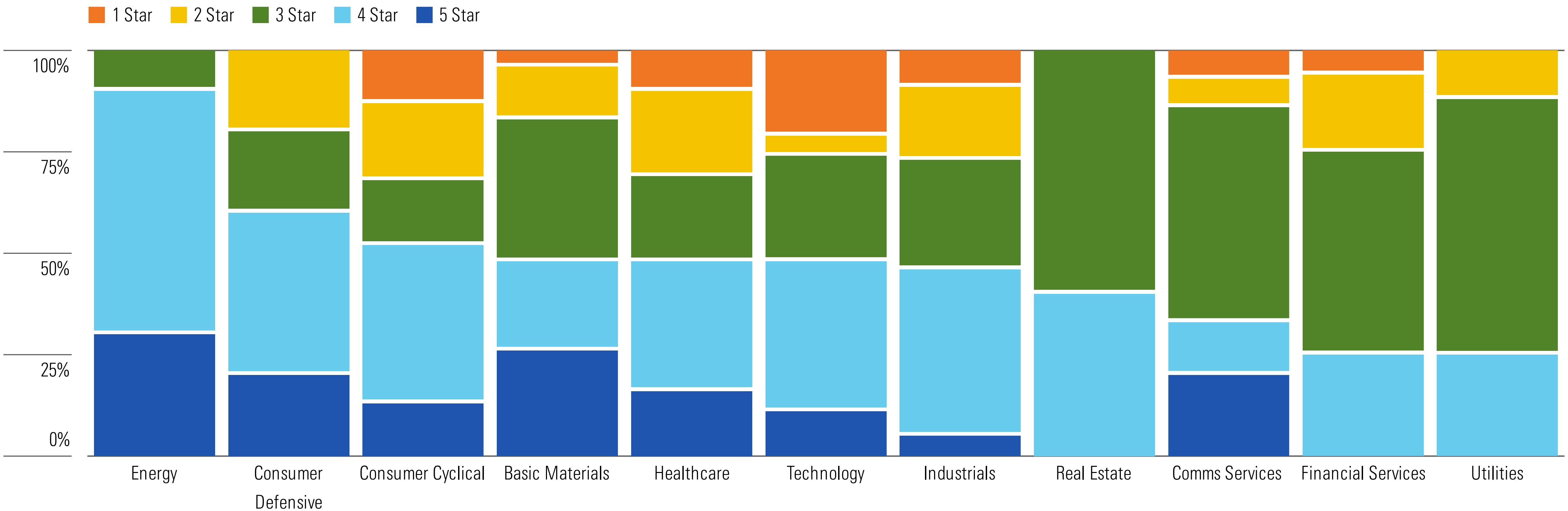
Source: Morningstar. Data as of March 31, 2025.

Many Sectors Look Attractive

Energy remains most undervalued on our estimates as the market frets about demand amid slowing global economies. While concerns are valid, the long-term outlook is favorable. The market selloff has boosted the number of positive ratings across other sectors, including consumer defensive and cyclical, basic materials, healthcare, technology, and industrials. We see the least opportunities in financial services and utilities.

Better Spread of Positive Ratings Across Sectors Following Market Selloff

Star rating distribution by sector.



Source: Morningstar. Data as of March 31, 2025.

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							
Nufarm (NUF)	★★★★★	AUD 7.70	AUD 3.95	High	None	0.53	AUD 1.51
Iluka Resources (ILU)	★★★★★	AUD 9.20	AUD 3.88	High	None	0.44	AUD 1.67
IGO (Australia) (IGO)	★★★★★	AUD 7.00	AUD 3.96	High	Narrow	0.60	AUD 3.00
Communication Services							
Nine Entertainment (NEC)	★★★★★	AUD 2.85	AUD 1.51	High	None	0.54	AUD 2.39
Spark New Zealand (SPK)	★★★★★	AUD 3.20	AUD 1.87	Medium	Narrow	0.59	AUD 3.43
TPG Telecom (TPG)	★★★★	AUD 6.40	AUD 4.80	Medium	None	0.75	AUD 8.92
Consumer Cyclical							
SKYCITY Entertainment Group (SKC)	★★★★★	AUD 2.50	AUD 1.15	High	Narrow	0.46	AUD 0.87
Domino's Pizza Enterprises (DMP)	★★★★★	AUD 58.00	AUD 25.57	High	Narrow	0.46	AUD 2.37
Bapcor (BAP)	★★★★	AUD 7.30	AUD 4.52	High	Narrow	0.64	AUD 1.53
Consumer Defensive							
IDP Education (IEL)	★★★★★	AUD 22.00	AUD 9.41	High	Narrow	0.43	AUD 2.62
Endeavour Group (EDV)	★★★★★	AUD 6.10	AUD 3.84	Low	Wide	0.65	AUD 6.88
Inghams (ING)	★★★★	AUD 3.70	AUD 3.13	Medium	None	0.85	AUD 1.16

Source: Morningstar. Data as of March 31, 2025.

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							
Woodside Energy (WDS)	★★★★★	AUD 41.50	AUD 23.12	Medium	None	0.57	AUD 43.90
Santos (STO)	★★★★	AUD 10.00	AUD 6.66	High	None	0.68	AUD 21.63
Whitehaven Coal (WHC)	★★★★	AUD 9.60	AUD 5.47	Very High	None	0.58	AUD 4.58
Financials							
Challenger (CGF)	★★★★	AUD 7.00	AUD 6.03	High	None	0.87	AUD 4.15
ASX (ASX)	★★★★	AUD 77.00	AUD 65.14	Low	Wide	0.87	AUD 12.66
NIB Holdings (NHF)	★★★	AUD 7.20	AUD 6.85	Medium	Narrow	0.95	AUD 3.33
Health Care							
CSL (CSL)	★★★★	AUD 325.00	AUD 249.28	Medium	Narrow	0.78	AUD 120.70
Ramsay Health Care (RHC)	★★★★★	AUD 58.00	AUD 34.13	Medium	Narrow	0.60	AUD 7.88
Sonic Healthcare (SHL)	★★★★	AUD 33.00	AUD 25.76	Medium	Narrow	0.78	AUD 12.38
Industrials							
James Hardie Industries (JHX)	★★★★	AUD 55.00	AUD 38.48	Medium	Wide	0.70	AUD 16.54
Brambles (BXB)	★★★★	AUD 24.00	AUD 20.03	Medium	Wide	0.85	AUD 27.56
Amcor (AMC)	★★★★	AUD 17.80	AUD 15.34	Medium	Narrow	0.87	AUD 22.32

Source: Morningstar. Data as of March 31, 2025.

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 9.60	AUD 7.08	Medium	None	0.75	AUD 7.62
The GPT Group (GPT)	★★★★	AUD 5.70	AUD 4.36	Medium	None	0.78	AUD 8.35
Mirvac Group (MGR)	★★★★	AUD 2.50	AUD 2.09	Medium	None	0.85	AUD 8.25
Technology							
Fineos (FCL)	★★★★	AUD 3.10	AUD 2.00	Very High	Wide	0.66	AUD 0.68
SiteMinder (SDR)	★★★★★	AUD 10.00	AUD 4.37	High	Narrow	0.45	AUD 1.23
Pexa Group (PXA)	★★★★	AUD 17.25	AUD 11.16	High	Wide	0.65	AUD 1.98
Utilities							
Manawa Energy (MNW-NZ)	★★★★	NZD 6.10	NZD 5.36	Medium	Narrow	0.81	NZD 1.68
APA Group (APA)	★★★★	AUD 9.30	AUD 7.90	Medium	Narrow	0.86	AUD 10.31
AGL Energy (AGL)	★★★	AUD 12.00	AUD 10.52	High	None	0.89	AUD 7.08

Source: Morningstar. Data as of March 31, 2025.

Basic Materials

Jon Mills | jon.mills@morningstar.com

Tariffs and Expectations of Slower Economic Growth See Sector Now Undervalued

Expectations that higher tariffs imposed by President Trump could cause a US recession, along with slower economic growth in China, have seen many commodity prices fall over the quarter. Gold is the notable exception, recently reaching new highs as investors seek safety. In turn, most gold miner shares are up and trade above fair value, with Newmont the exception.

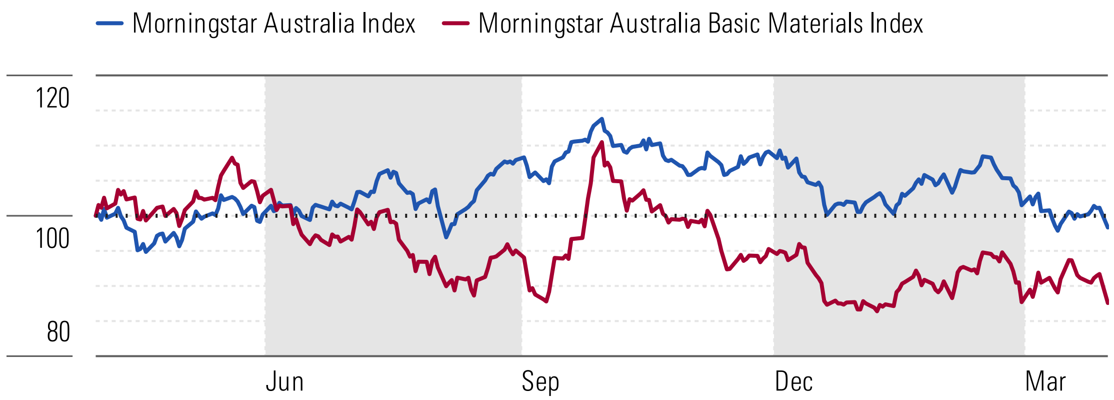
Copper is also higher, potentially driven by traders moving copper to the US before the potential imposition of tariffs on imported copper.

Metallurgical coal prices are down on supply out of Mongolia, but iron ore prices are broadly stable. BHP, Rio, and Fortescue are all close to fairly valued, although Mineral Resources is cheap due to debt concerns and subdued lithium prices. Subdued lithium prices also drive Deterra's discount to fair value.

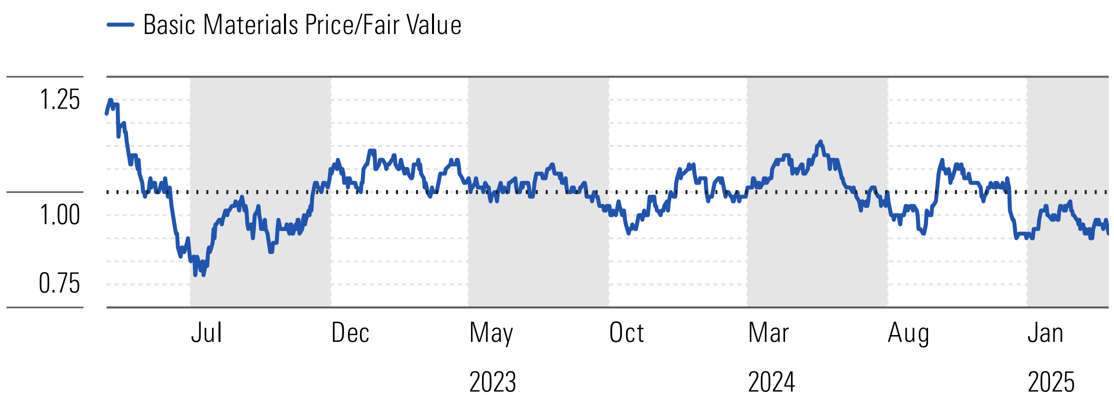
Slow China and global property markets drive mineral sands miner Iluka's material undervaluation. But we think prices will recover, assisted by long-term structural supply challenges in high-grade titanium dioxide and zircon markets.

We are bearish on the long-term outlook for iron ore and base metals demand given structural headwinds in China. These include its likely transition to a less commodity-intensive economy, falling population, housing oversupply, mature infrastructure stock, and rising trade frictions.

Basic Materials Sector Weakens on Tariff and Recession Concerns



Sector Broadly Undervalued



Source: Morningstar. Data as of March 31, 2025.

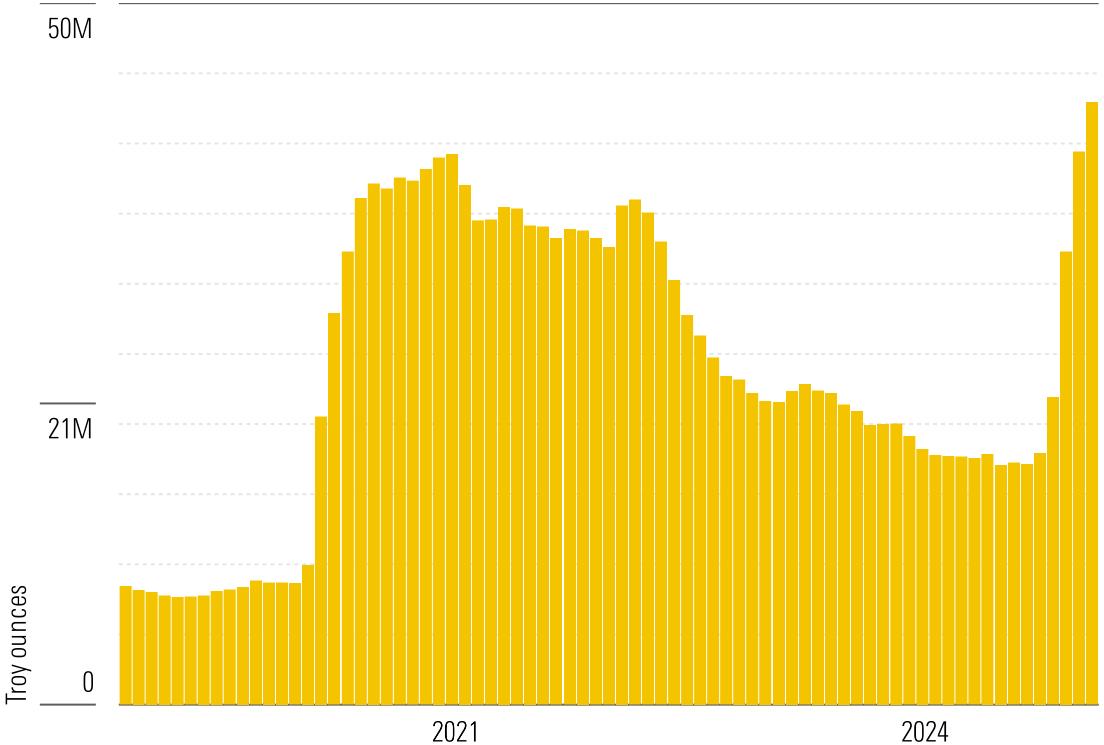
Tariffs and Expectations of Slower Economic Growth See Sector Now Undervalued

Gold is up strongly so far in 2025 as investors seek safety from recession and geopolitical fears. Gold is also shifting to the US from London on potential US tariffs on gold. If war with Russia escalates, European capital controls could also be a risk.

US copper now trades at a material premium to London copper as traders move copper to the US to pre-empt potential tariffs. However, this premium is likely to decrease in the long term as trade distortions normalize and fundamentals such as lower demand from China reassert.

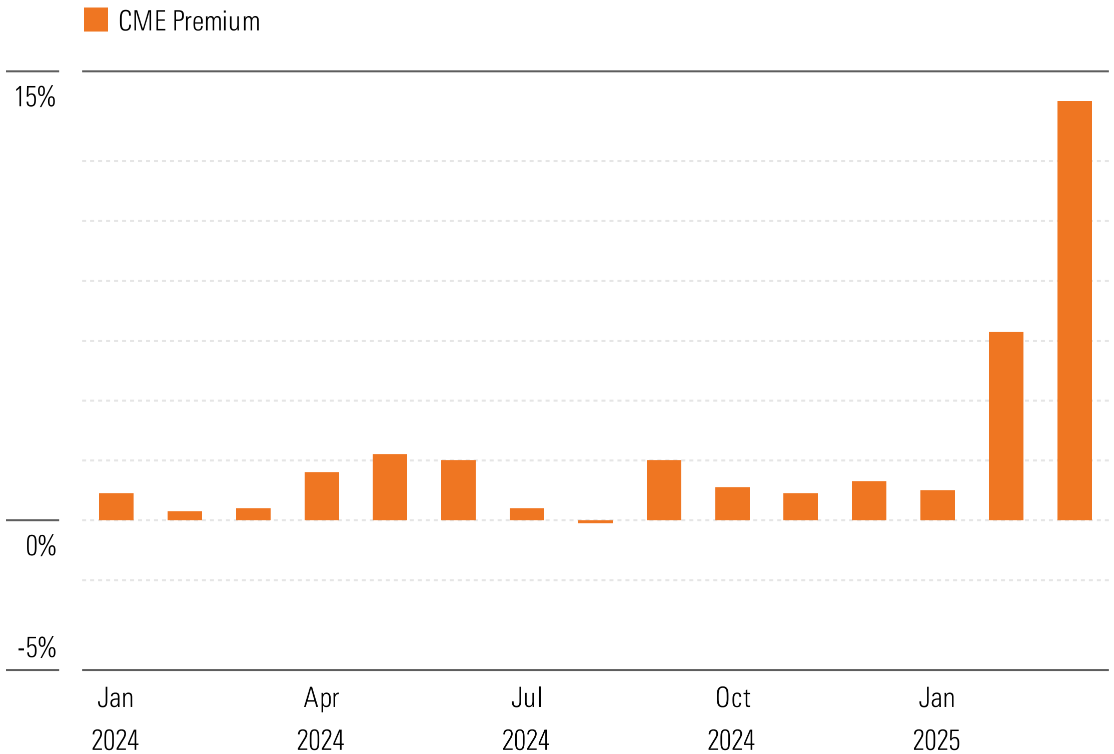
US Gold Stocks Surge on Tariff Fears and Safe Haven Flows

COMEX warehouse gold stocks.



US Copper Prices Higher as Traders Pre-Empt Tariffs

Premium of Chicago copper prices to London copper prices.



Source: Chicago Mercantile Exchange. Data as of March 25, 2025 (left). Chicago Mercantile Exchange, London Metals Exchange. Data as of March 21, 2025 (right).

Basic Materials

Company (Ticker)		Rating	
Nufarm (NUF)		★★★★★	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 growth in earnings per share to AUD 0.83 by fiscal 2029 for an attractive prospective mid-single-digit P/E. 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.
Price	**Fair Value**	**Uncertainty**	
AUD 3.95	AUD 7.70	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.51	None	Standard	
Company (Ticker)		**Rating**	
Iluka Resources (ILU)		★★★★★	Mineral sands prices are in a cyclical downturn on reduced demand driven by slower global property markets. Rare earths prices are also depressed, which, along with the blowout in capital expenditure to build its rare earths refinery at Eneabba, are likely why Iluka shares trade at less than half fair value. However, we think mineral sands demand will recover, with prices supported by likely long-term structural supply challenges for high-quality zircon and titanium dioxide feedstocks. While Iluka's increased capital contribution to help build the Eneabba refinery is also manageable, and it could be valuable if rare earths prices increase. With net cash (excluding non-recourse refinery debt) of approximately AUD 90 million as of the end of December 2024, its solid balance sheet enables Iluka to weather the cyclical downturn.
Price	**Fair Value**	**Uncertainty**	
AUD 3.88	AUD 9.20	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.67	None	Exemplary	
Company (Ticker)		**Rating**	
IGO (Australia) (IGO)		★★★★★	We think the market takes a different view on the outlook for lithium prices, the key valuation driver for IGO. We believe lithium prices are nearing a cyclical bottom, and this offers an attractive entry point for investors. Lithium trades well below our estimate of the marginal cost of production, and we expect prices to recover as end-market demand grows and higher-cost supply exits. IGO's primary asset is its minority stake in Greenbushes, one of the world's highest-quality and lowest-cost hard rock lithium mines. This asset underpins its narrow economic moat. We expect lithium demand to nearly triple by 2030 from levels in 2023, largely driven by electric vehicle sales. To support this, IGO plans to expand capacity at Greenbushes by about two-thirds by the end of the decade.
Price	**Fair Value**	**Uncertainty**	
AUD 3.96	AUD 7.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.00	Narrow	Standard	

Source: Morningstar. Data as of March 31, 2025.

Communication Services

Brian Han | brian.han@morningstar.com

Capital Expenditure Has Peaked in Telcos, While Media Is Growing Digital Audience

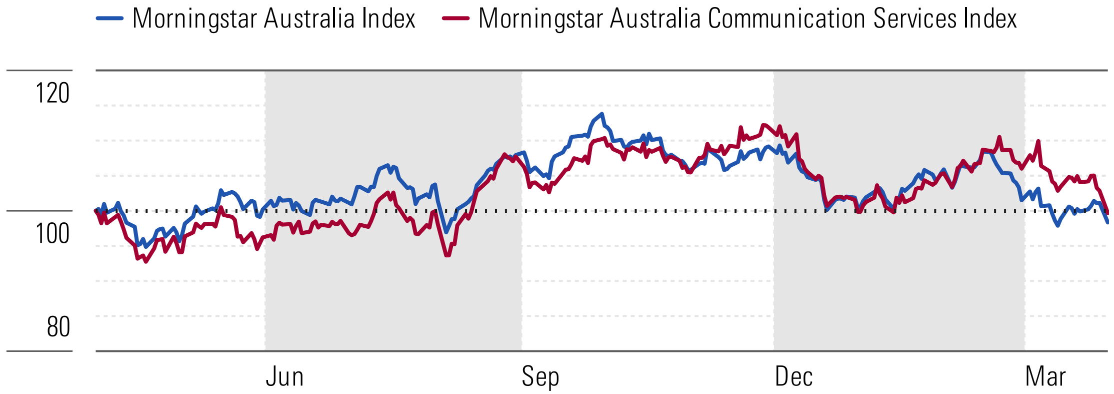
With high levels of uncertainty globally, the telecommunication sector should be resilient. However, despite its defensive nature, growing costs and capital expenditures have dampened free cash flow in recent years. Capex has increased dramatically due to 5G-related investments.

On a positive note, capital expenditures are likely to have peaked and should be much lower from fiscal year 2025 as 5G investment tails off and companies become increasingly disciplined. With steady EBITDA growth forecasted across our coverage, reducing capex is likely to see increased free cash flow.

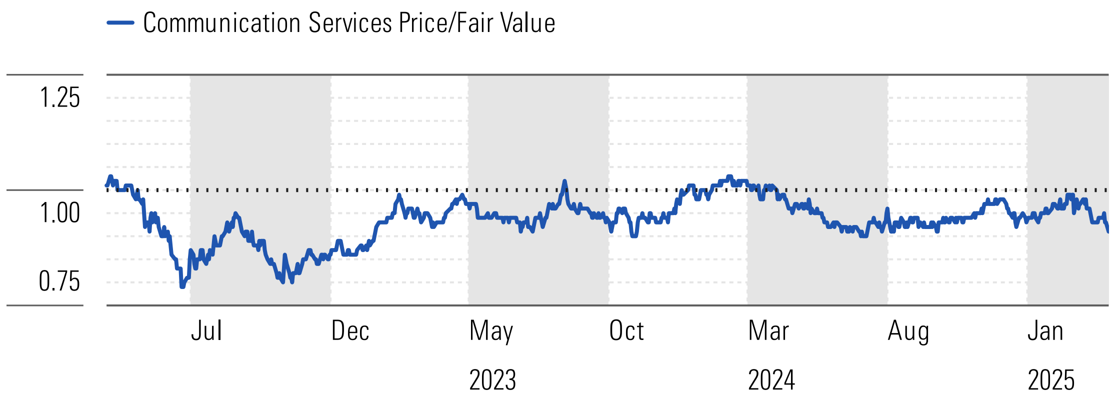
Media began the year strongly with the average performance of the names we cover up around 10%. We believe there's more to go as advertising markets recover from cyclical doldrums and the market realizes traditional media's audience decline is slower than previously feared. Pressure from shareholders sees media companies reducing costs and selling nonperforming assets.

Overall, audiences are shifting from linear TV to broadcast video on demand. How traditional media companies monetize this streaming audience while optimizing programming investment and reducing headcount is key. However, considering the rock-bottom valuations of 3 to 4 times our forecast EBITDA, little needs to go right for meaningful share price improvements.

Sector Performance Boosted by Recent Media Rally



Still Value in Defensive Telcos but Media Names Even Cheaper



Source: Morningstar. Data as of March 31, 2025.

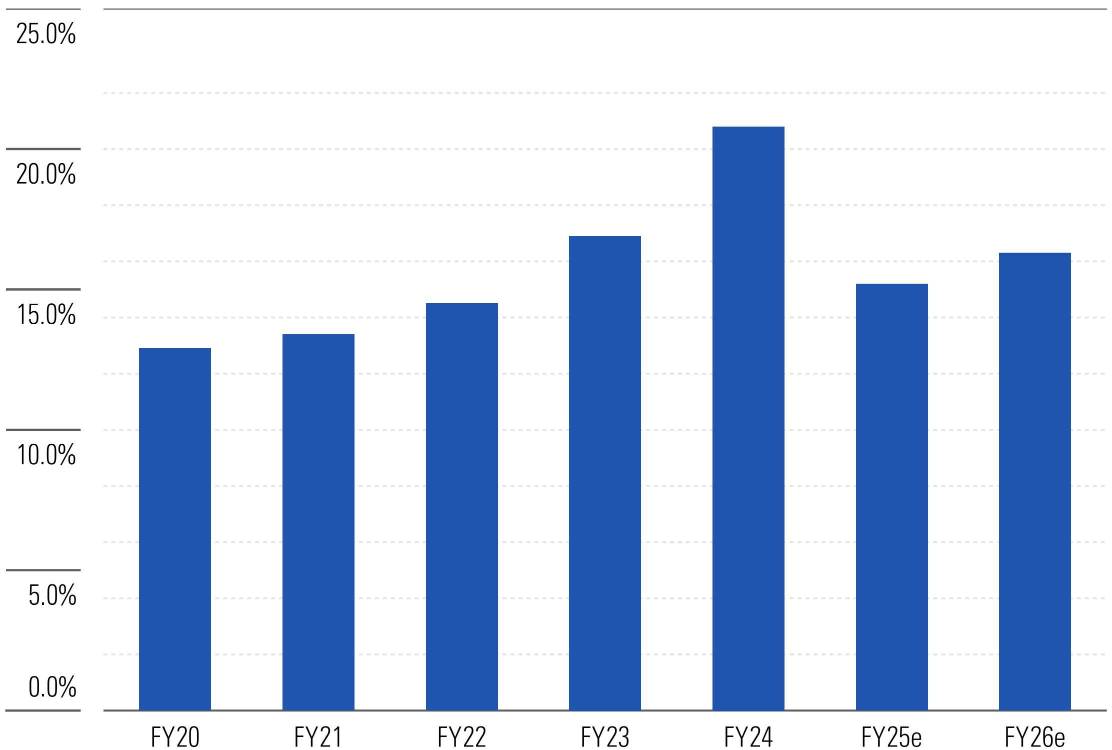
Capital Expenditure Has Peaked in Telcos, While Media Is Growing Digital Audience

The expected reduction in capital expenditure should increase telecommunication companies' free cash flow. Our estimate is for capex to be below fiscal year 2024 levels through to fiscal year 2029.

Media audiences are likely to continue to shift from linear television to broadcast video on demand. We expect traditional media companies to better monetize their combined linear-digital audience while keeping noncontent costs down.

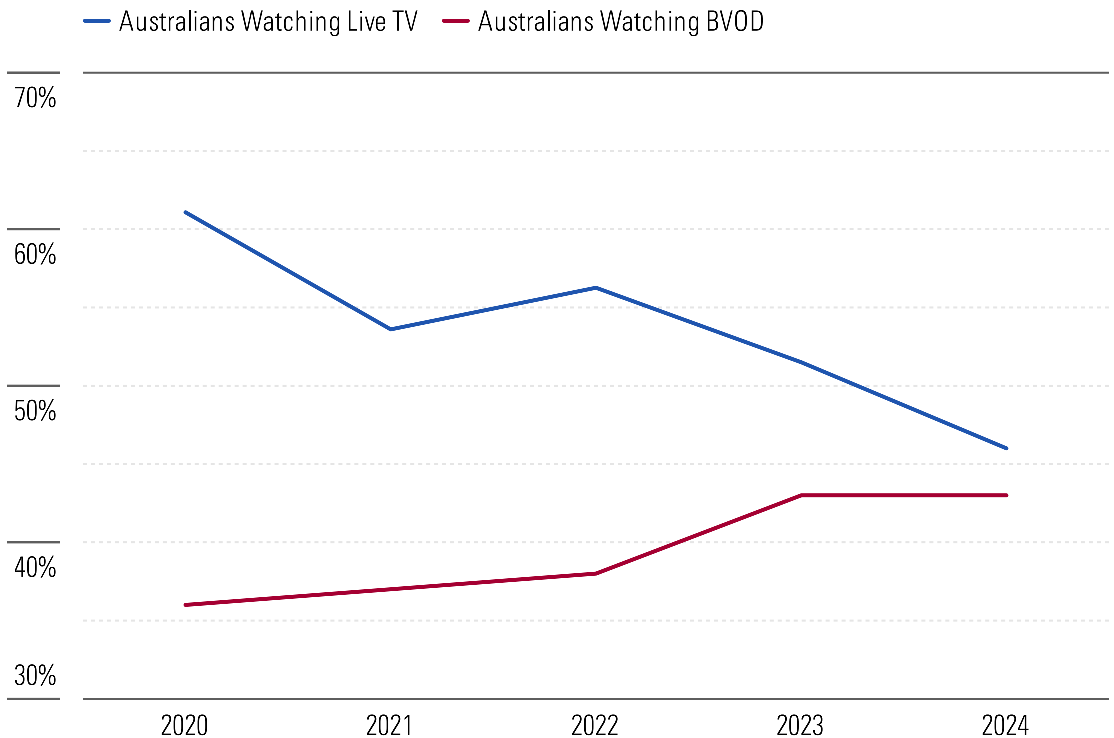
Telco Capex Has Peaked

Capital expenditure as a percentage of revenue.



Australian Television Viewership Behavior

Percentage of Australians who watch Live TV or BVOD.



Source: Company reports and Morningstar estimates. Capital Expenditure of Telstra, TPG, and Spark. Data as of March 2025 (left). Australian Communication and Media Authority Survey. Data as of December 2024 (right).

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 offset by a broadcast streaming offering, a subscription video-on-demand service, and a 60% ownership stake in the digital real estate business Domain. The publishing unit has transformed into a digital-first news provider, reducing its 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. While the persistent advertising recession hurts group earnings and investor concerns about structural headwinds hurt earnings multiples, the risks are more than reflected in the current bargain basement stock price.
Price	**Fair Value**	**Uncertainty**	
AUD 1.51	AUD 2.85	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.39	None	Standard	

Company (Ticker)		Rating	
Spark New Zealand (SPK)		★★★★★	We recently lowered our revenue expectations for narrow-moat Spark New Zealand, especially from government and enterprise across mobile and IT. Dividend per share forecasts were also cut and projected at this level for a few years so as to keep net debt/EBITDAI around 2. The group's cost base is fundamentally more bloated than we thought and not agile enough to respond to unexpected revenue weaknesses, some of which are more structural than we previously appreciated. However, there is also a cyclical impact on current earnings, which should dissipate over time as New Zealand's economy recovers. Furthermore, a laser focus on costs is likely, with decent cost-out targets already presented. We expect earnings growth to resume in earnest from fiscal 2027, albeit at a telco-like, low-to-mid-single-digit level. None of this upside is reflected in the current stock, trading at a mere 6 times our forecast medium-term EBITDA and currently yielding around 7%.
Price	**Fair Value**	**Uncertainty**	
AUD 1.87	AUD 3.20	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.43	Narrow	Standard	

Company (Ticker)		Rating	
TPG Telecom (TPG)		★★★★	TPG Telecom’s benefits from a more rational mobile market are coming through. In a three-player mobile network market with each increasingly more focused on return on their vast capital investments, especially in rolling out 5G, we believe rational competitive behavior will continue. This is likely to be augmented by continuing growth from fixed wireless. Pending completion of the AUD 5.3 billion corporate telecom unit sale will further accentuate the benefits of being a mobile-focused entity, while the sales proceeds will wipe out any lingering market concerns about TPG’s balance sheet. Benefits of cost-out and business simplification initiatives are already emerging, just as the current capital expenditure hump from 5G and IT modernization is beginning to moderate. The overhang of major shareholders whose holdings are now out of escrow after the Vodafone merger may be causing some investor consternation. However, these concerns are more than reflected in the share price, especially given the longer-term tailwinds for the telecom industry as it makes the transition to 5G.
Price	**Fair Value**	**Uncertainty**	
AUD 4.80	AUD 6.40	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 8.92	None	Standard	

Source: Morningstar. Data as of March 31, 2025.

Consumer Cyclical

Angus Hewitt, CFA | angus.hewitt@morningstar.com
Johannes Faul, CFA | johannes.faul@morningstar.com

US Tariffs Unlikely to Be Lasting Headwind for Aussie Retailers

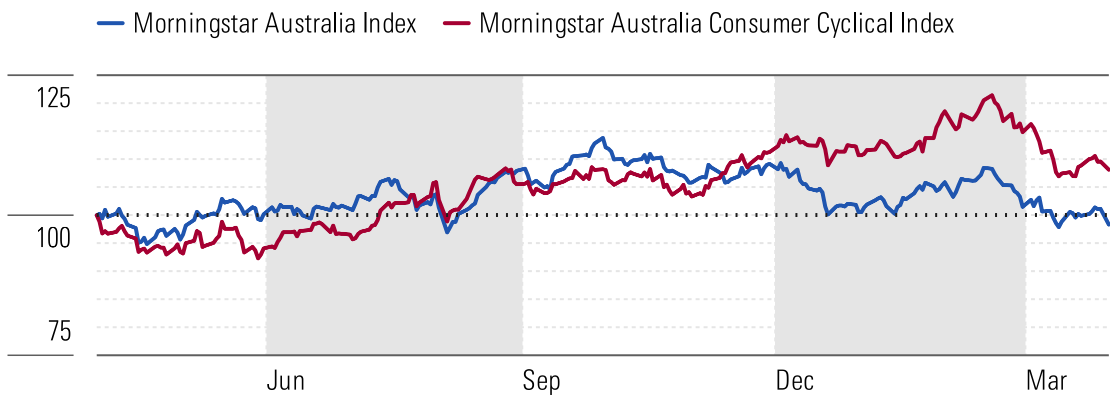
We expect the first-order effects of US tariffs on Australian retailers to be short-lived. Although we believe the net impact to be slightly negative for retailers and positive for consumers, we see negligible risks for the long-term outlook and intrinsic valuations of our Australian discretionary retail coverage.

We anticipate increased US tariffs on some USD 400 billion of Chinese goods to partially divert this supply elsewhere, including to Australia. We believe an increased supply of Chinese goods will deflate prices for consumer goods globally, outside the US. In this scenario, Australian consumers would benefit from lower prices in the short term. But at the same volume and gross margin, discretionary retailers would face lower revenue and earnings. We don't expect earnings to be materially affected in reality, with increased buying power and demand to offset some of the headwinds.

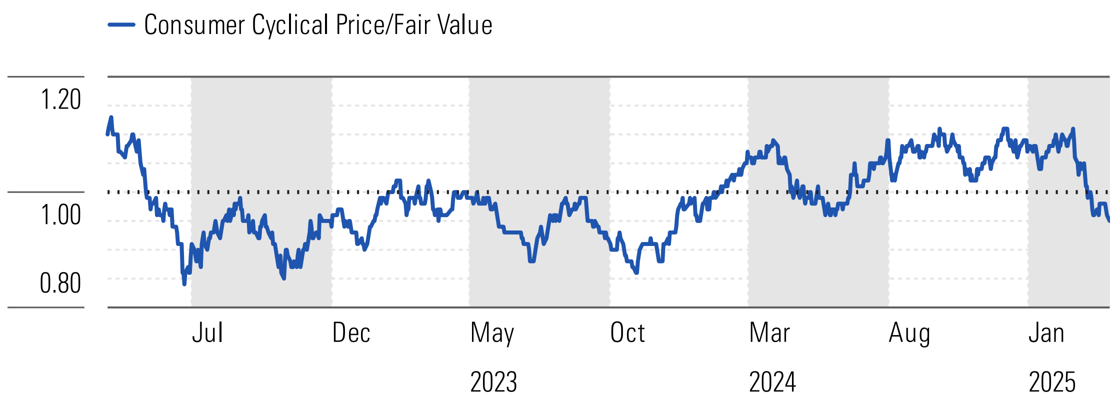
The longevity of the tariffs are uncertain. But there is certainly an incentive to resolve the matter because exporting nations and the US economy will likely feel pain. Even if new tariffs stay beyond the current US presidential term, we think supply chains would adjust, and production capacity in higher-cost jurisdictions would reduce—in the long run, all costs are variable. Accordingly, the long-term earnings outlook of Australian retailers is undiminished.

For brands, moats matter. US tariffs on Chinese-manufactured goods affect about 40% of Breville's revenue. But Breville has been here before. Tariffs of up to 25% in fiscal 2019, affecting about 10% of Breville's goods, were largely offset by price increases.

Outperforming Cyclicals Are Detached from Reality



Fairly Valued but Pockets of Exuberance Warrant Investor Caution



Source: Morningstar. Data as of March 31, 2025.

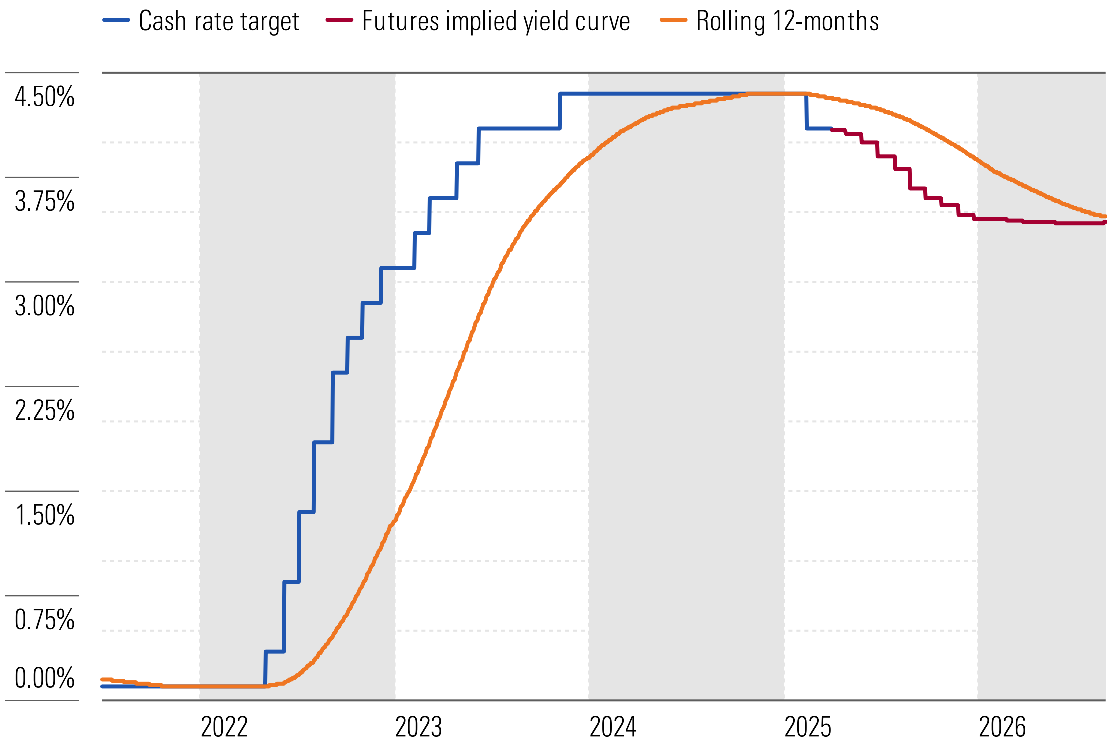
US Tariffs Unlikely to Be Lasting Headwind for Aussie Retailers

Discretionary spending is the key macro driver for cyclicals. Despite recent interest rate cuts, debtors are still feeling pain. We expect a lag for the full impact to flow to consumers, and rate cuts to take at least a year to unfold their maximum relief.

We expect falling interest rates to be a boon for goods consumption, which has been depressed by high mortgage payments. We anticipate discretionary goods are best placed to benefit.

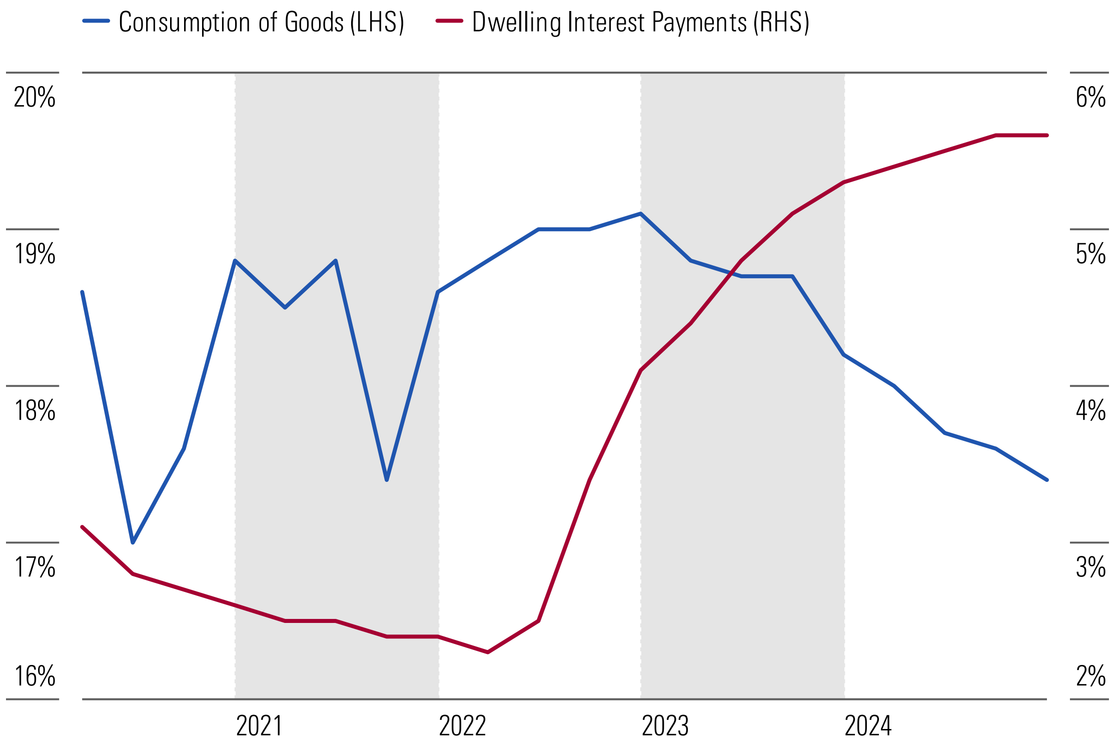
Market Doesn't Expect Return to Ultra Cheap Money Setting

RBA cash rate and 30-day interbank cash-rate futures implied yield curve.



Mortgage Pain Driving Down Goods Consumption

Quarterly consumption and dwelling interest payments as % of household income.



Source: Reserve Bank of Australia, ASX. Data as of March 7, 2025 (left). Australian Bureau of Statistics. Data as of Dec. 31, 2024 (right).

SECTOR TOP PICKS

Consumer Cyclical

Company (Ticker) SKYCITY Entertainment Group (SKC)		**Rating** ★★★★★	Regulatory headwinds and weaker earnings weigh on SkyCity shares. Regulatory and compliance costs are up sharply—much of which we expect to be permanent, and the weaker discretionary environment is weighing on both the mass market and premium consumers. However, 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. We expect a sharp uptick in profitability from fiscal 2026 as one-off costs roll-off, a full year of earnings from Horizon Hotel, and the New Zealand International Convention Centre comes online during the period. Capital spending is also set to ease materially as about NZD 1 billion in major projects near completion.
Price AUD 1.15	**Fair Value** AUD 2.50	**Uncertainty** High	
Market Cap (bil) AUD 0.87	**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. Recent softness in same-store sales growth and a slower store rollout overlooks the massive growth potential of the firm's global network. We forecast a 20% earnings compound annual growth rate for the next five years. The bulk of our long-term earnings growth forecast is tied to franchisees opening new stores. Franchise store profitability and demand for new stores hinge on same-store sales growth, which we expect to recover from fiscal 2026, together with a broader fast-food recovery. While management is reviewing its ultimate target, we estimate Domino's footprint will increase by 50% to 5,800 stores globally—about 20% below the previous management's target.
Price AUD 25.57	**Fair Value** AUD 58.00	**Uncertainty** High	
Market Cap (bil) AUD 2.37	**Economic Moat** Narrow	**Capital Allocation** Exemplary	
Company (Ticker) Bapcor (BAP)		**Rating** ★★★★	Negative sentiment amid short-term headwinds, management turmoil, and structural changes facing the automotive industry has left the fundamental strength and resilience of Bapcor's automotive parts business underappreciated. A slowdown in discretionary spending weighs on retail in the near term; a new management team will need 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 of the automotive spare parts, and Bapcor is likely to successfully adapt to the gradual technological transition.
Price AUD 4.52	**Fair Value** AUD 7.30	**Uncertainty** High	
Market Cap (bil) AUD 1.53	**Economic Moat** Narrow	**Capital Allocation** Exemplary	

Source: Morningstar. Data as of March 31, 2025.

Consumer Defensive

Angus Hewitt, CFA | angus.hewitt@morningstar.com
Johannes Faul, CFA | johannes.faul@morningstar.com

Supermarket Industry Unscathed by Competition Inquiry

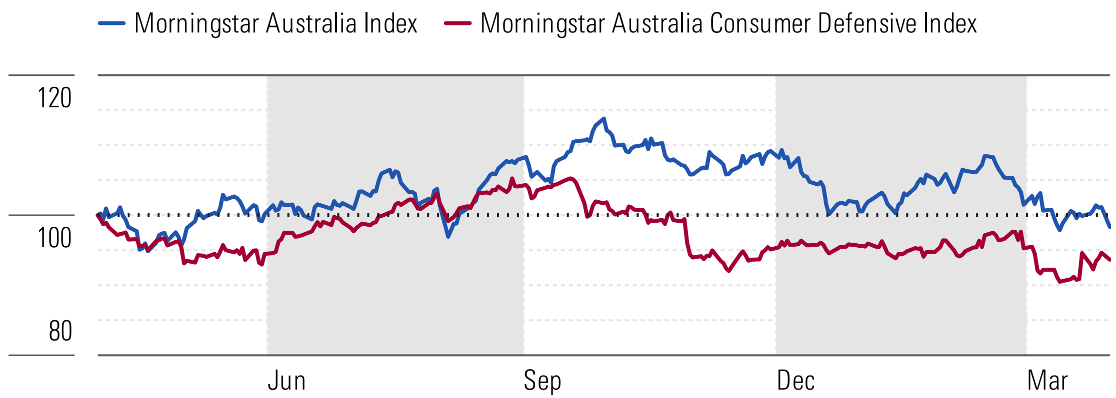
As we expected, the final report of the Australian Competition and Consumer Commission's inquiry into the supermarket sector doesn't meaningfully affect Woolworths and Coles. However, a mid-single-digit relief rally following the report's release suggests the market was worried. We see none of the 20 recommendations and reforms of the final report, largely focusing on greater transparency for consumers and suppliers, as overly burdensome for supermarkets.

We don't think the supermarkets are price gouging, and the inquiry didn't find evidence that they are. Spikes in food price inflation were a global phenomenon, and peak food inflation exceeded Australia's in New Zealand, the US, the UK, and the euro area. Currently, Australian food price inflation stands at 3%, a third less than the peak of 10% in December 2022, without any government intervention.

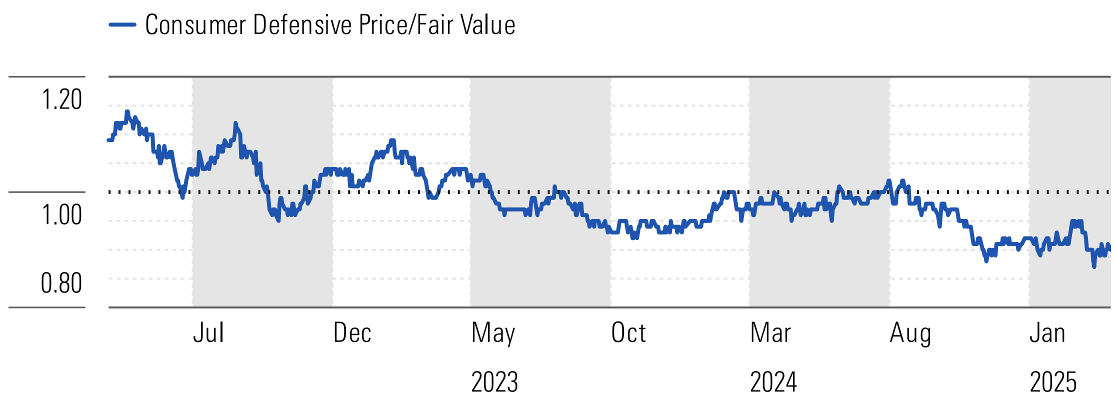
The report says independent retailers, like those within Metcash's IGA network, are losing market share, and Woolworths and Coles are likely to gain share due to better value offerings and more convenient locations. However, we believe Australian food retailing is more competitive today than a decade ago, with gains by Aldi and Costco.

Liquor retailers, market leader Endeavour and number two Coles, are grappling with sluggish sales growth. While consumption volumes are holding up close to trend levels, consumers are trading down to cheaper options and are buying in bulk. We expect the premiumization trend to return from fiscal 2026 on rising real incomes and improving consumer sentiment following rate cuts, boosting liquor sales growth and earnings.

Consumer Defensives Underperform as Wages Bite



Opportunities Abundant as Defensives Struggle in Higher Cash Rate Environment

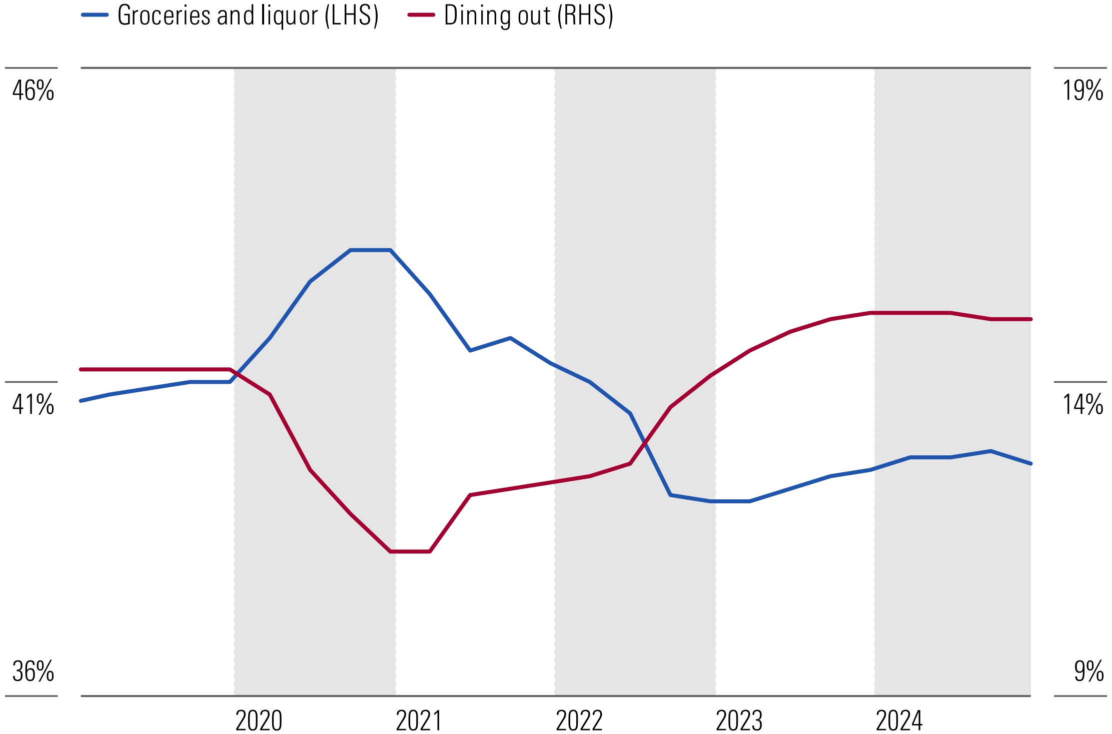


Supermarket Industry Unscathed by Competition Inquiry

At the expense of supermarkets, dining out remains elevated as a share of personal spending. But we expect this to normalize over the medium term—a tailwind for supermarkets but a headwind for suppliers, given supermarkets are generally a less profitable channel.

Consumers Still Treating Themselves to Eating Out More

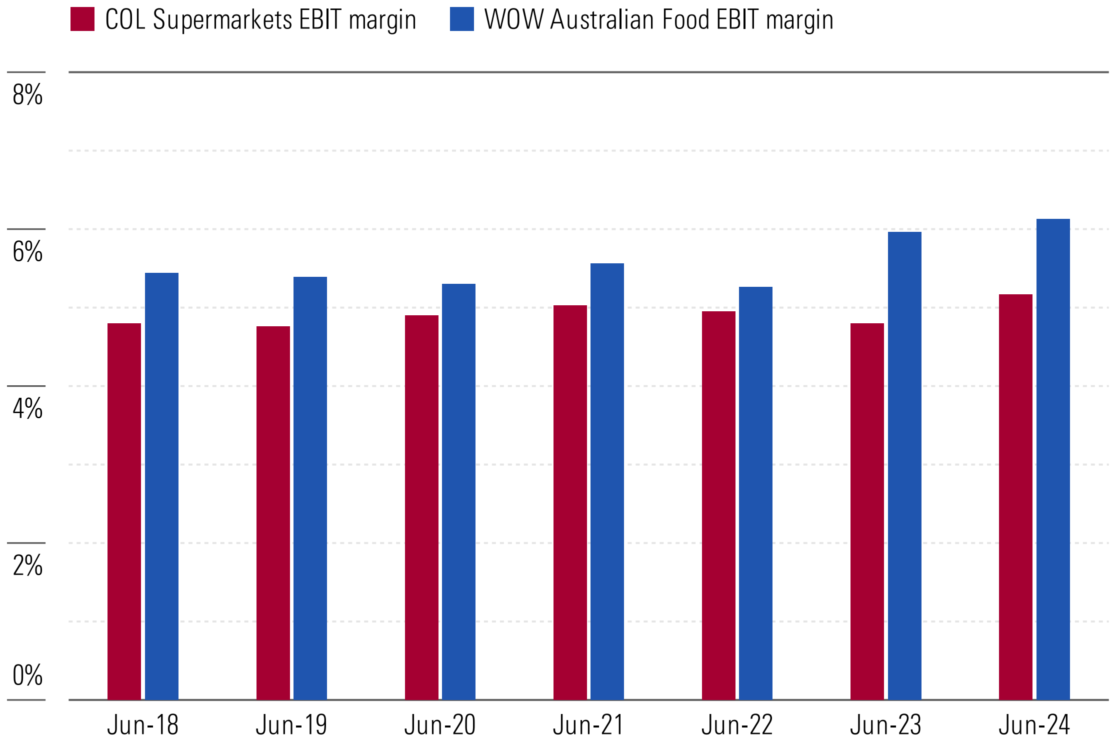
Category share of retail spending, rolling 12 months.



Woolworths is our preferred pick between the supermarkets. On valuation, Woolworths is cheaper. Woolworths is also a higher quality business, underlined by its wide economic moat, outperforming Coles on most metrics that matter.

Woolworths Structurally One-Up on Coles

Adjusted operating margins of Woolworths' and Coles' Australian supermarkets.



Source: Australian Bureau of Statistics. Data as of Dec. 31, 2024 (left). Australian Bureau of Statistics, company filings, Morningstar. Note: Woolworths and Coles Australian supermarket segments only. Data as of June 30, 2024 (right).

Consumer Defensive

Company (Ticker)		Rating	
IDP Education (IEL)		★★★★★	The market has a short-sighted view of IDP Education, driven by recent declining volumes and regulatory uncertainty. We agree the short-term outlook is soft, and we forecast IDP's earnings to fall in fiscal 2025. However, we expect the firm to outperform broader industry declines as the industry preferences high-quality operators like IDP. We see compelling long-term value given that foreign-student caps are temporary and in response to transitory cyclical concerns. The pricing outlook is positive in the near term, with IDP negotiating improved terms and universities looking to raise tuition fees given capped international students. We expect IDP to benefit from long-term macroeconomic drivers that underpin international education. See our IDP Education Stock Pitch, published in November 2024, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 9.41	AUD 22.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.62	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Endeavour Group (EDV)		★★★★★	The market underappreciates Endeavour's defensive long-term earnings outlook. Consumers are trading down to cheaper options and buying in bulk for at-home liquor consumption. We believe current liquor retailing performance reflects a cyclically weak trading environment due to elevated cost-of-living pressures. However, we expect liquor sales momentum to improve and sales growth to reach durable levels in the mid-single digits from fiscal 2026. In the long term, we think liquor demand is defensive, underpinned by inflation, population growth, and a structural trend toward premiumization. In the smaller hotels segment, earnings are proving resilient despite recently introduced gaming regulations in Victoria.
Price	**Fair Value**	**Uncertainty**	
AUD 3.84	AUD 6.10	Low	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 6.88	Wide	Exemplary	
Company (Ticker)		**Rating**	
Inghams (ING)		★★★★	We think the market's concerns about Inghams are overdone. Cost inflation is weighing on profitability as commensurate price increases prove notoriously slow to respond. The new supplier agreement with major customer Woolworths, essentially a phased reduction in its annual volume to diversify suppliers, is also set to weigh on near-term volume growth. We expect near-term volume pressures to ease from fiscal 2026 as the company reallocates Woolworths product to other customers. We also expect investments in automation and price increases to support margin improvement. Longer term, poultry demand should remain robust. Chicken is one of the most cost-effective protein sources. Producers can convert feed into live weight for chicken approximately 1.5 times more efficiently than pork and 4 times more efficiently than beef.
Price	**Fair Value**	**Uncertainty**	
AUD 3.13	AUD 3.70	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.16	None	Standard	

Source: Morningstar. Data as of March 31, 2025.

Energy

Mark Taylor | mark.taylor@morningstar.com

Weak Oil Demand Weighs, but We Think Prices May Be Bottoming

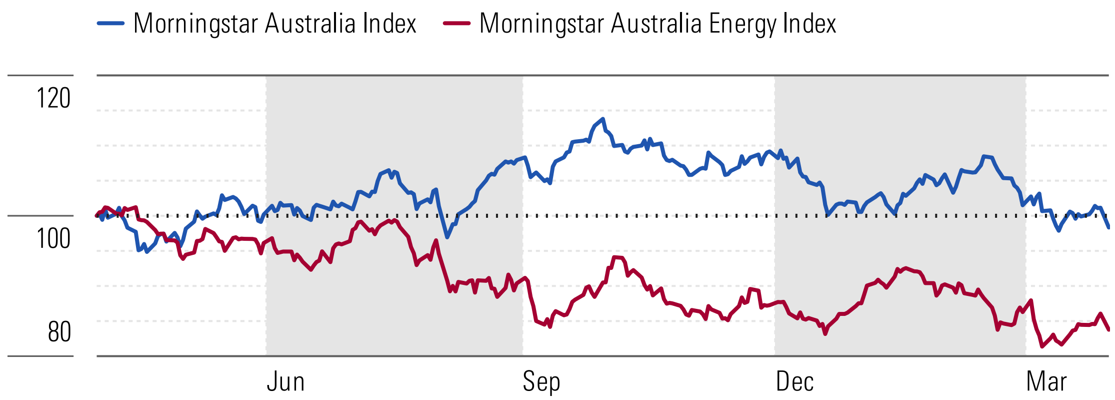
The energy sector is significantly undervalued on a long-term view. Global oil prices faced significant headwinds in the first quarter, which could persist into 2025. As well, US trade policy uncertainty has rippled through markets, including possible economic impacts that could weaken demand. However, new sanctions on Venezuela and the willingness of OPEC to pause production increases suggest further downside to oil prices is likely limited.

With uncertainty surrounding global oil supply and demand weighing on the share prices of oil producers, most local names, including Woodside and Santos, are undervalued. Particularly important for gas-exposed Australian hydrocarbon producers, the outlook for liquefied natural gas is positive.

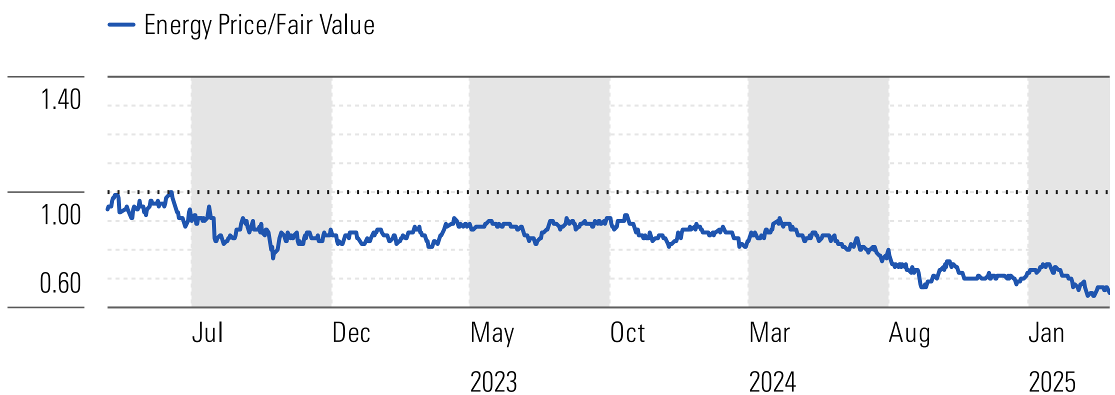
LNG demand is expected to increase by almost 60% over the next 10 years, according to Wood Mackenzie. This assumes increasing GDP per capita in regions short of gas resources, along with the opportunity for LNG to displace coal in emerging markets and for gas-fired generation to back up intermittent renewables.

The renewable energy transition does not negate the value proposition for Australian hydrocarbon producers, given our expectation for persisting conventional hydrocarbon demand. Significant investment is required in most demand scenarios to backfill falling hydrocarbon supply, which naturally declines at 5% to 6% per year. This investment will only occur if hydrocarbon prices are reasonably attractive.

Energy Names Retreated as Oil Price Softened



Opportunities Abundant on Deep Undervaluation



Source: Morningstar. Data as of March 31, 2025.

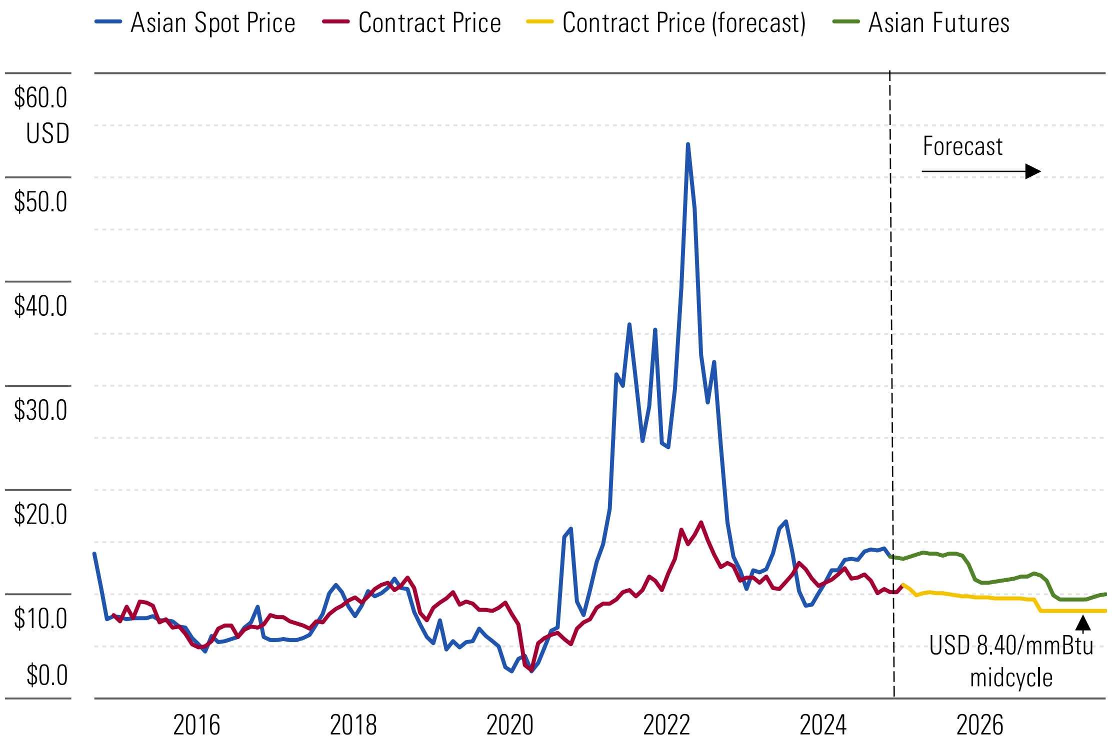
Weak Oil Demand Weighs, But We Think Prices May Be Bottoming

Our oil and gas producer fair value estimates assume a pullback in prices of Brent crude and contract LNG to USD 60 per barrel and USD 8.40 per million British thermal units from late 2026, respectively.

It is not currently feasible to eradicate all oil demand, which contributes to our forecast for a gradual, rather than sudden, decline in demand. For the petrochemical and aviation sectors, there are often no alternatives to oil and gas.

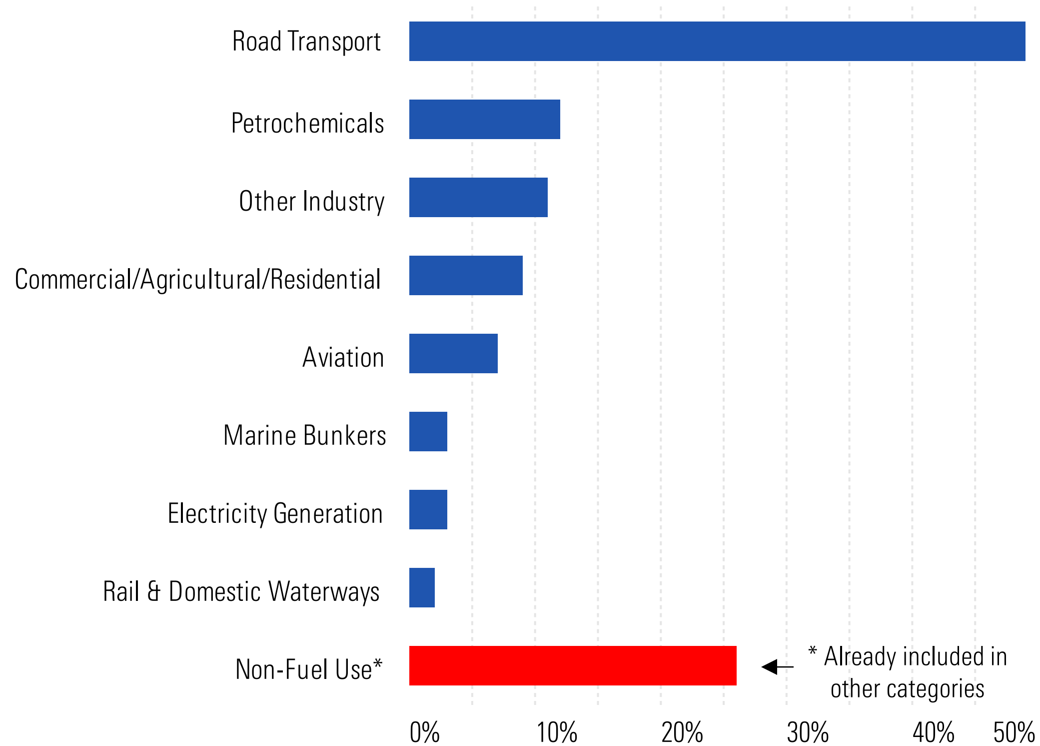
LNG Futures Still Exceed the Brent-Referenced Contract

LNG prices (USD per mmBtu)



For Some Applications, Hydrocarbons Can't Be Replaced Economically

Breakdown of OECD oil demand in 2023.



Source: investing.com, CME, Morningstar. Data as of March 2025 (left). Statista (right)

Energy

Company (Ticker)		Rating	
Woodside Energy (WDS)		★★★★★	Woodside has meaningful development underway, including Scarborough/Pluto T2 LNG, and new Sangomar oil production is now ramped up. While net production growth is less than for 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 approach WACC by 2033. We forecast group production growing by 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. To some extent, Woodside can be viewed as an infrastructure play, given that LNG processing trains can treat third-party gas if needed. Enterprise value at our fair value estimate is approximately USD 53 billion. LNG infrastructure replacement cost underwrites 95% of enterprise value at our fair value even though it accounts for less than two-thirds of group production.
Price	**Fair Value**	**Uncertainty**	
AUD 23.12	AUD 41.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 43.90	None	Standard	

Company (Ticker)		Rating	
Santos (STO)		★★★★	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. However, 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 60% by 2028 from 2023, chiefly from the Pikka oilfield development in Alaska, reinvigoration of Darwin LNG's output with the Barossa gas field development, and development of the Dorado oil project. We forecast a strong five-year EBITDA CAGR of 12% to USD 5.9 billion by 2029, compared with 2024.
Price	**Fair Value**	**Uncertainty**	
AUD 6.66	AUD 10.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 21.63	None	Standard	

Company (Ticker)		Rating	
Whitehaven Coal (WHC)		★★★★	While Whitehaven shares are lower on reduced near-term thermal and metallurgical coal prices, new coal supply is restrained, affected by ESG concerns and opposition from regulators, which could bring longer-term price upside. Demand for metallurgical coal for use in steelmaking is likely to persist, with alternative green steel technologies unlikely to be 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.
Price	**Fair Value**	**Uncertainty**	
AUD 5.47	AUD 9.60	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 4.58	None	Standard	

Source: Morningstar. Data as of March 31, 2025.

Financial Services

Nathan Zaia | nathan.zaia@morningstar.com
Shaun Ler | shaun.ler@morningstar.com

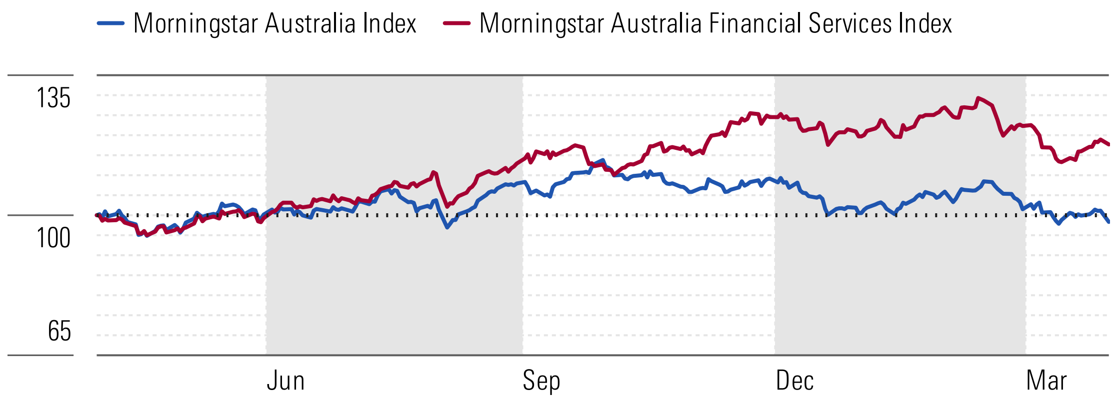
Competitive Advantage Provides Bank Earnings Resilience; Asset Managers Riding a Cyclical Rebound

The latest bank updates show broadly stable net interest margins and low bad debt expenses. While share prices eased, we attributed this to shares having run ahead of fundamentals, as the pullback leaves most banks trading much closer to fair value. The exception is the Commonwealth Bank, which is still materially overvalued. We don't expect the RBA's first interest rate cut, and those likely to follow, to materially change bank earnings. Broader economic conditions and competition impact margins more. Credit growth is robust, and well-supported by population growth and solid house prices. Modest revenue growth and cost savings are expected to underpin mid-single-digit EPS growth for the next five years across the sector. Dividends are well supported by surplus capital.

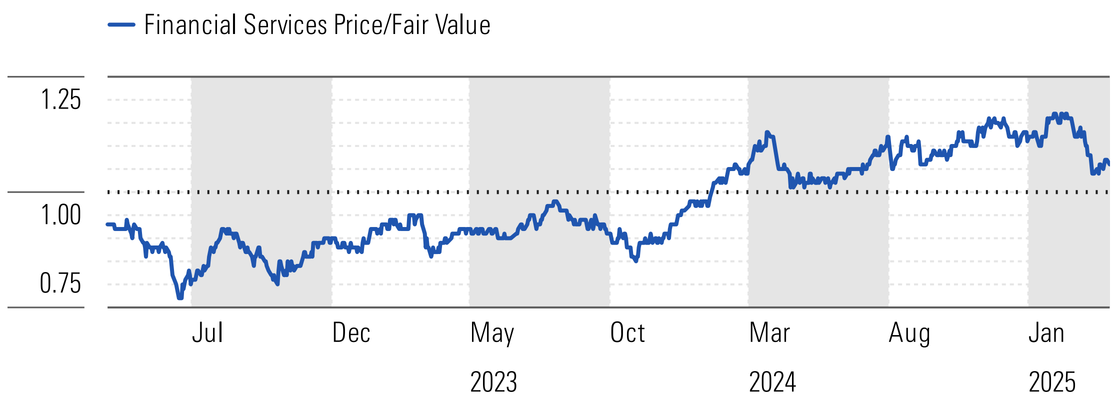
Lower-than-expected natural hazard expenses and consecutive years of double-digit premium rate increases see IAG Group and Suncorp's profitability at excessive levels. Both insurers report moderating premium increases now, and we expect competition for market share to weigh on future returns.

US tariff-induced uncertainties present a tough backdrop for asset managers. On average, our covered firms are likely to see gradual earnings decline over the medium term. As revenue is calculated off daily FUM, the earnings impact should be bearable for most asset managers this fiscal year but fully felt in fiscal 2026. In the longer term, as rate cuts are priced in and volatility rises, we expect net flows to slow down, with fee compression and investment in distribution constraining asset managers' ability to grow earnings.

Banks Correction Dragged Down Financials



Financials Overvalued on Average



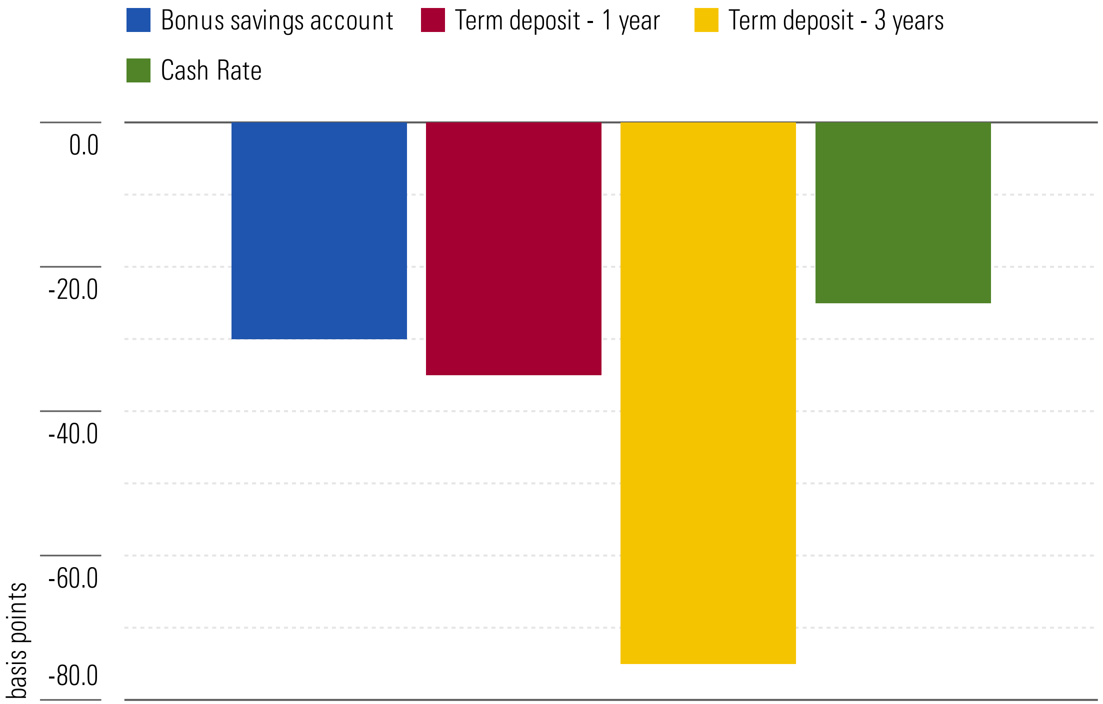
Source: Morningstar. Data as of March 31, 2025.

Competitive Advantage Provides Bank Earnings Resilience; Asset Managers Riding a Cyclical Rebound

We expect bank margins to hold relatively steady despite lower cash rates. While banks are likely to pass on rate cuts in full to existing borrowers, to preserve margins they can reduce discounts on new loans and lower deposit rates.

Customer Deposit Rates Have Fallen Significantly, More to Come

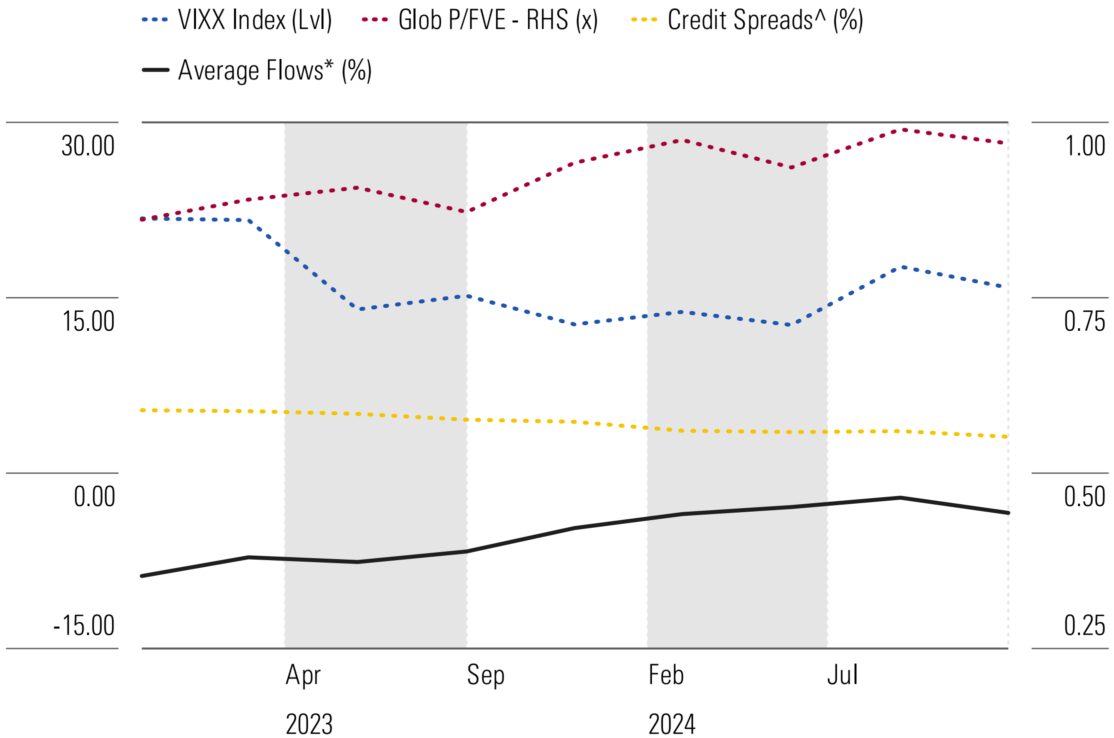
Change in average deposit rate across Australian banks from12 months ago.



Tariff ructions present a tough backdrop for asset managers as cyclical tailwinds from rate cuts fade. Industrywide fund inflows are likely to deteriorate.

Strong Investor Optimism Drove Flow Improvements, but Deterioration Likely

Net flows compared with measures of market valuation and volatility.



Source: Reserve Bank of Australia. Data as of Feb. 28, 2025. (left). Company filings, Cboe Exchange, Federal Reserve Bank of St Louis. Data as of Dec. 31, 2024. (right). ^ Average of the ICE BofA US High Yield Index Option-Adjusted Spread, Euro High Yield Index Option-Adjusted Spread, and High Yield EM Corporate Plus Index Option-Adjusted Spread. * Average rates are for CGF's asset management division, GQG, MFG, PPT's asset management division, PNI, PTM, and IFL's asset management division.

Financial Services

Company (Ticker)		Rating	
Challenger (CGF)		★★★★	We think Challenger's EPS can grow at mid to high-single-digit rates while enhancing profitability relative to the last five years. We expect growth in annuity sales--particularly for lifetime products, driven by strong demand from an aging population, partnerships with superannuation funds, and improving ease of access to Challenger's products. The proportion of longer-dated product sales, including lifetime annuities, is growing, with new annuity sales tenors extending and maturity rates falling. Lower maturity rates enhance the compounding of Challenger's investment assets, which supports higher yields and earnings. Moreover, strong performance across its boutique managers and its extensive distribution network will likely drive further fund management inflows. Additionally, the replacement of legacy technology has resulted in a lower cost base, likely supporting future profitability.
Price	**Fair Value**	**Uncertainty**	
AUD 6.03	AUD 7.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 4.15	None	Standard	
Company (Ticker)		**Rating**	
ASX (ASX)		★★★★	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.
Price	**Fair Value**	**Uncertainty**	
AUD 65.14	AUD 77.00	Low	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 12.66	Wide	Poor	
Company (Ticker)		**Rating**	
NIB Holdings (NHF)		★★★	NIB Holdings is the fourth-largest private health insurer in Australia and New Zealand, with a strong track record of policyholder growth. With private hospitals easing the burden on the public system, we do not expect taxation benefits encouraging participation to change, allowing NIB to deliver consistent underwriting profits and returns on equity. The sudden decline in margins in second half fiscal 2024 spooked investors, but NIB was overearning given fewer hospital admissions and dental claims during and after the pandemic. Claims are now trending back to normal levels. NIB and the industry have consistently recouped claims inflation with premium rate increases, so we don't expect this downward margin pressure to intensify. In the short term, demand from foreign students is likely to decline as the government introduces new student caps; however, we expect growth in foreign workers and premium rate increases to support medium-term growth.
Price	**Fair Value**	**Uncertainty**	
AUD 6.85	AUD 7.20	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.33	Narrow	Standard	

Source: Morningstar. Data as of March 31, 2025.

Healthcare

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

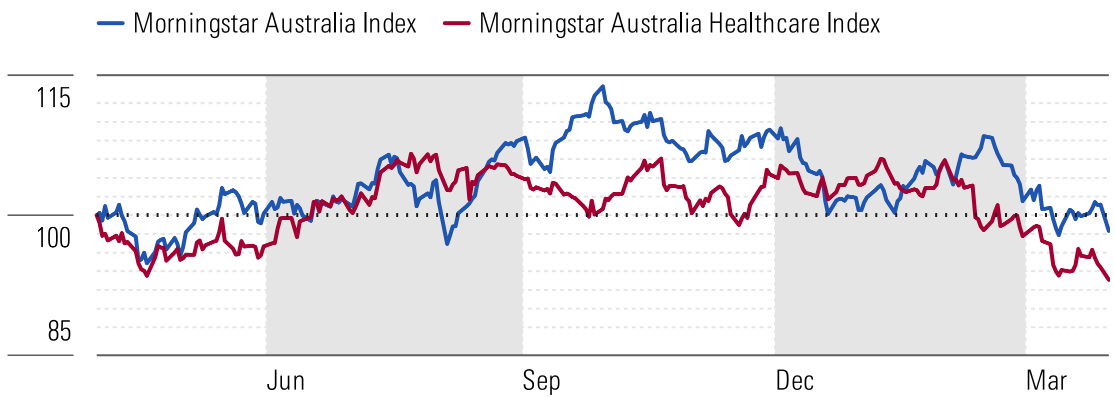
Buying Opportunities in High-Quality Healthcare Names

We view the healthcare sector as overvalued on average; however, we rate approximately 40% of our coverage as 4- or 5-star-rated. The most attractive names are Ramsay, CSL, and Sonic, where we expect strong sales growth and margin expansion. Meanwhile, Pro Medicus, Sigma, and Fisher & Paykel are the most overvalued.

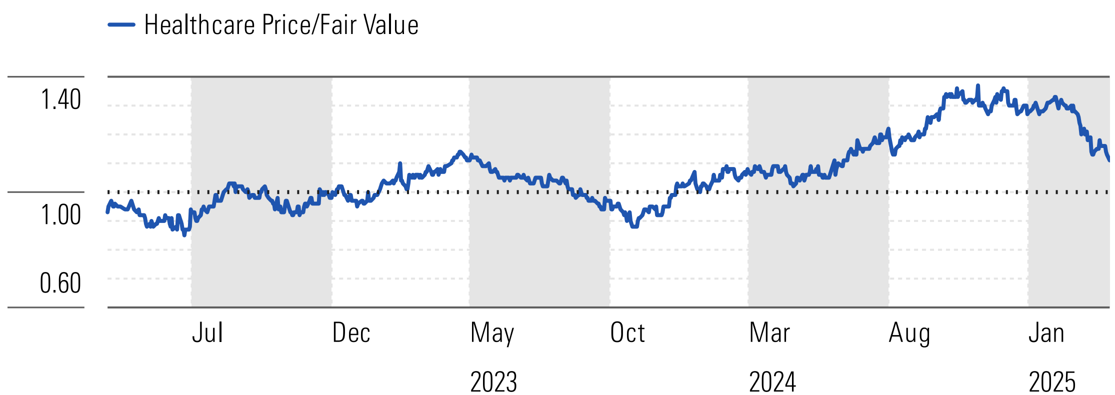
The February reporting season was more eventful than usual for healthcare and triggered large share price moves for many companies. The biggest gain in the sector was Nanosonics, up over 25% on strong first-half consumables revenue and the imminent launch of its new product, Coris. The largest share price decline in the sector was Polynovo, down over 40% since reporting due to slowing sales growth and issues among senior management. Shares in Nanosonics and Polynovo currently trade close to our fair value estimates.

We changed our fair value estimates for ten healthcare names with an average increase of 2%. The most significant changes were increasing our fair value estimates for Ansell by 9%, mainly due to the stronger US dollar, and Telix by 8%, due to higher forecast inorganic sales near-term and lower forecast research and development expense. Shares in Ansell are trading close to our revised fair value estimate, while shares in Telix are overvalued as we suspect the market is extrapolating Telix's current growth rates unrealistically. We expect Illuccix's average selling prices to lower when the transitional pass-through payment status it received for being a new and innovative technology expires in June 2025. The market also appears overly excited about Telix's pipeline products that are set to compete in much smaller markets compared with Illuccix.

Healthcare Underperformed the Broader Market



Several Names Attract Despite Sector Overvaluation



Source: Morningstar. Data as of March 31, 2025.

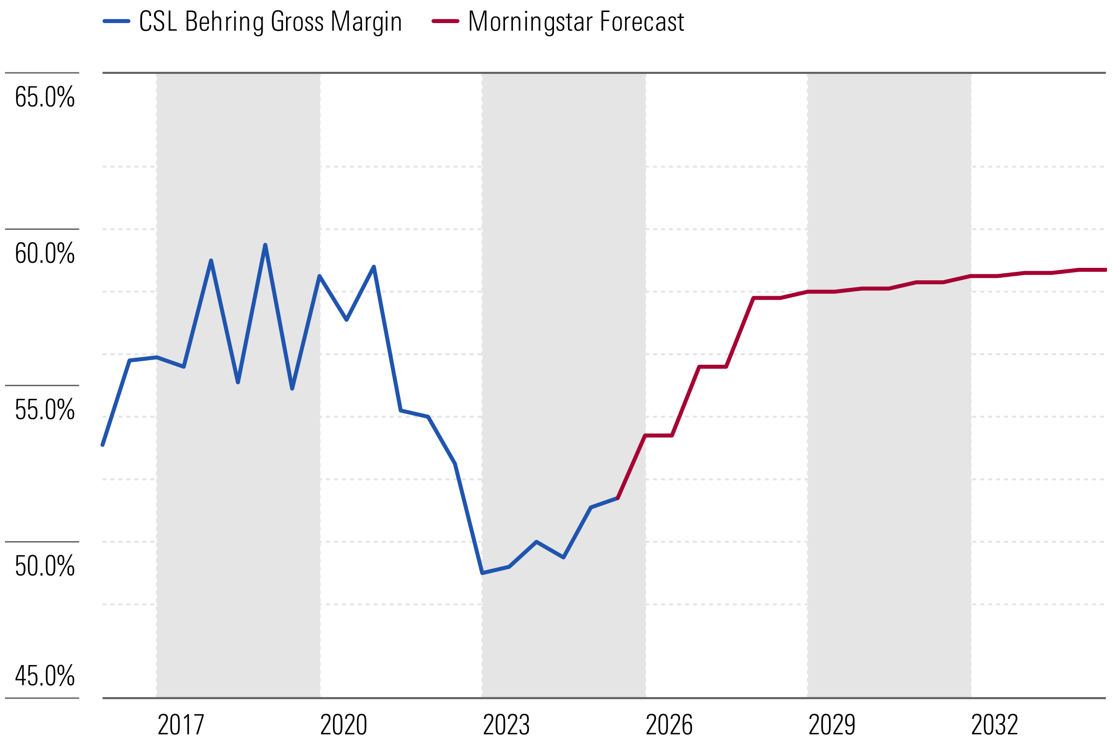
Buying Opportunities in High-Quality Healthcare Names

CSL Behring's gross margin is expanding on improvements in blood collection, manufacturing yield, and donation times. Full benefits from these initiatives are yet to be realized, and we are optimistic on gross margins recovering to prepandemic levels.

We expect Ramsay Australia to benefit from the volume recovery driven by improved staff availability. The growth drivers of increasing private health insurance membership, demographic factors, and chronic disease and hospitalization rates are intact.

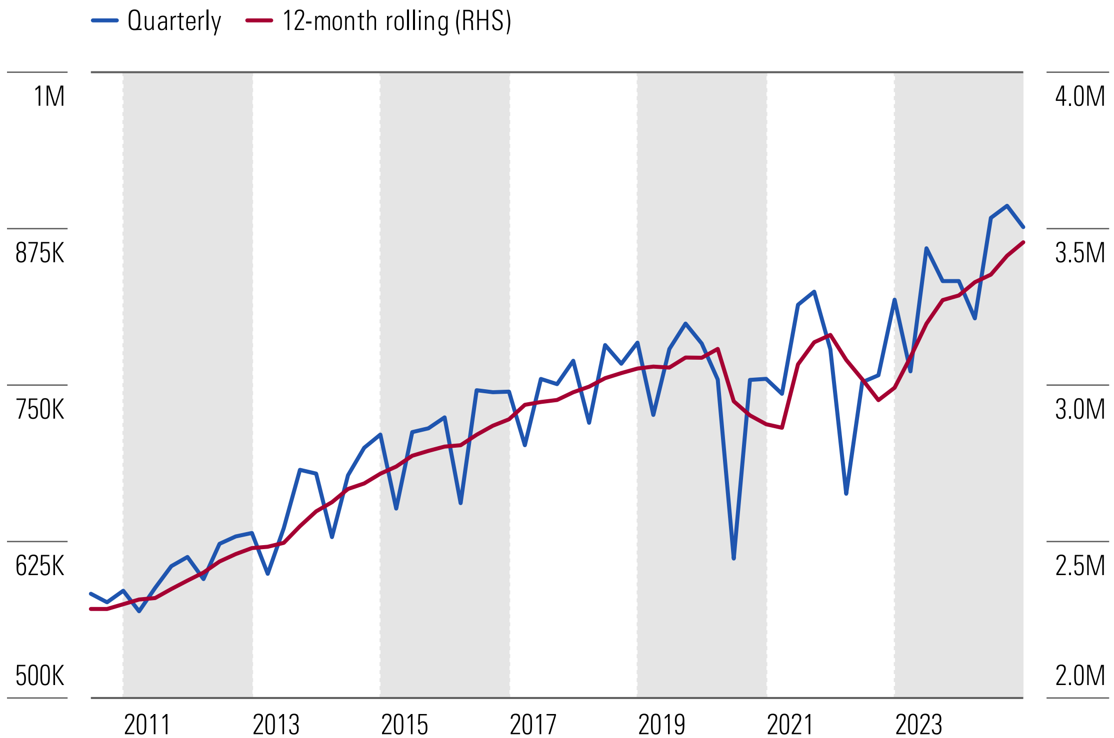
Margin Recovery in CSL's Core Plasma Division Has Begun

Gross profit margin in CSL Behring.



Recovery in Hospital Visits to Support Ramsay's Top Line

Australian private hospital episodes.



Source: Morningstar, Company filings. Data as of Dec. 31, 2024 (left). Australian Prudential Regulation Authority. Data as of Dec. 31, 2024 (right).

Healthcare

Company (Ticker)		Rating	
CSL (CSL)		★★★★	CSL's flu vaccine business, CSL Seqirus, faces challenging conditions. But the main plasma division, CSL Behring, which contributes roughly 75% of group gross profit, is going strong. CSL Behring's first-half fiscal 2025 sales grew by 10%, and gross margin expanded 170 basis points in constant currency to 51% on well-executed improvements in blood collection, manufacturing yield, and donation times. CSL is collecting record levels of plasma, and we are optimistic about long-term demand, which is underpinned by chronic indications and continues to grow through new indications and in less mature markets. We forecast a five-year segment revenue CAGR of 9% and expect CSL Behring's gross margin to surpass its prepandemic level of 57% by fiscal 2028, broadly consistent with management's expectations.
Price	**Fair Value**	**Uncertainty**	
AUD 249.28	AUD 325.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 120.70	Narrow	Exemplary	

Company (Ticker)		Rating	
Ramsay Health Care (RHC)		★★★★★	Ramsay is delivering strong patient revenue growth, but group profitability is hampered by inflationary pressures, lower government support, and increased investment in digital. However, we expect margins to expand long-term 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, and Ramsay continues to invest in recruiting and training. The firm recently negotiated higher reimbursement rates above cost inflation and has deleveraged its balance sheet by selling its share of Ramsay Sime Darby. See our Ramsay Stock Pitch, published in December 2023, for more details
Price	**Fair Value**	**Uncertainty**	
AUD 34.13	AUD 58.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.88	Narrow	Exemplary	

Company (Ticker)		Rating	
Sonic Healthcare (SHL)		★★★★	Sonic is experiencing strong organic sales growth, and margins are improving despite recent acquisitions and cost pressures that are weighing on group profitability. In the longer term, we expect further margin expansion due to increased operating leverage from higher volumes, synergies from recent acquisitions, and improved labor productivity as digitization and newer artificial intelligence tools accelerate diagnoses. With inflation easing, the primary cost pressures, including labor and rent, are stabilizing. We also expect average fee increases through increased pricing, additional government funding, and favorable mix benefits. Sonic is well-placed to service known underdiagnosis for routine healthcare services. See our Pathology Special Report, published in May 2024, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 25.76	AUD 33.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 12.38	Narrow	Standard	

Source: Morningstar. Data as of March 31, 2025.

Industrials

Esther Holloway | esther.holloway@morningstar.com

US Trade War Jitters Sees Value in Industrials Stocks

About half of our industrial stock coverage is trading at a discount to our fair value estimate. Many discounted stocks have US operations, and we believe these have been marked down due to geopolitical uncertainty between the US and the rest of the world.

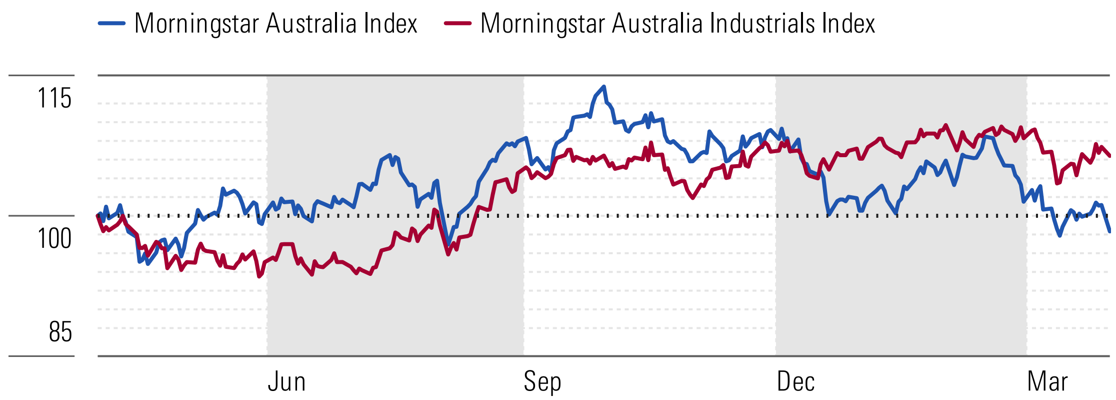
The biggest stock sell-offs from the February reporting season were those of Johns Lyng, Reece, and Redox, which fell an average of about 30% from preresult prices. We now rate both Johns Lyng and Redox as 5-star. While first-half earnings for both slightly missed expectations, we think the sell-downs are overdone.

For Reece, we continue to view its expansion in the US as value-destructive, with returns on investment in new branches, rebranding, and an eventual distribution center lagging its cost of capital. Reece is a small and lesser-known company in the US, competing with much larger firms. Operating margins for even the biggest players are much lower than those in Reece's Australian business.

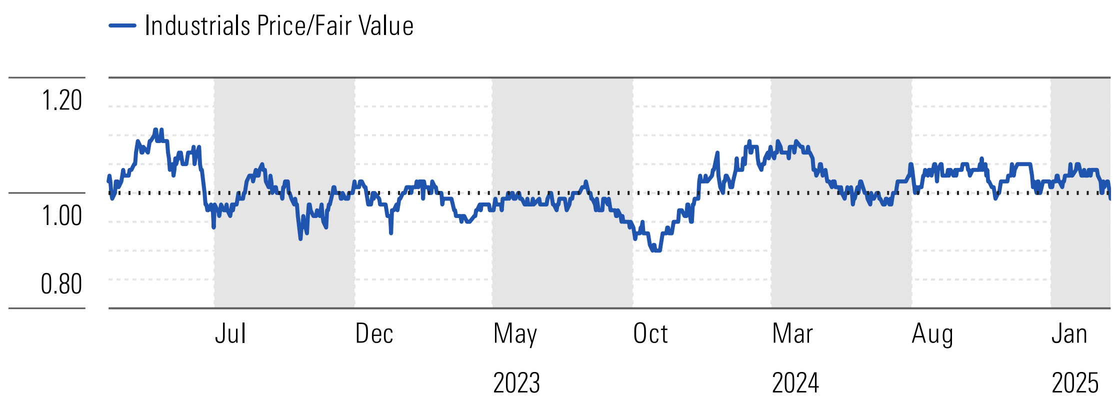
We assume 25% tariffs on steel and aluminum imports to the US in our base case estimates for BlueScope Steel and Sims Metal Group. With US operations, both should benefit from tariffs during the Trump administration.

Aurizon is the best value of the transport stocks. Despite some near-term headwinds, we expect coal export volumes to recover from wet weather over the medium term, driving earnings higher.

Industrials Outperformed Broader Market



A Few Expensive Stocks Overshadowing a Lot of Cheap Ones



Source: Morningstar. Data as of March 31, 2025.

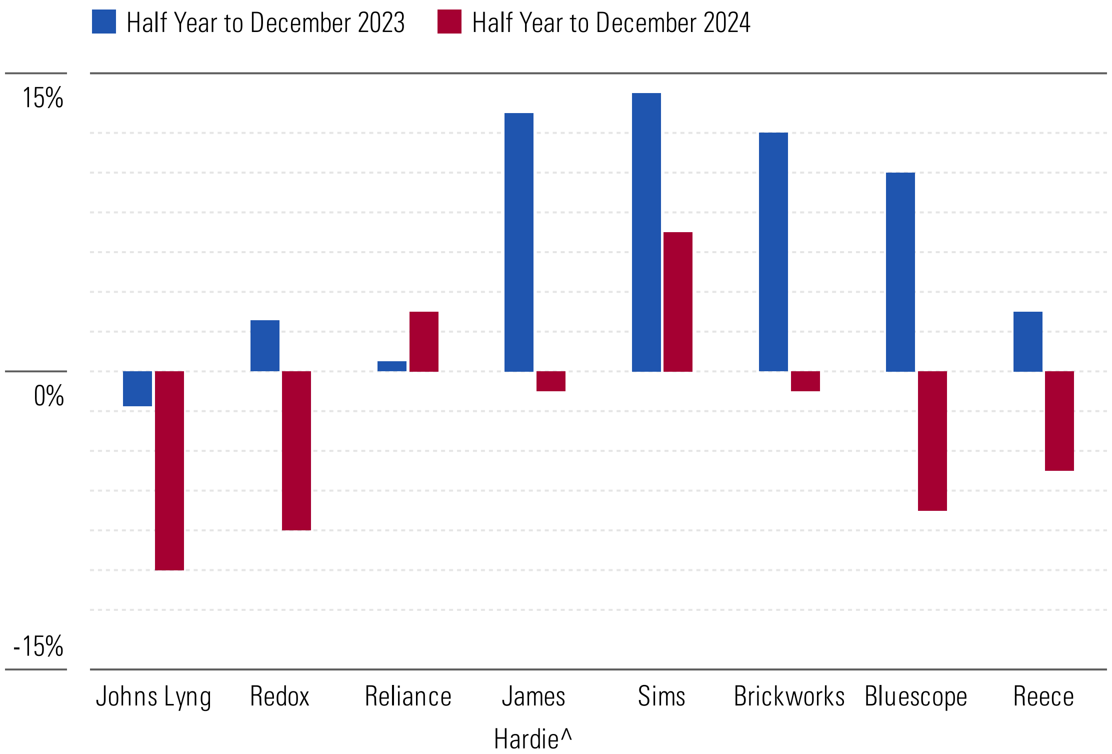
US Trade War Jitters Sees Value in Industrials Stocks

Looking at sales in US segments only, all but one had weaker revenue growth in the half year to December 2024, compared with a year prior. We believe this reflects tighter budgets and more discerning customers.

We anticipate US steel tariffs leading to tighter supply and higher margins, and better near-term pricing for US producers. BlueScope's North Star plant already operates at capacity, so the upside here would be purely in better prices.

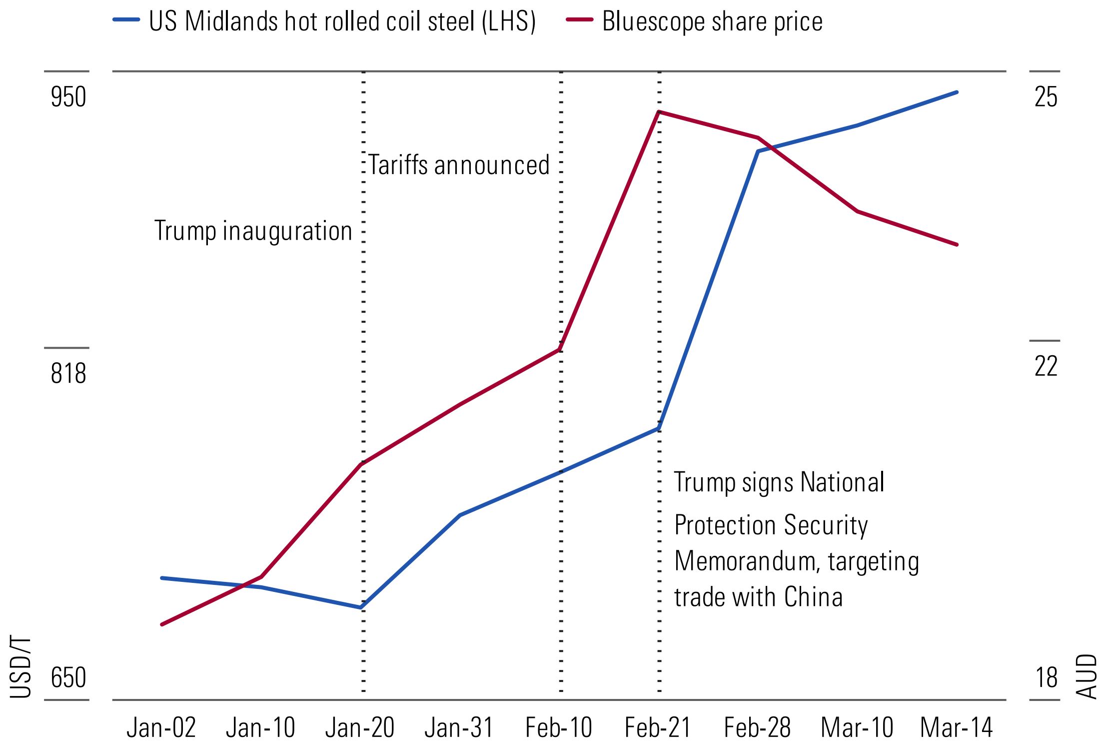
Declining Revenue Growth in US Businesses

Revenue growth of US segments compared with previous corresponding period.



BlueScope's Share Price Has Followed the Steel Price

Steel prices and BlueScope shares up about 30% and 20%, respectively, this year.



Source: Company Filings. ^James Hardie data applies to the December quarter 2024 and 2023 (left). Trading Economics, London Metal Exchange, The White House. Data as of March 14, 2025 (right).

Industrials

Company (Ticker)		Rating	
James Hardie Industries (JHX)		★★★★	Although we anticipate fiscal 2025 will be a relatively soft year for US renovation activity, we remain confident in James Hardie's ability to outperform the market in the near term. James Hardie's strong brand is driving market share gains at a time when higher interest rates and cost inflation are putting pressure on homebuilding. Shares are trading at about a 30% discount to our fair value estimate after a sharp decline in share price, with approximately half of the decline attributed to the planned acquisition of Azek, an outdoor composite wood, trimming, and building products company. We think the market has overreacted. Priced at a premium for Azek shareholders, the offer is only mildly value dilutive to our valuation of James Hardie, but not enough to change our fair value estimate. We expect cross-selling and cost savings to generate about USD 350 million in EBIT from fiscal 2030, equivalent to about a 20% uplift from our preacquisition forecast.
Price	**Fair Value**	**Uncertainty**	
AUD 38.48	AUD 55.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 16.54	Wide	Exemplary	
Company (Ticker)		**Rating**	
Brambles (BXB)		★★★★	As the world's largest supplier of reusable wooden pallets, Brambles is generally the market leader in the markets in which it operates. We believe this is due to its scale and first-mover advantage, limiting competition. This underpins a cost advantage, leading to our wide moat rating. Most of the firm's earnings are derived from large FMCG companies, which we consider mostly defensive, dampening Brambles' correlation to the economic cycle. As such, we forecast steady revenue growth with a CAGR of 6% over the next decade. Earnings are further lifted by operating margin improvements, driven by the firm's efficiency projects in pallet repairs and transportation and the integration of new digital technology.
Price	**Fair Value**	**Uncertainty**	
AUD 20.03	AUD 24.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 27.56	Wide	Exemplary	
Company (Ticker)		**Rating**	
Amcor (AMC)		★★★★	We think investors 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. The Bemis deal in 2019 cemented the firm's position as the largest plastic packaging supplier in North America, with more than twice the market share than its nearest competitor.
Price	**Fair Value**	**Uncertainty**	
AUD 15.34	AUD 17.80	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 22.32	Narrow	Standard	

Source: Morningstar. Data as of March 31, 2025.

Real Estate

Winky Tan | yingqi.tan@morningstar.com

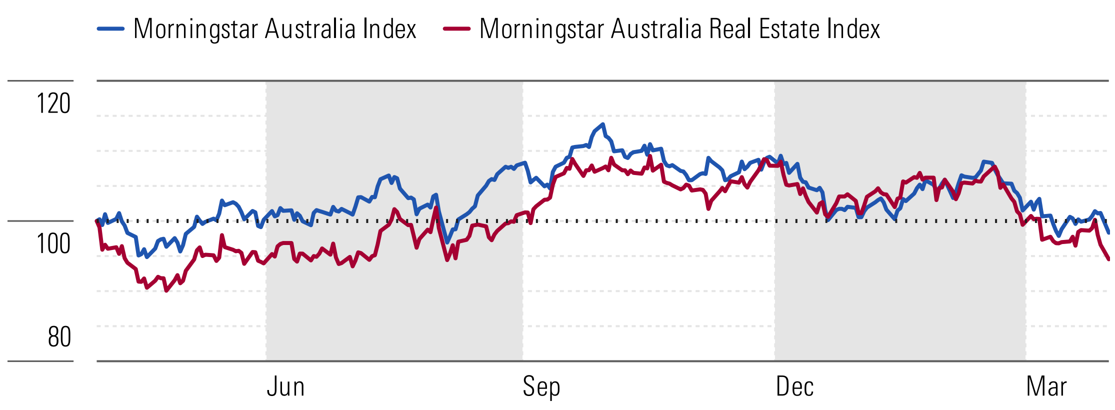
We See Pockets of Value in Real Estate as the Sector Braces for a Recovery

The sector mildly underperformed the market in the March quarter, as bond yields linger at an elevated level. Across our sector coverage, the strongest performers included Ingenia Communities, Charter Hall, Mirvac, and Dexus. While Goodman fell more than 12% during the quarter due to DeepSeek shockwaves and an equity raise, the securities remain expensive. The sector is modestly undervalued on average.

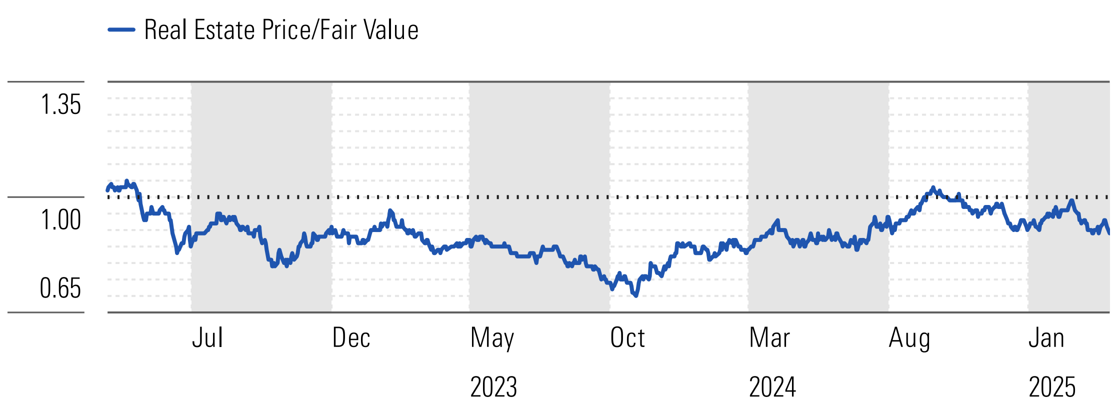
Office valuations are stabilizing. Tenant demand for buildings in core city locations is resilient, especially in Sydney. We expect a further recovery in rents in core areas, partly due to office employment growing at a faster pace than office floor space. Granted, hybrid working reduces the floor space needed per employee, but higher-quality buildings are still sought after. Office attendance is a major consideration for tenants – well-connected locations, abundant amenities, and people-centric fit-outs are more likely to encourage employees to return to the office. Major office REITs Dexus, GPT, and Mirvac trade at a material discount to our fair value estimates.

Retail REITs Scentre Group and Vicinity Centres are dipping their toes in residential housing, planning to redevelop some existing shopping centers into mixed-use precincts. These shopping center locations are attractive: near public transport and within established neighborhoods. We like the idea, as housing feels structural tailwinds from population growth and dwelling undersupply. Plus, densifying the neighborhoods could benefit retail sales, adding to tenant demand for the shopping centers.

Real Estate's 12-Month Performance Beats the Broader Market



But Some Names Still Look Cheap



Source: Morningstar. Data as of March 31, 2025.

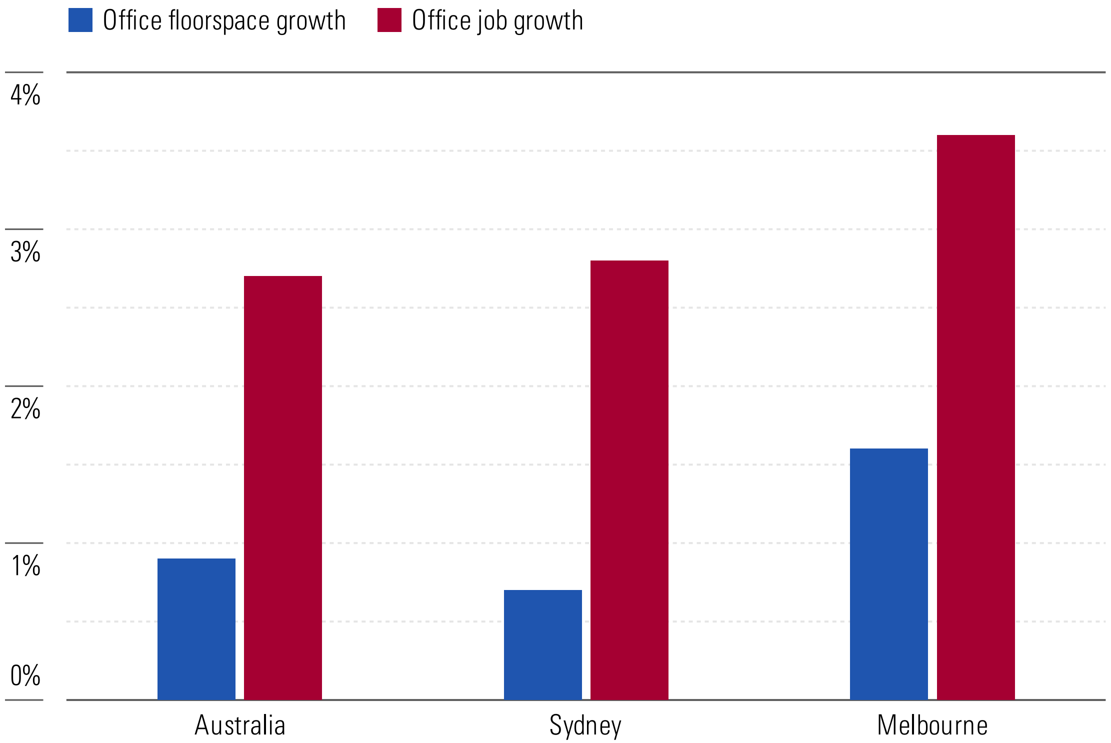
We See Pockets of Value in Real Estate as the Sector Braces for a Recovery

In the past decade, office employment growth outpaced growth in office supply. That, combined with more return-to-office mandates from employers, should support further rent increases, especially in higher-quality buildings.

Capitalization rates (net property yields) are stabilizing, particularly for retail and industrial sectors. With solid rent growth anticipated, property values are likely to rise.

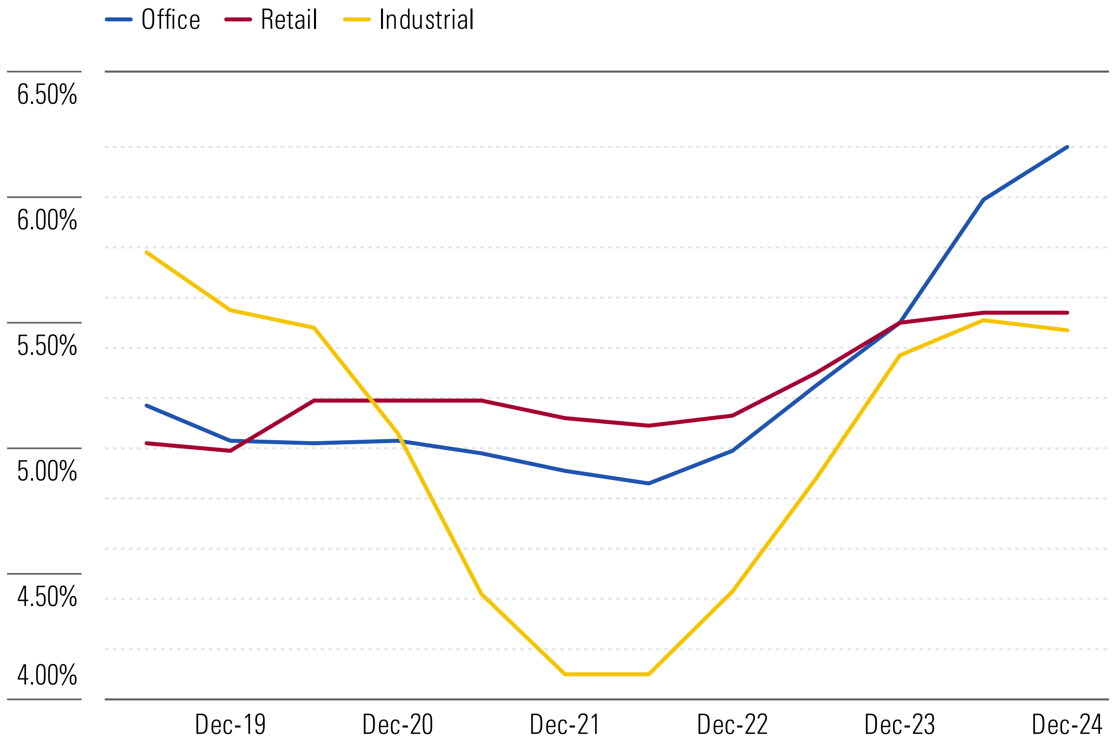
Office Jobs Are Growing Faster Than Office Space

10-Year CAGR of office jobs versus office floor space[1]



Commercial Property Valuations Are Stabilizing

Capitalization rates across office, retail and industrial sectors[2]



Source: Australian Bureau of Statistics, Property Council of Australia. Data as of Jan. 31, 2025 (left). Company filings. Data as of Dec. 31, 2024 (right).

[1] Sydney and Melbourne office space only considers stock levels in central business districts. Office job growth in Sydney and Melbourne is approximated using job data in New South Wales and Victoria, respectively. [2] Office: Dexus, GPT, Mirvac. Retail: Scentre Group, Vicinity Centres. Industrial: Goodman, Centuria Industrial REIT.

Real Estate

Company (Ticker)		Rating	
Dexus (DXS)		★★★★	Dexus' securities are trading well below the firm's net tangible assets and are on an attractive fiscal 2025 distribution yield of about 5%. We think investors are being paid to wait for a recovery in office markets. Dexus' office portfolio is high-quality, and the shift toward hybrid working adds to the appeal. Nearly all its office towers are premium or A-grade and mostly located in the central business districts of major Australian capital cities. The portfolio is Sydney-skewed. As the flight to quality continues, high-grade, well-located buildings like Dexus' are likely to remain sought after. Furthermore, rents in the industrial portfolio are currently below market rates. Dexus is likely to be able to implement large rent increases when current leases expire. We also expect the funds management segment to continue attracting investor inflows, given its scale, management expertise, and record.
Price	**Fair Value**	**Uncertainty**	
AUD 7.08	AUD 9.60	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.62	None	Standard	
Company (Ticker)		**Rating**	
GPT Group (GPT)		★★★★	GPT Group offers a distribution yield comfortably above the Australian 10-year bond yield. Tenant incentives such as fit-out payments weigh on near-term cash flow; however, GPT's office occupancy was 95% as of December 2024, including nonbinding tenant agreements, up from 92% in December 2023. Its retail and industrial portfolios are nearly 100% occupied, with solid rental growth. GPT's industrial rents are below market, and GPT's shopping centers achieved strong sales growth, implying scope for more rent increases in both segments. GPT trades at about a material discount to the Dec. 31, 2024's net tangible assets of AUD 5.27 per security, which ignores the value of the fund management business. Funds under management were AUD 22 billion as of December 2024, up from AUD 13 billion in 2019.
Price	**Fair Value**	**Uncertainty**	
AUD 4.36	AUD 5.70	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 8.35	None	Standard	
Company (Ticker)		**Rating**	
Mirvac Group (MGR)		★★★★	Mirvac stands to benefit from Australia's strong population growth and housing shortage. The residential developer is ramping up its project pipeline. Development margins are likely to remain below the midcycle range of 18%-22% in the near term due to elevated construction costs and interest rates. However, they should recover, given Mirvac's scale, reputation of high quality, and a well-stocked land bank. Mirvac's offices, all premium or A-grade, have resilient occupancies. Lease expiries are modest and staggered for the next five years, which should carry the office landlord through the phase of office recovery. Our fair value estimate is above Mirvac's net tangible assets of AUD 2.31 per security as of Dec. 31, 2024, which does not take into account the intangible value of its development and funds management businesses.
Price	**Fair Value**	**Uncertainty**	
AUD 2.09	AUD 2.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 8.25	None	Standard	

Source: Morningstar. Data as of March 31, 2025.

Technology

Roy van Keulen | roy.vankeulen@morningstar.com
Shaun Ler | shaun.ler@morningstar.com

Trump Policies Resetting Technology Share Prices

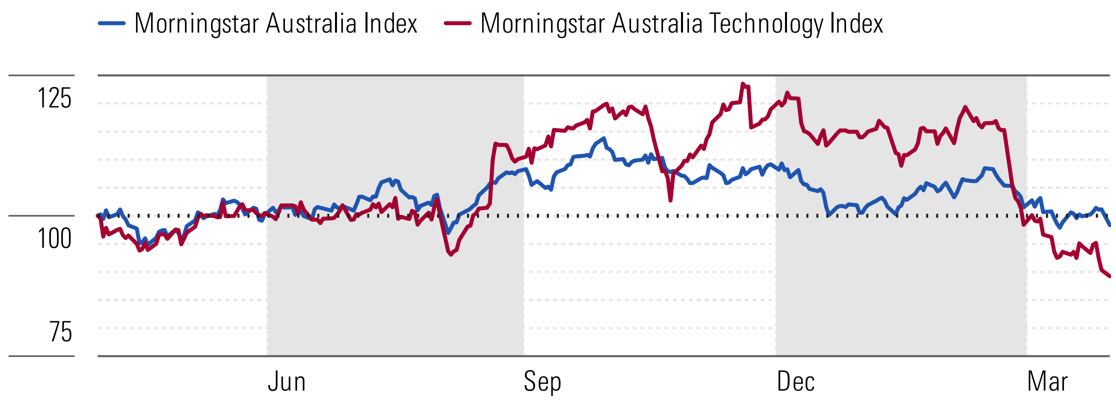
The technology sector has fallen sharply in recent months and is now fairly valued. Investors were overly optimistic about the potential of generative artificial intelligence, as well as the re-election of President Trump. This overoptimism set the stage for the abrupt fall, triggered by uncertainty from Trump's tariffs and other policies.

Resiliency to these and future shocks varies. Companies with high margins and high-quality earnings can likely withstand the headwinds. Technology One, with its mostly government customer base and recurring revenue in Australia, is a prime example, but we think it's overvalued.

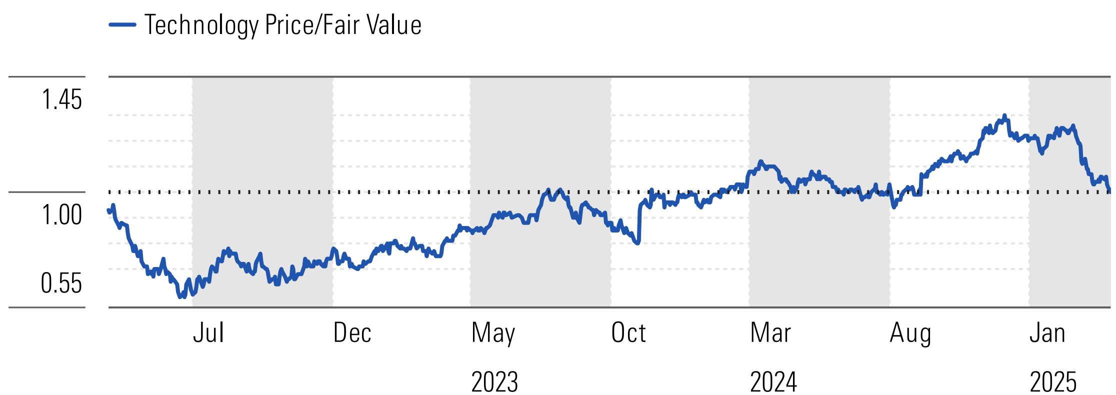
However, relative strength can also suffice, as seen with SiteMinder. SiteMinder's customers are cyclically exposed, small- and mid-size hotels—not great businesses. But SiteMinder's margin profile is stronger than its direct competitors, meaning if there is volatility, it is likely to take significant share. Life360, however, has little resiliency. Margins are low, and its earnings primarily come from the US consumer, who may be most exposed to volatility created by trade wars.

Trade tensions could raise prices and weaken consumer confidence. This may affect consumer-focused companies like Tyro Payments. However, we believe Tyro's shares are already cheap, with the risk of lower sales per merchant accounted for in our forecasts.

Technology Stocks Have Dropped Sharply



Technology Sector Back to Fairly Valued



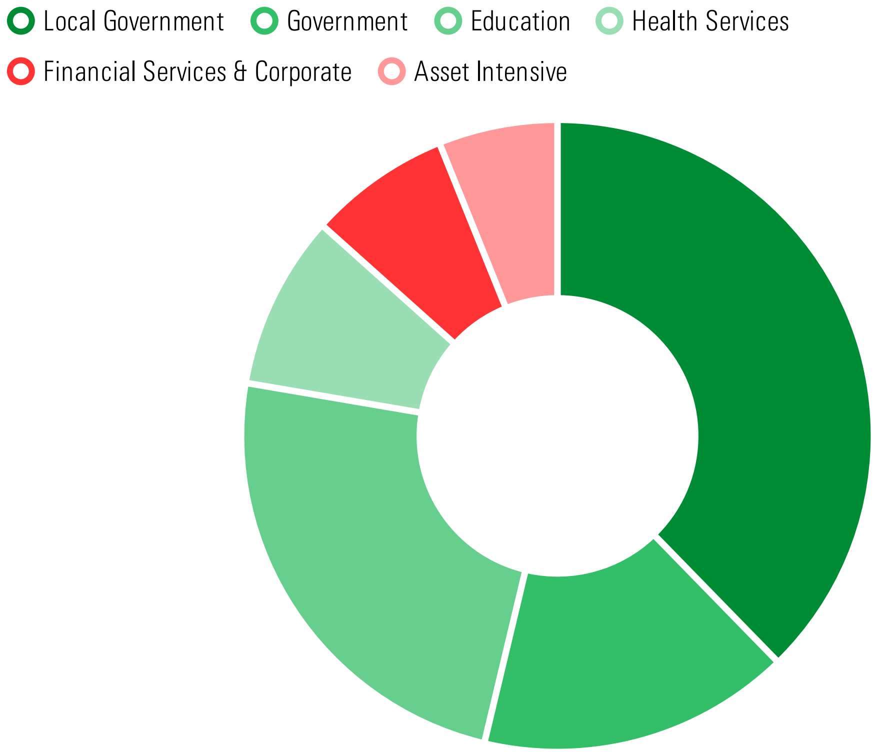
Trump Policies Resetting Technology Share Prices

Technology One's business comes almost entirely in different shades of government, with essentially zero business failure risk. This, combined with high switching costs for its enterprise software, results in relatively stable and durable revenue.

Tyro relies heavily on economically sensitive hospitality and retail merchants, which could be impacted by trade tensions and reduced consumer spending. However, we note the firm is expanding its presence among less cyclical merchants.

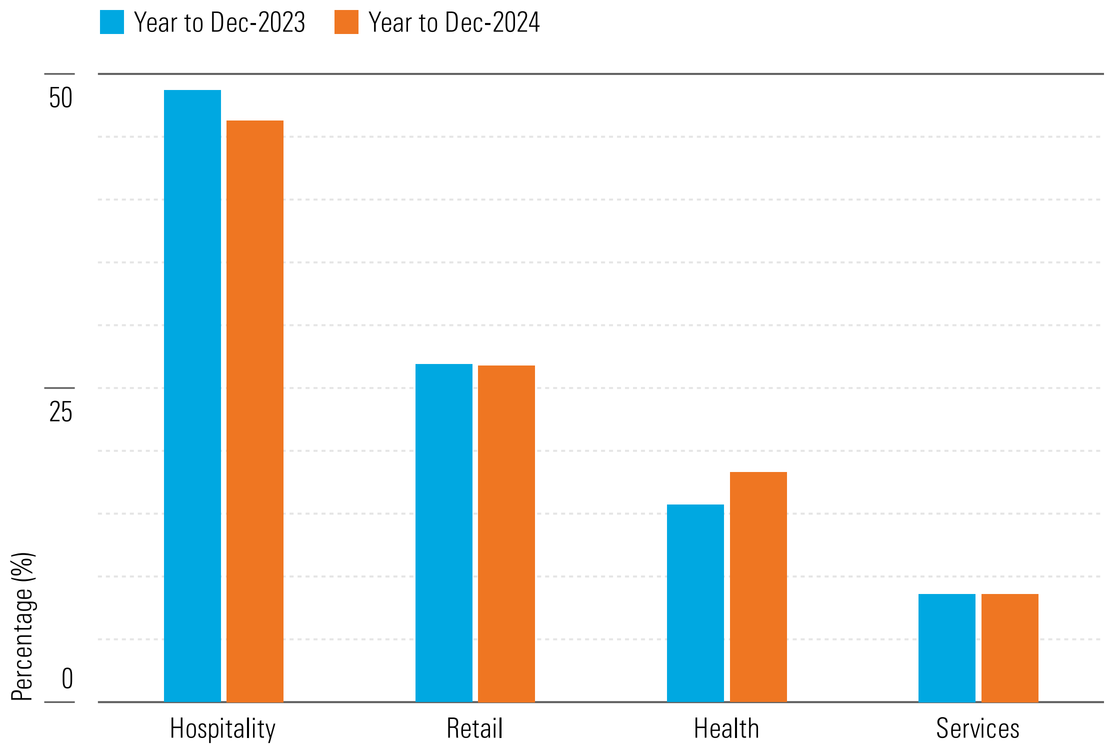
Nearly 90% of Technology One Revenue Is Linked to Government

Technology One revenue share by segment.



More Than 70% of Tyro's Core* Volumes Come from More Cyclical^ Industries

Proportion of transaction volumes by merchant segment.



Sources: Company Filings (Left and right). Data as of Dec. 31, 2024. * Excludes Bendigo merchants. ^ Hospitality and retail segments.

Technology

Company (Ticker)		Rating	
Fineos (FCL)		★★★★	We think the market underestimates wide-moat Fineos' potential for revenue growth, margin expansion, and resilience to cyclical earnings risks. Earnings growth prospects are strong with insurers' growing adoption of cloud-based software. The firm now has an established product suite that can be deployed to insurers with minimal incremental costs, enabling scalable revenue and earnings growth. Further product up- and cross-sells generate incremental revenue while also strengthening switching costs. Successful project implementations for large clients validate its platform's reliability and help attract new business. Cost efficiencies also support revenue growth. Product development, cloud infrastructure, and general administration costs as a proportion of revenue are set to fall as business volumes grow and offshoring to emerging economies increases.
Price	**Fair Value**	**Uncertainty**	
AUD 2.00	AUD 3.10	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 0.68	Wide	Standard	
Company (Ticker)		**Rating**	
SiteMinder (SDR)		★★★★★	We believe Siteminder is a well-positioned industry leader in terms of market share and products and is likely to win its large market opportunity. We expect the channel manager industry to consolidate around scaled providers, such as Siteminder, which can fractionalize large, fixed technological and regulatory costs across a larger customer base than their competitors. We also believe Siteminder's new Channels Plus product will help evolve the company from a middleware software provider, where it bears all the costs to create the value of its products, to a platform, where third parties build some of the product value. We think the market underestimates the adoption of Channels Plus and overestimates the strength of competitors.
Price	**Fair Value**	**Uncertainty**	
AUD 4.37	AUD 10.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.23	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Pexa Group (PXA)		★★★★	We believe the market is overly focused on wide-moat Pexa's costly expansion into the United Kingdom and overlooks the strength of Pexa's Australian exchange business. Pexa's Australian exchange business shows 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.
Price	**Fair Value**	**Uncertainty**	
AUD 11.16	AUD 17.25	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.98	Wide	Exemplary	

Source: Morningstar. Data as of March 31, 2025.

Utilities

Adrian Atkins | adrian.atkins@morningstar.com

High-Flying NZ Utilities Fall Back to Earth

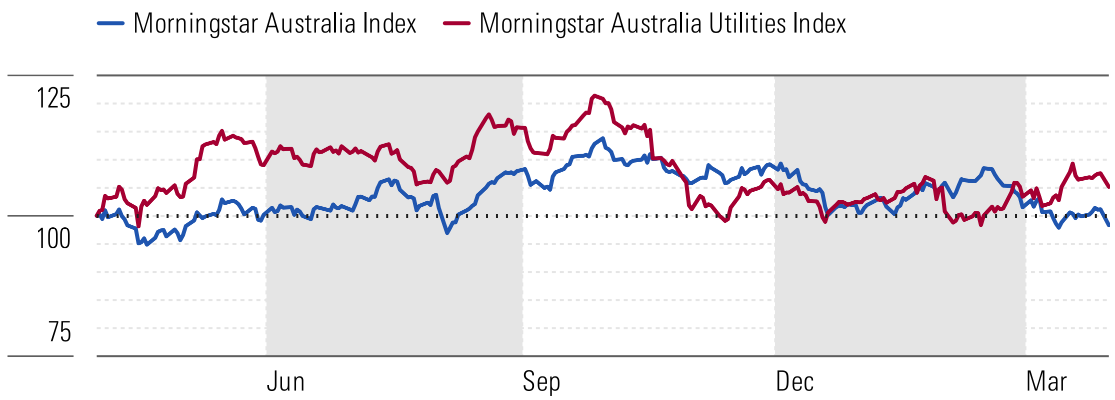
Australian utilities had a solid quarter but New Zealand utilities sold off. Overall, ANZ utilities are moderately undervalued on average. Our top picks are APA Group and New Zealand-listed Manawa Energy. AGL Energy also looks reasonable value.

In Australia, default retail electricity prices are set to rise by up to 9% in mid-2025. But utilities like AGL and Origin won't benefit much. Instead, most of the uplift goes to the distribution and transmission networks as they pass through higher interest rates since their last regulatory resets and recoup investment to upgrade the grid to accommodate more renewables. Expect this trend to continue. Wholesale electricity price futures—which matter to AGL and Origin—are fairly stable at levels conducive to solid profits.

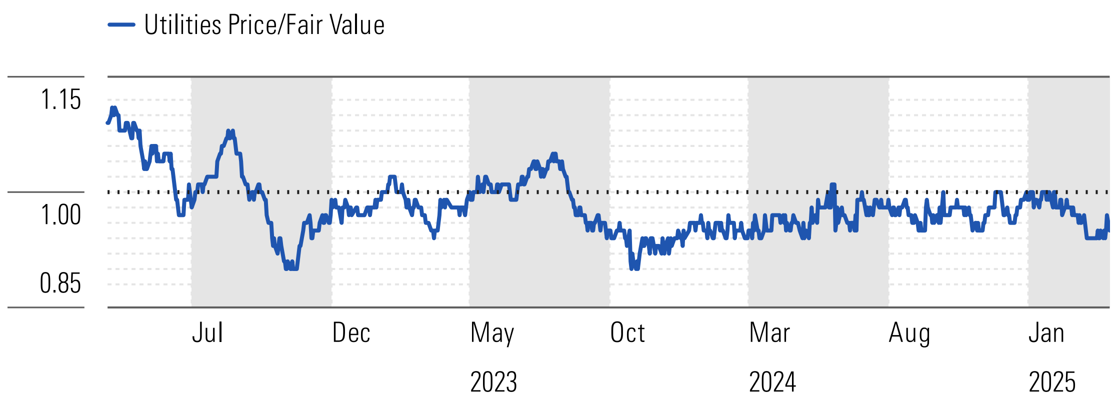
Share price weakness for New Zealand utilities likely reflects challenging operating conditions caused by dry weather and gas shortages. NZ utilities are now fairly valued or cheaper. Manawa's share price fall could signal expectations the regulator will block the merger with Contact Energy. Regardless, we think Manawa has a bright medium-term outlook as it recontracts electricity sales at prices closer to elevated spot rates.

Gas pipeline owner APA Group's security price finally found a bottom after a solid interim result showing that growth in operating and interest costs was moderating, which we were keenly anticipating. Despite rallying strongly in the past few weeks, we think the stock remains slightly undervalued. It offers a big forecast yield over 7% but with limited growth potential because of the finite economic life of its assets.

Australian Utilities Have Solid Start to 2025



ANZ Utilities Are Slightly Undervalued on Average



Source: Morningstar. Data as of March 31, 2025.

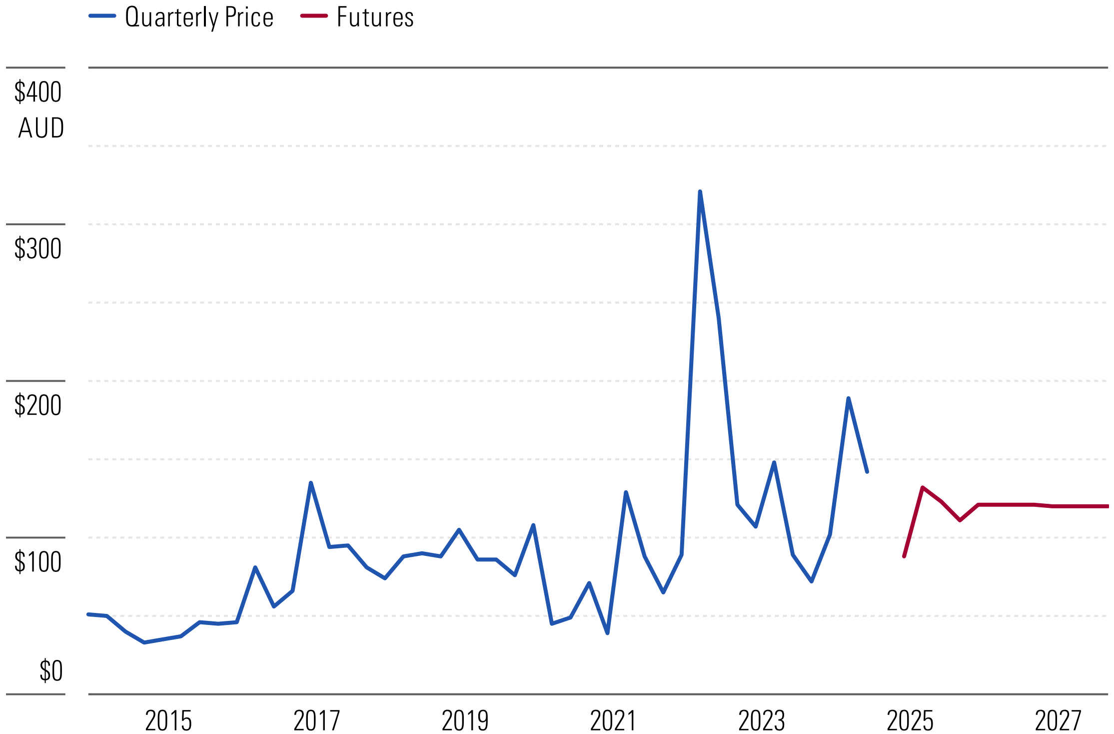
High-Flying NZ Utilities Fall Back to Earth

Corporate borrowing costs have fallen in the past couple of years despite a modest increase in Australian government bond yields. This is good news for highly geared companies like APA as interest expense is its main outlay.

The Australian electricity market is functioning well thanks to an increased focus on maintaining aging power stations and improving reliability of fuel sources. The outlook for AGL and Origin is solid as electricity futures prices remain elevated in key markets.

Corporate Borrowing Costs Trending Lower Since 2022
Yields on five-year bonds.

Generation Earnings Underpinned by Solid Wholesale Electricity Prices
NSW wholesale electricity prices (AUD per megawatt hour).



Source: Bloomberg, Reserve Bank of Australia. Data as of Feb. 28, 2025 (left). ASX Energy, Australian Energy Regulator. Data as of March 16, 2025 (right).

Utilities

Company (Ticker)		Rating	
APA Group (APA)		★★★★	Narrow-moat APA Group is a good-quality company with an attractive yield. We expect near-term earnings growth to pick up on CPI-linked tariffs, the completion of developments, and an increasing focus on cost-out initiatives. 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 7.90	AUD 9.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 10.31	Narrow	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 of its power to Mercury NZ under long-term Consumer Price Index-linked contracts. We 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 4.93	NZD 6.10	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
NZD 1.54	Narrow	Standard	

Company (Ticker)		Rating	
AGL Energy (AGL)		★★★	AGL Energy screens as fairly valued, trading on a low-teen P/E ratio. Earnings have recovered, and the long-term outlook is relatively stable, as investment in renewables and batteries offsets headwinds from the closure of coal-fired power stations. We expect electricity prices to remain elevated, supported by the closure of coal power stations, high gas prices, and growing electricity demand as transport and other industries electrify. These factors support a solid earnings outlook. Financial health is sound, and management is doing a good job navigating ESG threats.
Price	**Fair Value**	**Uncertainty**	
AUD 10.52	AUD 12.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.08	None	Standard	

Source: Morningstar. Data as of March 31, 2025.

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, see 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 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.

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.