MORNINGSTAR

Australian Equity Market Outlook: Q4 2025

Selective value in a concentrated market.

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Market Outlook

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Selective Value in a Concentrated Market

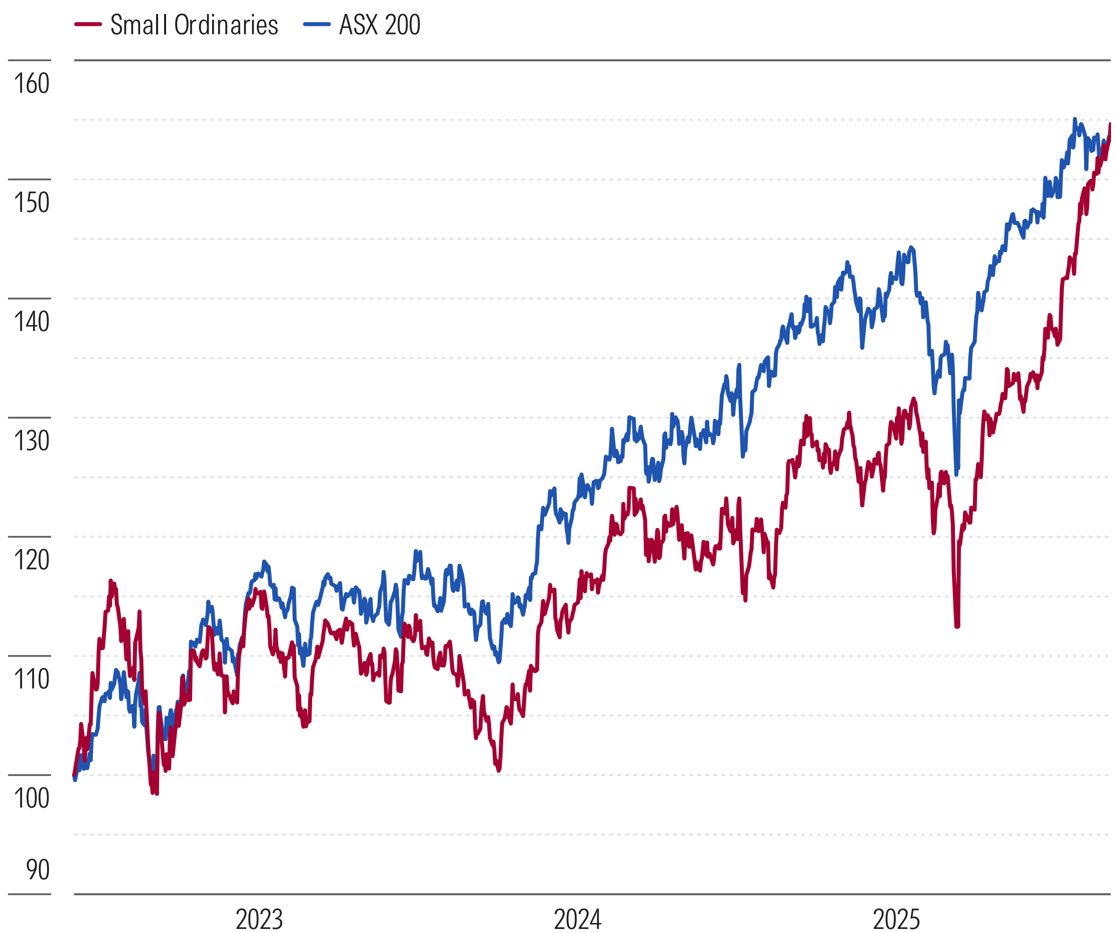
The ASX 200 finished the September quarter at 8,849 points, up 4% on June. Most of the gains came during reporting season, with the benchmark posting one of its strongest August performances on record. September saw a modest pullback, typically a softer month as stocks go ex-dividend. Our coverage trades at an equal-weighted premium of 5%, not as steep as mid-August but still modestly above fair value.

Looking at the market on an index-weighted basis, the premium rises to roughly 10%. Valuations of most blue chips look stretched, though a volatile reporting season did throw up new opportunities, including wide-moat Woolworths. The stock has fallen 20% since its result, the market hung up on recent underperformance against Coles. But Woolworths, with significantly higher sales, has the scale advantage and structurally higher margins to cut prices, win back the trust of customers, and ultimately close the gap to its closest competitor.

Small caps, though outperforming materially in the September quarter, remain more attractively priced than larger companies. Stocks in the Small Ordinaries index trade 5% below our fair value estimates on an equal-weighted basis. By contrast, the ASX 50 sits at a 20% premium. Signs of a modest improvement in the domestic economy bode well for the small caps, which derive a greater share of earnings at home compared with larger peers.

Small Caps Close the Gap After Years of Underperformance

June 30, 2022 = 100.



Source: Morningstar. Data as of Sept. 30, 2025.

Selective Value in a Concentrated Market

Concentration is a risk in our market. In the two years to August 2025, Australian equities have returned 32%, comfortably above the long-run average. Yet more than half of those gains came from just five stocks: the four major banks and Wesfarmers. Commonwealth Bank alone contributed about one-fourth of total returns. Banks now represent 25% of the ASX by market capitalization, up from 19% two years ago.

The four major banks trade an equal-weighted premium of almost 40%. ANZ is the only one that looks sensibly priced, in 3-star territory. With home loans making up the bulk of bank balance sheets, the surge in bank stocks leaves our equity market even more reliant on the property cycle, an exposure many investors already carry elsewhere.

It makes sense to be selective, and we see plenty of opportunities outside the expensive banks. About one-third of our coverage is undervalued, and pleasingly, almost 40% of these stocks have moats. Energy is the most undervalued sector, with Woodside, the largest stock, at almost half our fair value estimate. Santos is at a 35% discount after Abu Dhabi–led XRG Consortium withdrew its takeover offer, erasing the bid premium previously in the share price.

Santos' share price fall may hurt now, but we think it's probably good news for long-term investors. In our view, XRG's offer undervalued Santos, and the failed takeover means investors can participate in earnings growth and a likely rerating once key projects ramp up in 2025 and 2026.

Banks Account for Largest Share of the ASX Since Covid

Banks as a percentage of ASX 200 market capitalization.

Source: Morningstar. Data as of Sept. 30, 2025.

Economic Outlook

Lochlan Halloway | lochlan.halloway@morningstar.com

Improving Economy Puts Rate Cuts at Risk

Australia's economy is gradually gathering momentum. June-quarter real gross domestic product grew 1.8% year on year, with stronger household consumption doing most of the heavy lifting. This is a solid improvement from the trough in September 2024, when annual growth slipped below 1%, though still short of the long-run trend of about 3%. Real GDP is growing again in per capita terms, albeit marginally, up 0.2% in the year to June 2025.

The labor market is softening but is relatively tight by historical standards. The unemployment rate held at 4.2% in August 2025, roughly 70 basis points above its 2023 lows. Job vacancies, too, are falling, and wage growth appears to be settling at around 3.5%. The big test is if private sector hiring can step up as the public sector, which has carried much of the jobs growth in recent years, starts to pull back.

Household spending data reinforce a picture of tentative improvement. The Australian Bureau of Statistics' household spending indicator rose 5.1% year on year in July, the fastest pace since late 2023. With spending now running ahead of inflation, sales volumes for retailers appear to be growing again. Conditions are nothing like the pandemic-era boom, and we don't expect anything like that to materialize. But the upturn nonetheless provides welcome relief for retailers who endured a long winter of rate hikes, cautious shoppers, and wage cost pressures.

GDP Growth Lifting Off Trough

Source: Australian Bureau of Statistics, Morningstar. Data as of June 30, 2025.

Improving Economy Puts Rate Cuts at Risk

The Reserve Bank of Australia kept the cash rate on hold at 3.6% in September, as widely expected. The board appears vindicated in having brought inflation under control without lifting rates as high as its global peers, and it is now applying the same measured approach on the way down: slow to raise, and slow to cut.

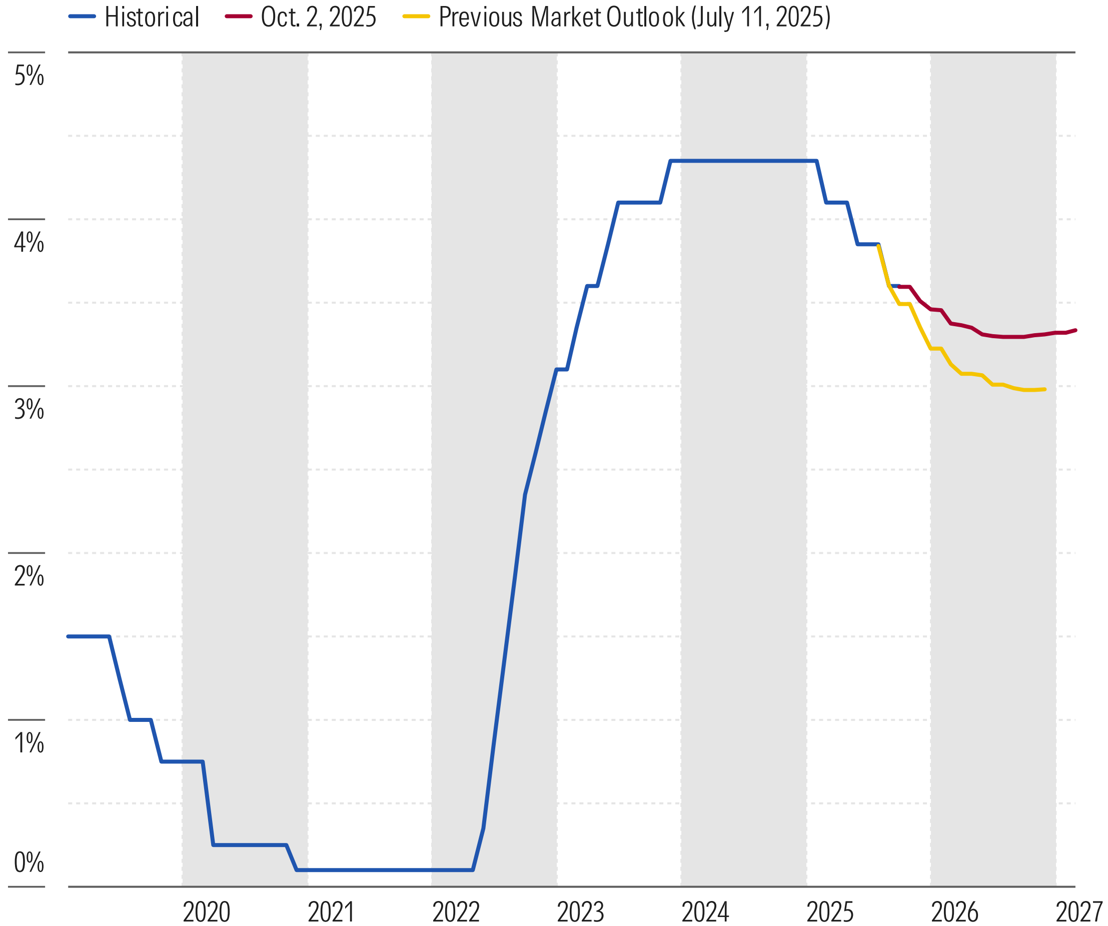
A surprisingly strong July inflation update saw bond traders scale back expectations of near-term cuts considerably. At the time of our last market outlook, futures markets were nearly certain of a cut at the RBA's November meeting. That probability has since fallen below 50%. The terminal cash rate implied by futures has also drifted up to 3.3%, some 30 basis points higher than at the start of the quarter.

But market pricing can shift quickly, and with no forward guidance from the RBA, traders take their cue from economic data. The September quarter Consumer Price Index, due late October, is the next critical release. A print testing the upper end of the 2%–3% target band, particularly if driven by stronger "market services" inflation—dining out, recreation, financial services—would probably close the door on another cut this year.

Still, it seems more likely than not that this easing cycle has further to run, with Governor Michele Bullock describing monetary policy as "a little bit restrictive." But the bank is in no hurry, and as the governor remarked at the latest press conference, fewer cuts are not necessarily a bad thing if they reflect stronger-than-expected economic conditions.

Market Trims Rate-Cut Expectations

Futures-implied RBA cash rate.



Valuation Overview and Top Picks

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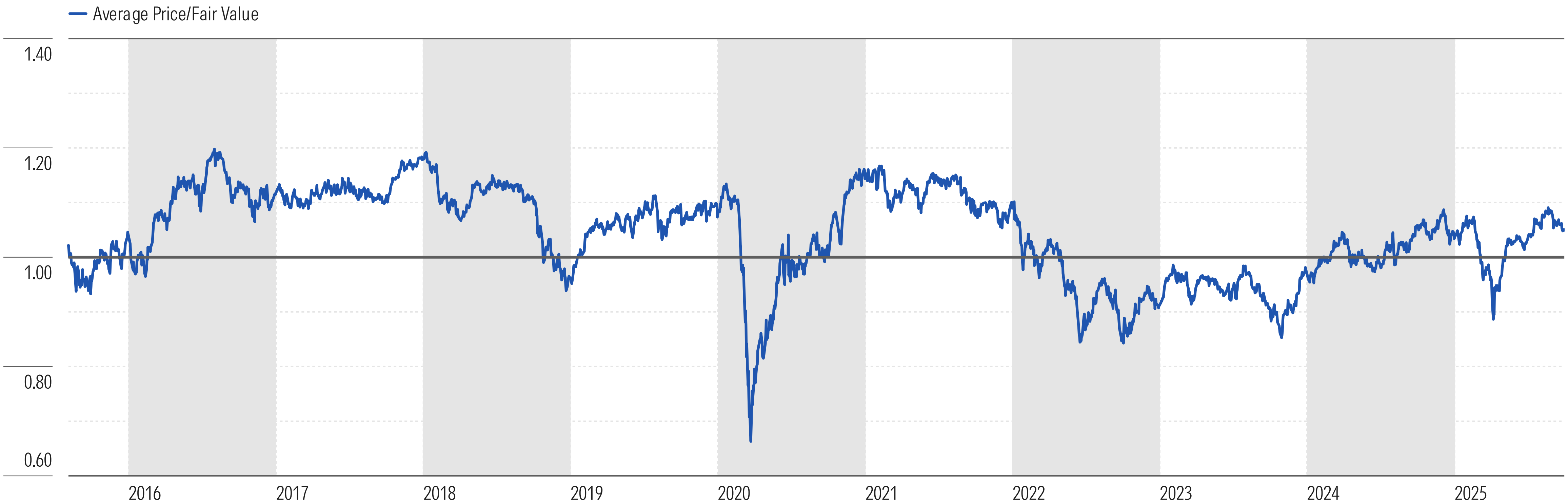
VALUATION OVERVIEW

Climbing Down From Peak Valuations

Our Australian and New Zealand coverage was at a 5% premium to fair value on an equal-weighted average as of Sept. 30, 2025. As recently as mid-August, stocks were almost 10% overvalued, but September's pullback knocked off the froth. We see many opportunities across our coverage, particularly among companies outside the ASX 50.

Stocks Modestly Overvalued on Average

Morningstar Australia and New Zealand coverage: equal-weighted average price/fair value estimate.



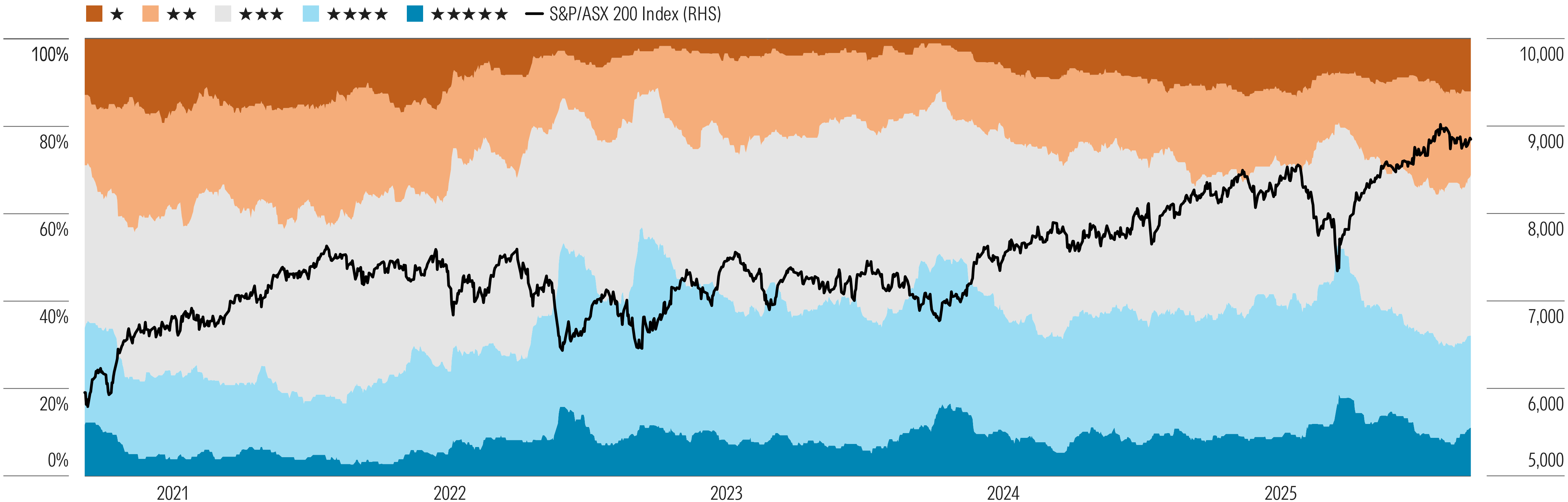
Source: Morningstar. Data as of Sept. 30, 2025.

4- and 5-Star Ratings Still Plentiful

As of Sept. 30, approximately 30% of Australian and New Zealand stocks under coverage are 4- or 5-star-rated, which is comfortably above the trailing 10-year average of about 25%. Pleasingly, almost 40% of undervalued stocks have moats.

More Undervalued Stocks Than Average

Star rating distribution over time.



Source: Morningstar. Data as of Sept. 30, 2025.

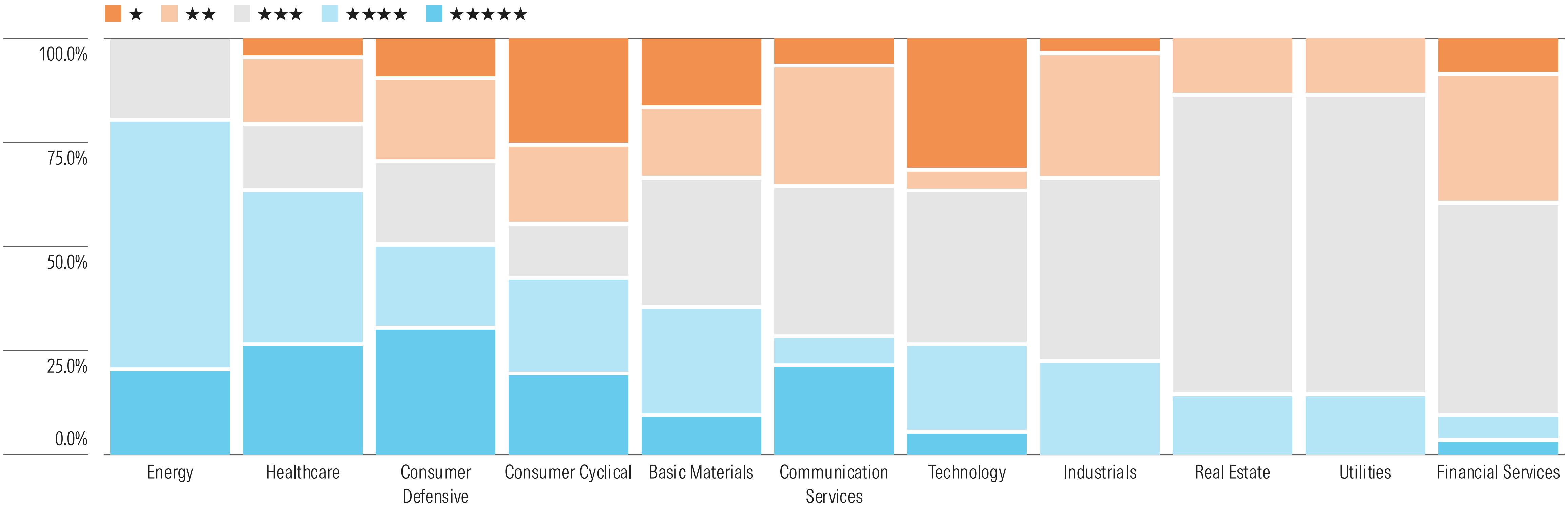
VALUATION OVERVIEW

Opportunities in Many Sectors

Energy is the most attractively priced sector. We also see many undervalued stocks in healthcare, including narrow-moat CSL, and consumer defensives, including Woolworths and Endeavour, both wide-moat-rated. We see fewer ideas in financial services, utilities, and real estate.

We See Undervalued Stocks in Every Sector

Star rating distribution by sector.



Source: Morningstar. Data as of Sept. 30, 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 4.00	AUD 2.29	High	None	0.57	AUD 0.88
James Hardie Industries (JHX)	★★★★	AUD 44.00	AUD 28.08	High	Wide	0.65	AUD 16.91
Pilbara Minerals (PLS)	★★★	AUD 2.80	AUD 2.52	High	Narrow	0.86	AUD 8.11
Communication Services							
Nine Entertainment (NEC)	★★★★★	AUD 2.20	AUD 1.21	High	None	0.55	AUD 1.92
Spark New Zealand (SPK)	★★★★★	AUD 3.30	AUD 2.06	Medium	Narrow	0.63	AUD 3.92
TPG Telecom (TPG)	★★★★	AUD 6.40	AUD 5.02	Medium	None	0.78	AUD 9.33
Consumer Cyclical							
Accent Group (AX1)	★★★★★	AUD 2.30	AUD 1.32	High	Narrow	0.57	AUD 0.79
Domino's Pizza Enterprises (DMP)	★★★★★	AUD 41.00	AUD 13.48	High	Narrow	0.33	AUD 1.27
Bapcor (BAP)	★★★★★	AUD 6.00	AUD 3.17	High	Narrow	0.53	AUD 1.08
Consumer Defensive							
IDP Education (IEL)	★★★★★	AUD 16.00	AUD 6.57	High	Narrow	0.35	AUD 1.83
Endeavour Group (EDV)	★★★★★	AUD 6.10	AUD 3.63	Low	Wide	0.59	AUD 6.50
Woolworths Group (WOW)	★★★★	AUD 30.50	AUD 26.70	Low	Wide	0.88	AUD 32.62

Source: Morningstar. Data as of Sept. 30, 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 Group (WDS)	★★★★★	AUD 44.20	AUD 23.03	Medium	None	0.53	AUD 43.73
Santos (STO)	★★★★	AUD 10.50	AUD 6.73	High	None	0.66	AUD 21.86
Whitehaven Coal (WHC)	★★★★	AUD 9.00	AUD 6.59	Very High	None	0.73	AUD 5.49
Financials							
ASX (ASX)	★★★★★	AUD 77.00	AUD 58.59	Low	Wide	0.76	AUD 11.38
ANZ Group Holdings (ANZ)	★★★	AUD 32.00	AUD 33.21	Medium	Wide	1.04	AUD 99.09
AUB Group (AUB)	★★★★	AUD 37.50	AUD 32.73	Medium	Narrow	0.87	AUD 3.82
Healthcare							
CSL (CSL)	★★★★★	AUD 305.00	AUD 198.20	Medium	Narrow	0.65	AUD 96.16
Ramsay Health Care (RHC)	★★★★★	AUD 54.00	AUD 31.73	Medium	Narrow	0.58	AUD 7.32
Sonic Healthcare (SHL)	★★★★★	AUD 33.00	AUD 21.44	Medium	Narrow	0.64	AUD 10.60
Industrials							
Amcor (AMC)	★★★★	AUD 17.80	AUD 12.29	Medium	Narrow	0.69	AUD 28.70
Reliance Worldwide (RWC)	★★★★	AUD 5.70	AUD 4.09	Medium	Narrow	0.73	AUD 3.16
Aurizon Holdings (AZJ)	★★★★	AUD 4.40	AUD 3.19	Medium	None	0.73	AUD 5.58

Source: Morningstar. Data as of Sept. 30, 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 7.18	Medium	None	0.74	AUD 7.72
GPT Group (GPT)	★★★	AUD 5.80	AUD 5.37	Medium	None	0.92	AUD 10.29
Charter Hall Retail (CQR)	★★★★	AUD 4.60	AUD 4.13	Low	None	0.90	AUD 2.40
Technology							
Fineos (FCL)	★★★★	AUD 3.90	AUD 2.81	High	Wide	0.72	AUD 0.95
SiteMinder (SDR)	★★★★	AUD 10.75	AUD 7.21	High	Narrow	0.68	AUD 2.03
Pexa Group (PXA)	★★★★	AUD 20.00	AUD 15.67	High	Wide	0.78	AUD 2.78
Utilities							
AGL Energy (AGL)	★★★★	AUD 12.00	AUD 8.85	High	None	0.74	AUD 5.95
APA Group (APA)	★★★	AUD 9.30	AUD 8.88	Medium	Narrow	0.96	AUD 11.68
Meridian Energy (MEZ)	★★★	AUD 5.40	AUD 4.90	Medium	Narrow	0.92	AUD 12.91

Source: Morningstar. Data as of Sept. 30, 2025.

Basic Materials

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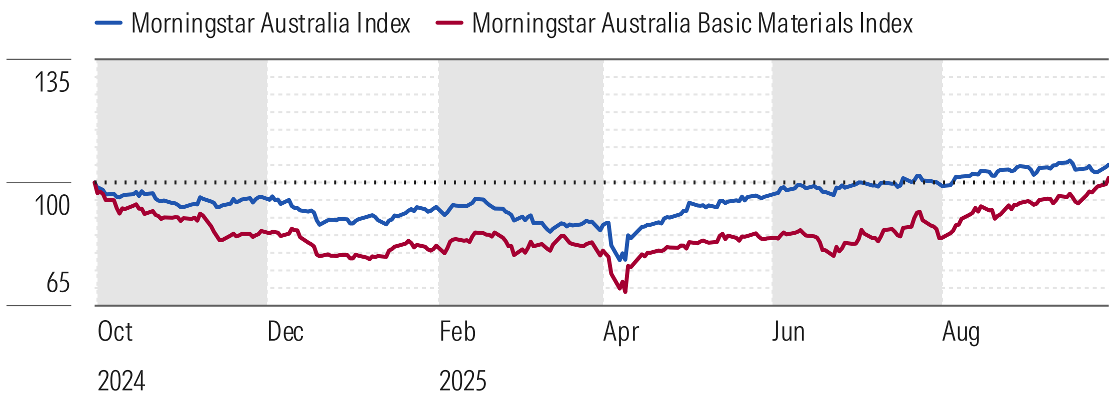
Lithium Miners and James Hardie Cheap

The basic materials sector is now overvalued on average after outperforming in the September quarter as tariff concerns wane. Gold is again higher, trading around historic highs as the Federal Reserve lowered interest rates. Falling real interest rates are bullish for the gold price. Gold-miner shares responded strongly to the higher gold price, and our gold coverage is materially overvalued as investors project it remaining around historical highs into perpetuity.

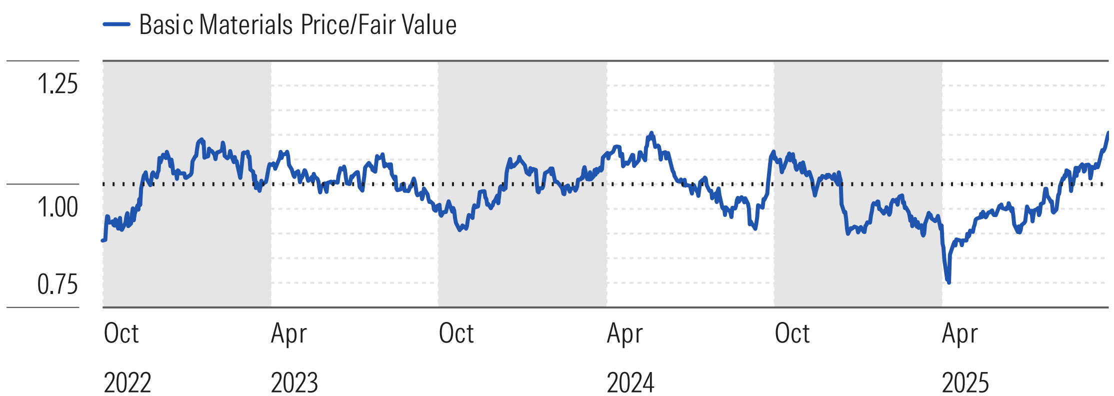
Iron ore and metallurgical coal prices are also up on last quarter, as are China steelmaker margins after the central government's moves to reduce overcapacity across the economy. Copper and aluminum prices are broadly unchanged. Higher iron ore prices and improved sentiment have seen BHP and Rio Tinto shares rise to now trade moderately above fair value, though Fortescue is expensive. Deterra shares are slightly undervalued as the US government renegotiates its deal to help fund Lithium Americas' Thacker Pass lithium development, on which Deterra holds a royalty. However, we think the updated terms are unlikely to be negative for Deterra and potentially even positive if they result in a higher floor price for Thacker Pass' lithium volumes.

With demand growing strongly, lithium prices are up materially as CATL temporarily shuttered its giant Jianxiawo mine. We think prices have further to recover and assume they average around USD 20,000 per metric ton over the medium term, in line with our estimate of the marginal cost of production. IGO trades at around a 25% discount to fair value, while Pilbara Minerals is about 15% undervalued. Mineral Resources shares have doubled in response to improved lithium and iron ore prices but remain around 30% undervalued on balance sheet concerns.

Basic Materials Sector Outperforming as Tariff Concerns Fade



Sector Now Overvalued on Average



Source: Morningstar. Data as of Sept. 30, 2025.

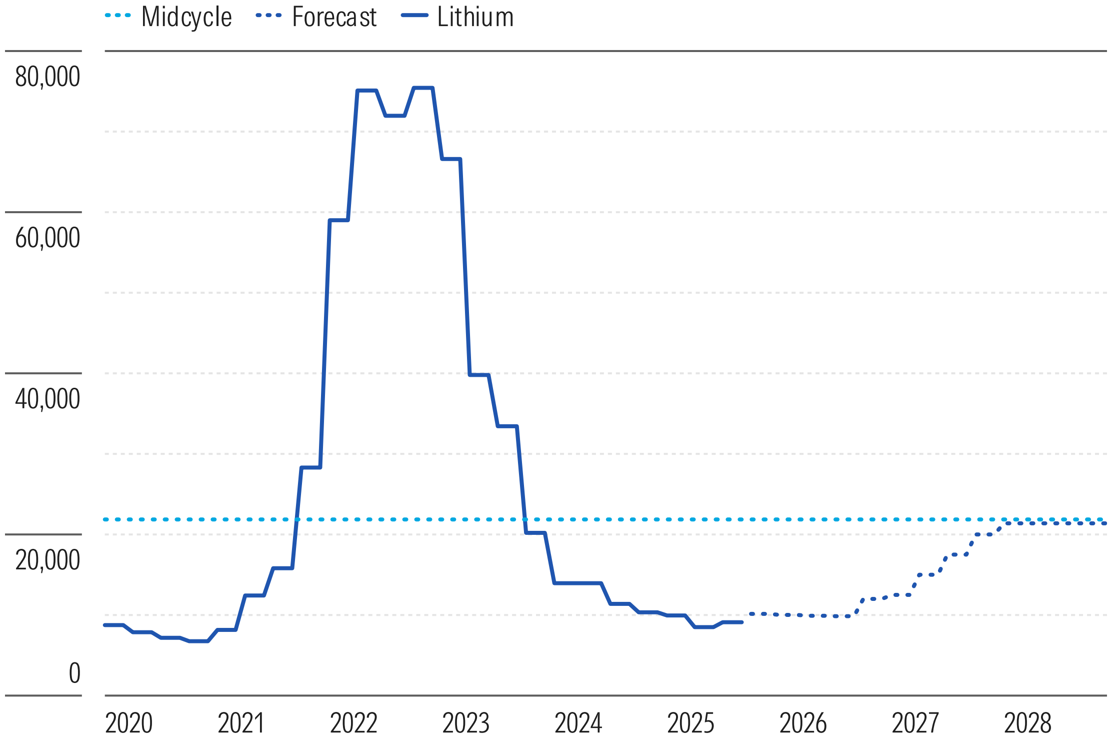
Lithium Miners and James Hardie Cheap

Lithium prices still trade materially below our estimate of the medium-term marginal cost of production. We expect prices to rise further as the market oversupply reduces, driven by higher-cost supply exiting, along with rapidly increasing demand.

Subdued US and Australian homebuilding and renovation activity, caused by cost inflation and higher interest rates, are affecting wide-moat-rated James Hardie's near-term earnings, but we think earnings will improve as housing markets recover.

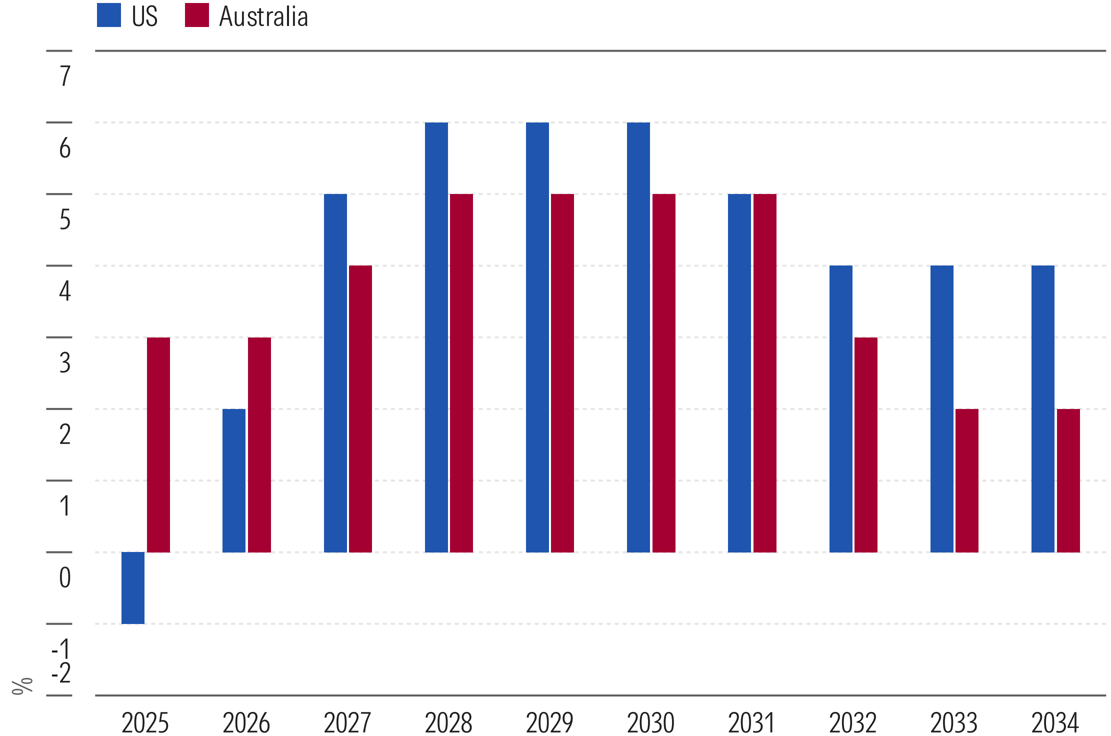
Positive Outlook for Lithium Prices

Lithium Carbonate Equivalent (USD per metric ton).



A Slowdown in Repair and Renovation Activity

Per Unit Residential Improvement Spending Growth (Nominal).



Source: Platts, LME, Benchmark Mineral, Fastmarkets, Morningstar. Data as of Sept. 22, 2025 (left). Morningstar. Data as of Sept. 23, 2025 (right).

Basic Materials

Company (Ticker)		Rating
Nufarm (NUF)		★★★★★
Price	**Fair Value**	**Uncertainty**
AUD 2.29	AUD 4.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 0.88	None	Standard

Australian agricultural innovator Nufarm aspires to meet fiscal 2026 revenue of more than AUD 4.6 billion, up 40% on fiscal 2024's AUD 3.3 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 0.34 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 is growing and bioenergy carinata planting for biofuel offtake is agreed with BP.

Company (Ticker)		Rating
James Hardie Industries (JHX)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 28.08	AUD 44.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 16.91	Wide	Standard

James Hardie has a tremendous runway for growth. Aging US houses provide a pipeline of repair and renovation customers, while a strategy to win contracts with large homebuilders is increasing volumes in new-builds. We think the downtrodden share price is overblown, reflecting concerns about the price paid for Azek and the realization of synergies. We're not as optimistic as management on the benefits. We think most operational cost synergies from combining head offices can be achieved, but we think the sales uplift from bundling the two products will be weaker than management expects. In our view, Azek's products are less differentiated than Hardie's and the industry more competitive. However, we think that's more than compensated for by the lower share price.

Company (Ticker)		Rating
Pilbara Minerals (PLS)		★★★
Price	**Fair Value**	**Uncertainty**
AUD 2.52	AUD 2.80	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 8.11	Narrow	Standard

We think the market takes a different view on the outlook for lithium prices, the key valuation driver for Pilbara. 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. Pilbara's primary asset is the Pilgangoora mine, where capacity projects and operating efficiencies completed over fiscal 2025 have improved unit operating costs and production volumes. Pilgangoora produces some of the world's highest-quality hard-rock lithium, with cash costs at the lower end of the cost curve. Its balance sheet is very strong, with about AUD 1 billion in cash and no major capital investment expected in the near term. We expect lithium demand to nearly triple by 2030 from levels in 2023, largely driven by electric vehicle sales. To support this, the firm has further expansion plans and sufficient mine reserves for over 20 years of operation at its main Pilgangoora mine.

Source: Morningstar. Data as of Sept. 30, 2025.

Communication Services

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Increasing Competition in Broadband, While Media Maintains Its Audience

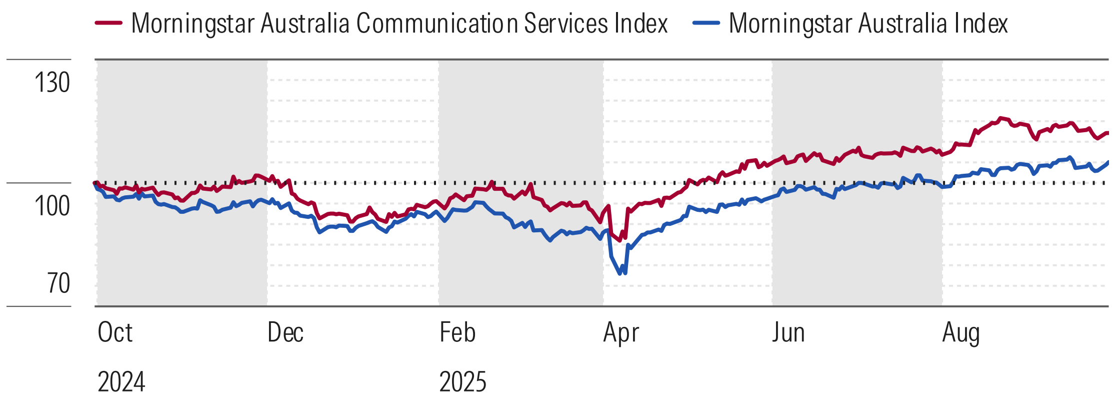
Cost of living pressures and changes to National Broadband Network pricing further drive the shift toward “challenger” brands in fixed-line broadband and to mobile virtual network operators in mobile. Competitive pricing has caused customers to change providers, with challenger brands now accounting for approximately 20% of the NBN market, more than doubling since 2020, according to the Australian Competition and Consumer Commission. MVNOs have seen a similar trend, with Roy Morgan estimating that they account for approximately 19% of the Australian mobile market.

The trends are set to continue, with operators expecting significant churn following the NBN’s speed upgrades this September. While usage of MVNOs is still relatively low in Australia, it's notable that they account for 40% market share in Europe. We expect incumbent telecoms to withstand these industry shifts, given that broadband accounts for a small portion of their earnings and many operate their own MVNO subsidiaries.

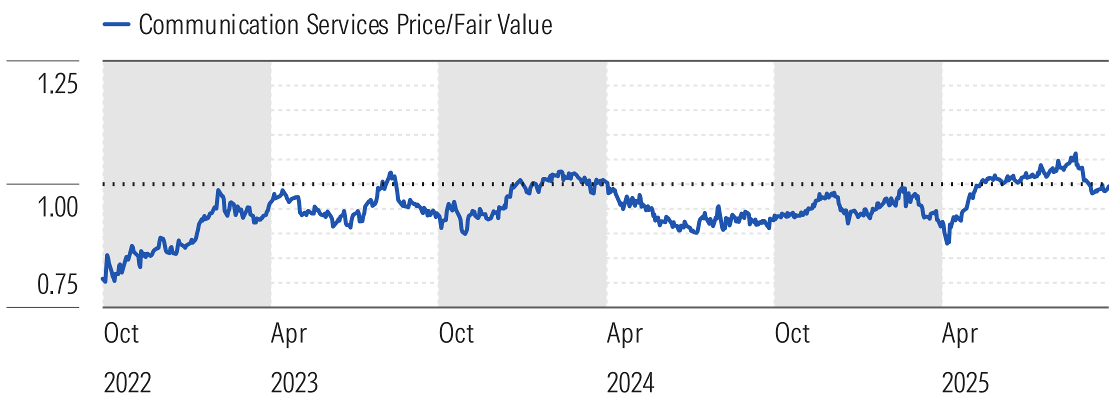
Media has underperformed the broader market recently. However, advertising conditions are at least stabilizing. We believe share price performance will improve given the slower than expected decline in traditional media. For instance, the decline in broadcast TV is partially offset by growth in broadcaster video on demand.

Whether traditional media can monetize this viewership while keeping a lid on programming costs and reducing headcount using technology remains to be seen. However, considering the rock-bottom valuations of between 3 and 6 times our forecast EBITDA, little needs to go right to see a meaningful improvement in share prices.

Underperformance in Recent Quarter, Still Outperforming for the Year



Fairly Valued Sector, However Still Opportunities in Media and Telcos



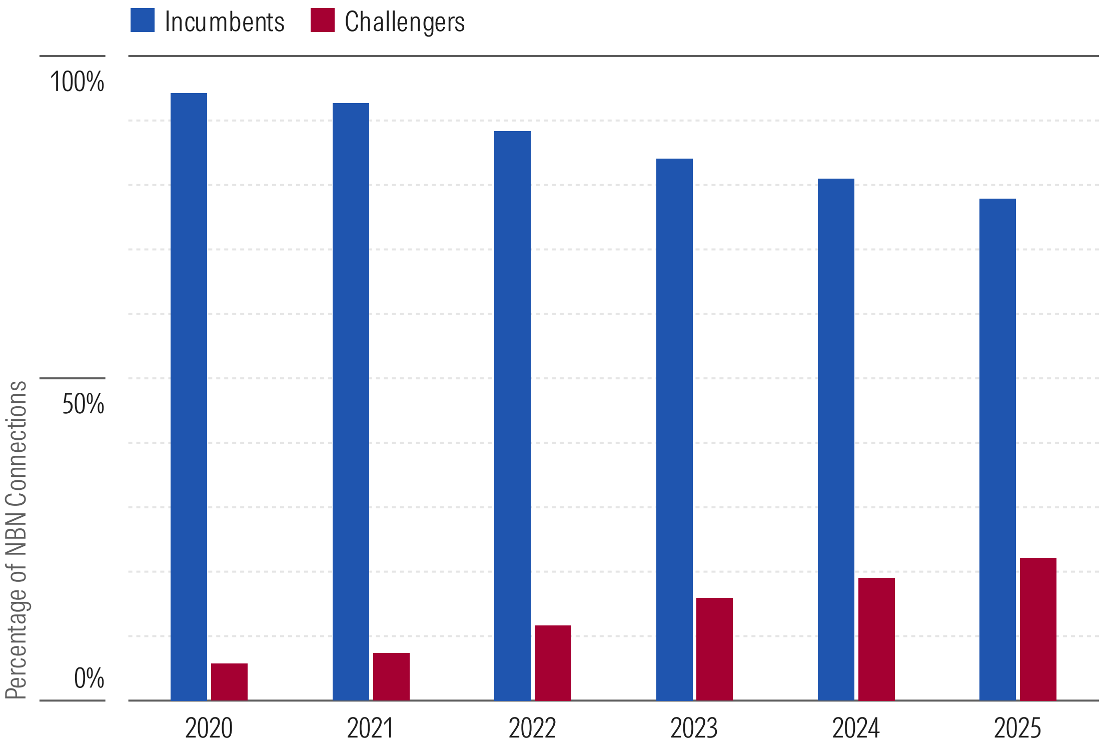
Increasing Competition in Broadband, While Media Maintains Its Audience

Lack of legacy costs allows smaller telecoms to price broadband plans competitively, gaining customers from the incumbents. This trend is likely to continue as broadband is less of a priority for incumbents, as it is much lower-margin than mobile.

Traditional media companies continue to hold a significant share of the key advertising demographic. Although broadcast television viewership has declined, this has been partly offset by the growth of BVOD platforms.

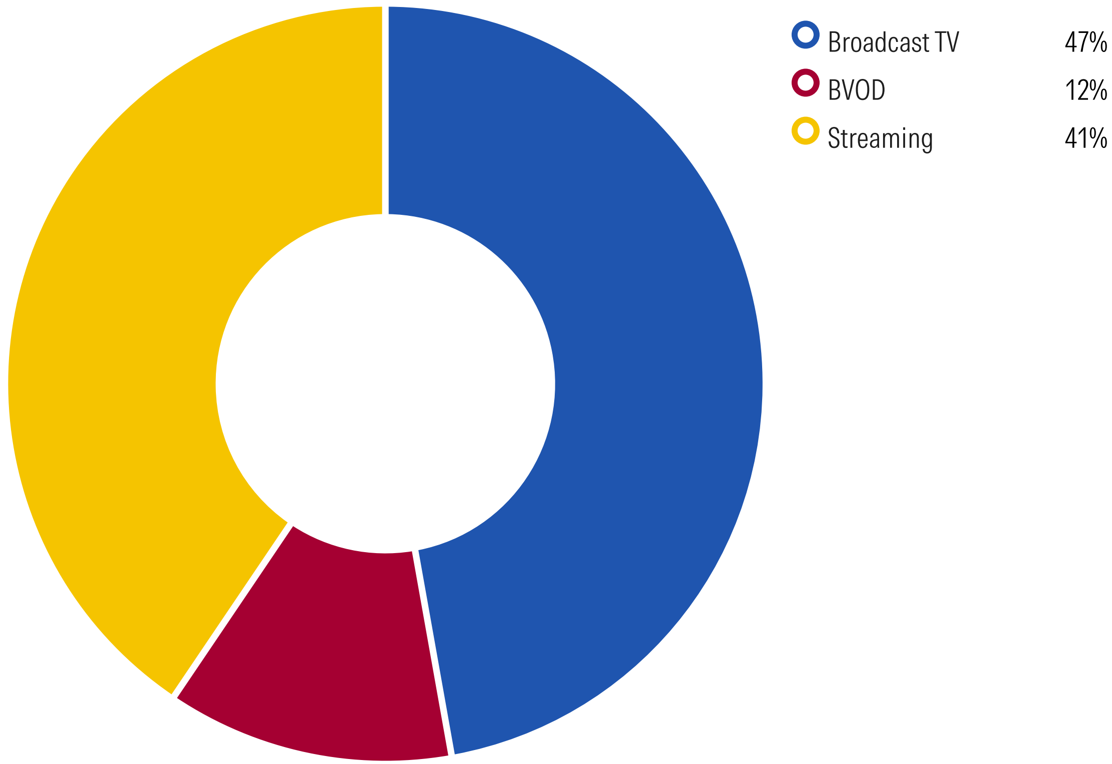
Challengers Have More Room to Grow

Total NBN connections by provider from 2020 to 2025.



Viewership of Television Remains Resilient

All TV Set Viewing - 25-54 demographic group.



Sources: Australian Competition & Consumer Commission (left), Data as of June 2025. OzTam and Seven West Media (right). Data as of June 28, 2025.

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 and a subscription video-on-demand service. The publishing unit has transformed to become a digital-first news provider, decreasing exposure to traditional print media. Business diversification and a solid balance sheet position Nine well, in case there is a hiccup to the current advertising recovery. The ability to flex costs and utilize efficiencies is not at the expense of the competitive position, with Nine's audience, revenue share, and subscriptions growing across all businesses.
Price	**Fair Value**	**Uncertainty**	
AUD 1.21	AUD 2.20	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.92	None	Standard	
Company (Ticker)		**Rating**	
Spark New Zealand (SPK)		★★★★★	Challenging New Zealand economic conditions, combined with structural headwinds facing the mobile and IT units from austere government and enterprise customers, have exposed Spark NZ's bloated cost base. Earnings are cyclically weak but should recover as New Zealand's economy recovers. Further, a reinvigorated focus on costs is likely, with decent cost-out targets. On our earnings and dividends forecasts, we think the balance sheet will stay reasonable and could improve with asset sales. None of this is reflected in the share price, nor Spark's moaty mobile business. This is supported by a stable and rational mobile industry structure, with Spark the market-share leader.
Price	**Fair Value**	**Uncertainty**	
AUD 2.06	AUD 3.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.92	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. 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.
Price	**Fair Value**	**Uncertainty**	
AUD 5.02	AUD 6.40	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 9.33	None	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Consumer Cyclical

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Lofty Margin Expansion Expectations for Overvalued Cyclicals

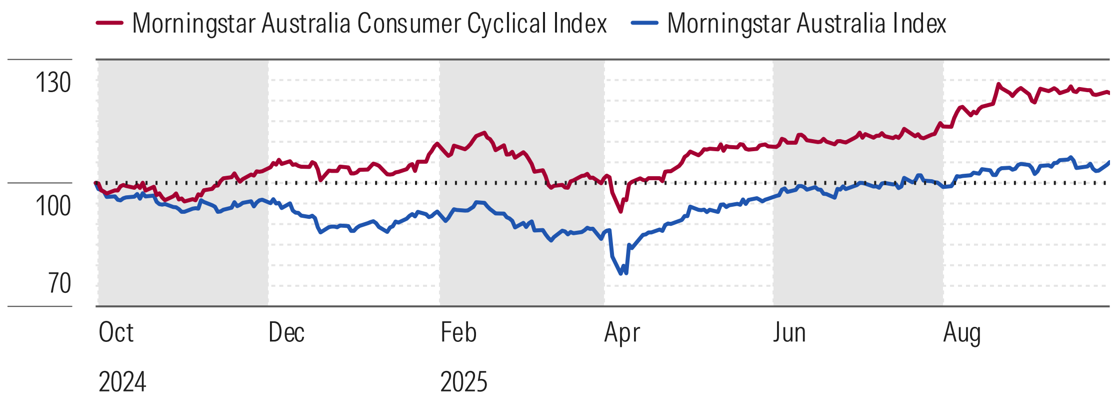
The operating environment is normalizing for consumer cyclicals after a period of weakness. Sales growth is back around trend levels, cost inflation is abating and no longer a threat to profit margins, and the impact from US tariffs is likely insignificant for Australian retailers.

A normalizing trading environment, with moderate cost inflation and a recovery in sales growth to trend levels, lessens earnings volatility. But we expect competition to constrain profit margins, and our expectations for some overvalued cyclical retailers differ from the market's.

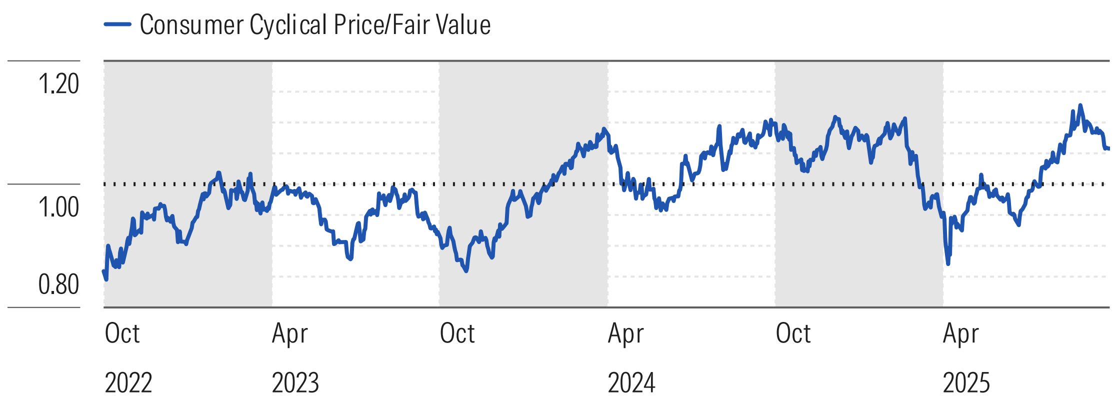
Consumer sentiment is rebounding from a multiyear slump. After a third interest rate cut in August 2025, sentiment is edging toward positive territory. Harvey Norman and JB Hi-Fi are benefiting from shoppers buying more big-ticket household goods.

We expect industry growth to be underpinned by near-full employment, rising wages, a relatively stable savings rate, and more optimistic consumers given interest rate cuts. The initial signs suggest fiscal 2026 could be a solid year for cyclical retailers. Strengthening sales momentum in latter half of fiscal 2025 is largely continuing. Among retailers, only JB Hi-Fi, Rebel, and Big W are having slightly weaker starts to the year.

Cyclicals Are Outperforming as Consumers Strengthen



We Think Cyclicals Are Pricing in Profit Margin Optimism



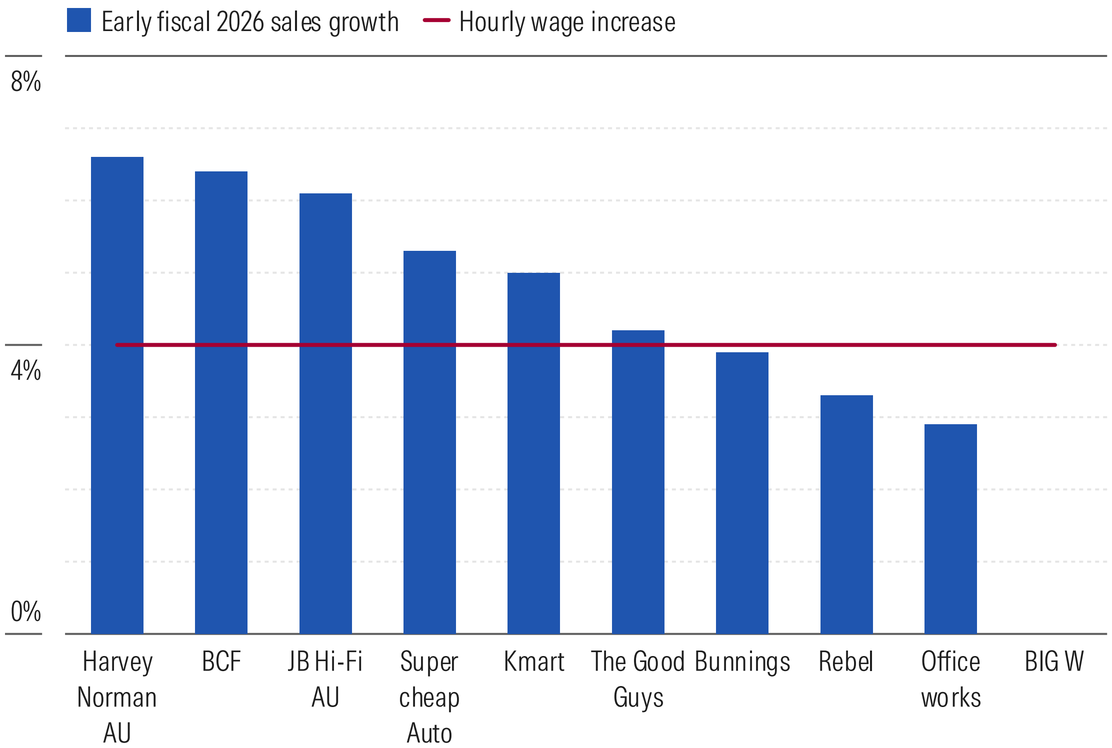
Source: Morningstar. Data as of Sept. 30, 2025.

Lofty Margin Expansion Expectations for Overvalued Cyclicals

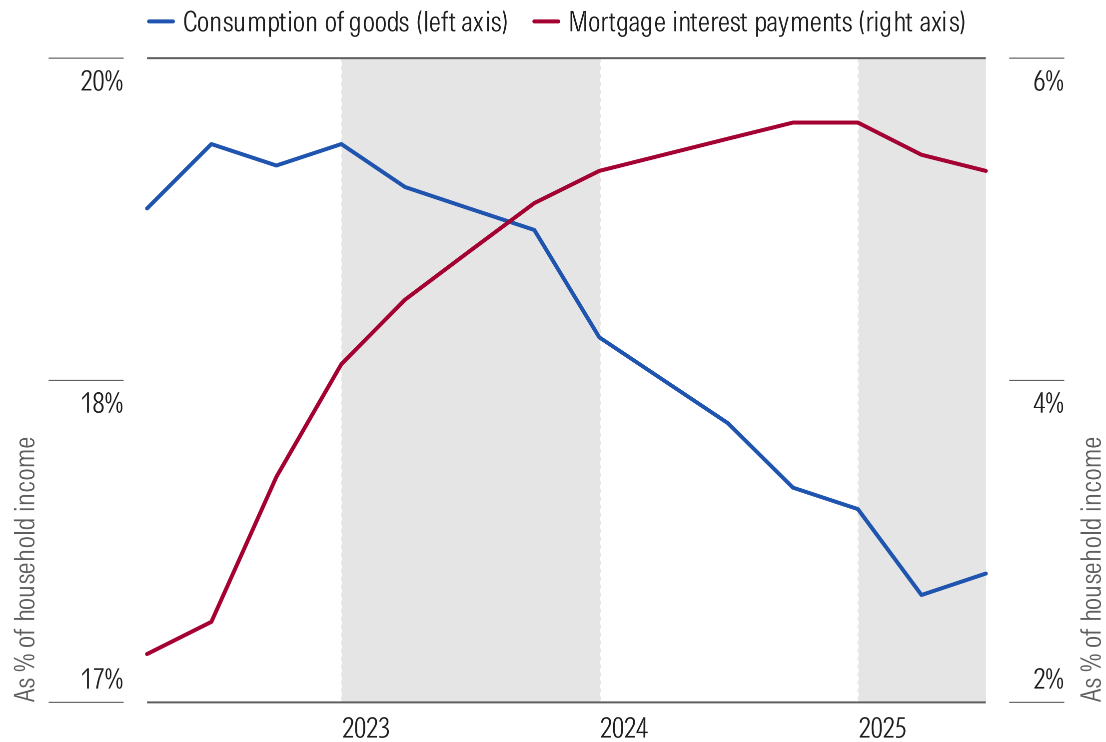
We expect solid 4% discretionary retail industry sales growth to offset cost inflation for the average retailer in fiscal 2026. Most large cyclical retail chains under our coverage are reporting sales growth above or around hourly wage inflation, the main cost driver.

Easing monetary policy is also reducing mortgage pain. After initially bolstering savings following recent interest rate cuts, households are now spending more of their income on goods. But renters without mortgages are also feeling more optimistic.

Stronger Sales Growth and Moderate Cost Inflation Bode Well for Profit Margins
Total sales growth in early fiscal 2026 and minimum hourly wage increase.



Lower Mortgage Interest Payments Free Up Money for Shopping
Quarterly goods consumption and mortgage interest payments, seasonally adjusted.



Source: Company filings, Fair Work Commission., Morningstar estimates (left). Australian Bureau of Statistics. Data as of June 30, 2025 (right).

Consumer Cyclical

Company (Ticker)		Rating	
Accent Group (AX1)		★★★★★	Accent has been punished for near-term weakness, but we think the selloff is overdone. The market is extrapolating a few soft months of trading into perpetuity, ignoring the likelihood of margin recovery. As consumer sentiment strengthens and excessive price discounting subsides across the industry, margins should improve. We expect a modest uplift in earnings in fiscal 2026, followed by a more pronounced rebound in fiscal 2027. Accent's narrow moat, underpinned by exclusive brand relationships and scale in footwear retailing, is unscathed by the recent cyclical slowdown. At roughly half our fair value estimate, shares in Accent are at a deep discount.
Price	**Fair Value**	**Uncertainty**	
AUD 1.32	AUD 2.30	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 0.79	Narrow	Standard	

Company (Ticker)		Rating	
Domino's Pizza Enterprises (DMP)		★★★★★	Domino's Pizza has a long growth runway, with significant expansion opportunities in Europe and Asia. But we think the market has lost faith in this growth potential, leaving shares materially undervalued. By our estimates, shares now price in no new stores and operating margins staying flat at fiscal 2025 levels. In this scenario, only like-for-like sales growth drives a five-year EPS compound annual growth rate of 2%, extrapolating a tough recent period into perpetuity. We view this as overly pessimistic. While the recent strategy shift to everyday value pricing introduces near-term sales volume uncertainty, we expect profitability to rebound from fiscal 2027, supported by broader fast-food recovery and cost discipline. We expect demand for new stores to be driven by improving franchise store profitability, underpinning a 14% earnings CAGR for the next five years..
Price	**Fair Value**	**Uncertainty**	
AUD 13.48	AUD 41.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.27	Narrow	Exemplary	

Company (Ticker)		Rating	
Bapcor (BAP)		★★★★★	Negative sentiment amid short-term headwinds, management turmoil, and structural changes facing the automotive industry have 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 in automotive spare parts, and Bapcor is likely to successfully adapt to the gradual technological transition.
Price	**Fair Value**	**Uncertainty**	
AUD 3.17	AUD 6.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.08	Narrow	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Consumer Defensive

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Demand, Not Just Inflation, Driving Growth Again

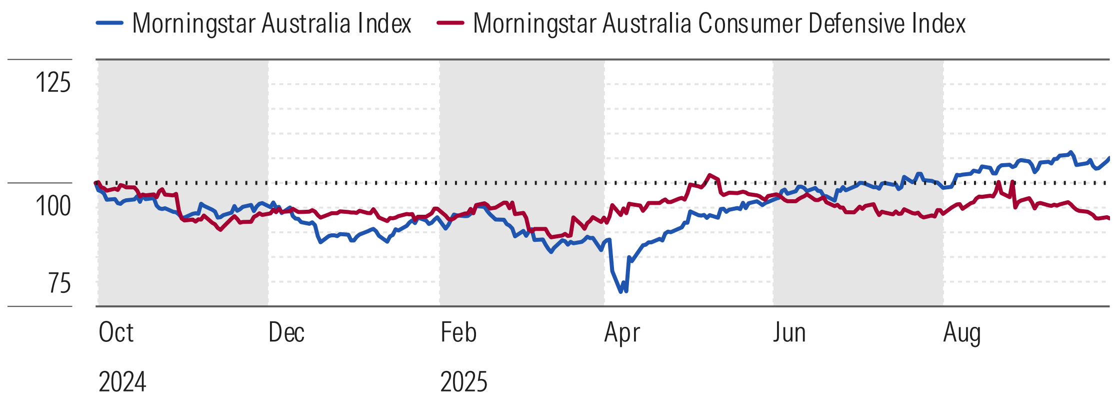
Supermarkets Woolworths and Coles are seeing grocery sales increase by midsingle digits led by volume growth, not rising shelf prices. Australian inflation picked up in July 2025, but we see downside pressures near-term. Food prices drive close to one-fifth of CPI, which measures inflation. We believe Woolworths will cut food prices to regain sales momentum, with Coles to follow suit, ultimately weighing on gross profits of both majors.

We also expect online grocery sales of Coles and Woolworths to outperform in-store sales. While online grocery is less profitable, it provides the opportunity to take market share from the IGA network and Aldi, which don't have a strong online presence.

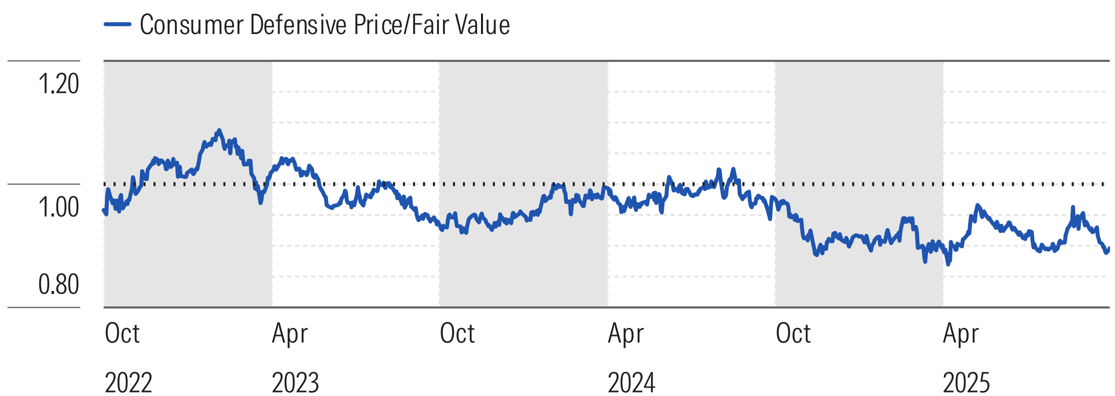
We think liquor sales have bottomed. At liquor retailer Endeavour, consumers have been trading down to cheaper options and buying in bulk for at-home consumption. We think this reflects a cyclically weak trading environment amid elevated cost-of-living pressures, which now look to be abating.

We forecast liquor sales momentum to improve alongside household incomes, reaching durable levels in the midsingle digits from fiscal 2027. Longer term, we expect liquor demand to be defensive, underpinned by inflation, population growth, and a continued trend toward premiumization.

Defensives Are Lagging a Broad Economic Upswing



Defensive Retailers Undervalued, Including Wide-Moat Names



Demand, Not Just Inflation, Driving Growth Again

Retail sales volumes are up 1% year on year in the 12 months to June 2025. Supermarkets can no longer rely on inflation to drive growth, with rising volumes underpinning most of the sales growth for Coles and Woolworths.

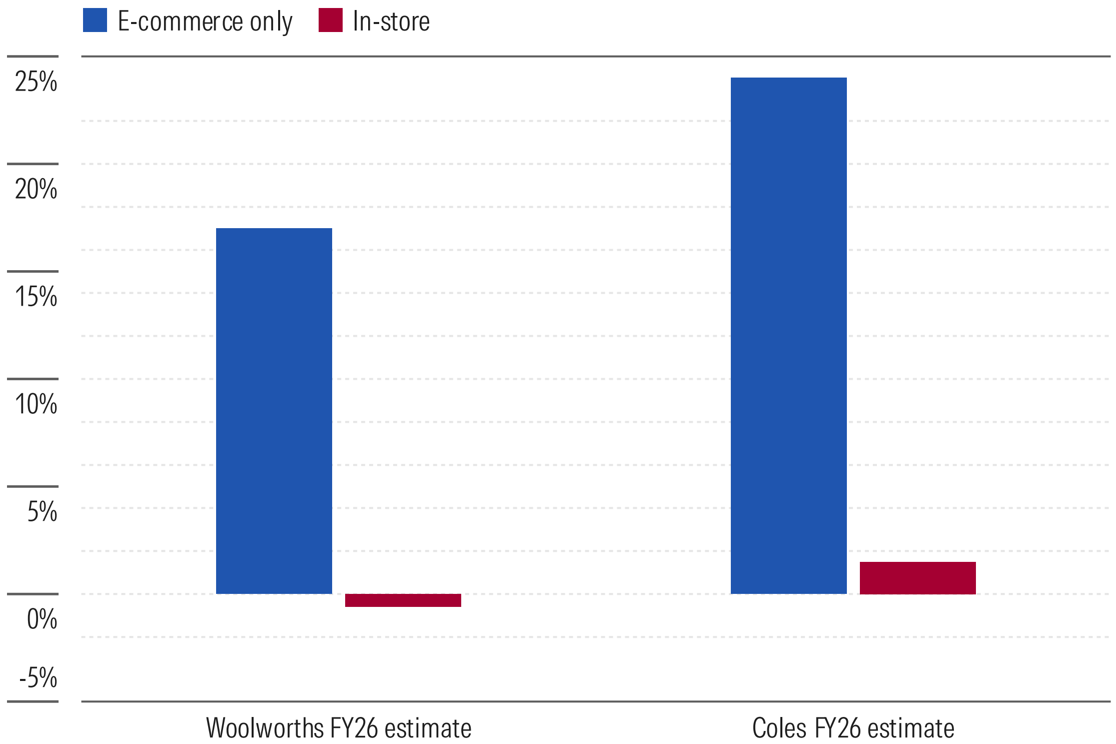
However, supermarkets Coles and Woolworths need to find efficiencies to protect profit margins. The mix shift to lower-margin e-commerce sales puts in-store profits under pressure. We forecast broadly stable in-store sales, while hourly wages are up 4%.

Retail Sales Volumes Increasing for First Time in Two Years

Annual CPI growth. Rolling 12-month retail sales growth.

Supermarkets Seeing Rising Lower-Margin Online and Sluggish In-Store Sales

Grocery sales growth estimates by channel in fiscal 2026.



Source: Australian Bureau of Statistics. Data as of June 30, 2025 (left). Morningstar forecast (right).

Consumer Defensive

Company (Ticker)
IDP Education (IEL)

Rating
★★★★★

Price	**Fair Value**	**Uncertainty**
AUD 6.57	AUD 16.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 1.83	Narrow	Exemplary

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 forecast earnings to be flat in fiscal 2026. However, we expect the firm to outperform broader industry declines as the industry prefers high-quality operators like IDP that boast superior student visa approval rates and 100% client retention. The near-term pricing outlook is positive, with IDP negotiating improved terms and universities raising tuition fees. Long-term, we expect IDP to benefit from an eventual volume recovery as its destination countries rely on international students to support the key education sector and contribute to a skilled workforce. Australia increased its student cap for international students 9% in 2026, and we expect loosening of immigration policies in other regions by fiscal 2028 as inflationary cost of living pressures abate. See our IDP Education Stock Pitch, published in November 2024, for more details.

Company (Ticker)
Endeavour Group (EDV)

Rating
★★★★★

Price	**Fair Value**	**Uncertainty**
AUD 3.63	AUD 6.10	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 6.50	Wide	Exemplary

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 recent liquor retailing performance reflects cyclically weak demand due to cost-of-living pressures. However, we expect liquor sales momentum to improve and sales growth to reach durable levels in the midsingle digits from fiscal 2027. In the longer term, we believe liquor demand is defensive, underpinned by inflation, population growth, and a structural trend toward premiumization. In the smaller hotels segment, earnings are proving resilient.

Company (Ticker)
Woolworths Group (WOW)

Rating
★★★★

Price	**Fair Value**	**Uncertainty**
AUD 26.70	AUD 30.50	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 32.62	Wide	Exemplary

Woolworths is Australia’s largest supermarket chain and offers investors relatively defensive earnings and dividends. We think the market is overreacting to Woolworths’ recent weak operating performance. It is losing market share, and restoring customers' price trust is key to closing the sales growth gap to Coles. While restoring trust will take some time, we expect this strategy to work and Woolworths to maintain its market share from fiscal 2027. We expect its wide economic moat, based on structural cost advantages, to enable it to drop prices more than Coles and ultimately lure back shoppers. Woolworths' dominant scale allows it to leverage fixed costs in a way that smaller competitors cannot.

Source: Morningstar. Data as of Sept. 30, 2025.

Energy

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We Expect Oil Supply to Fall Faster Than Oil Demand From 2035

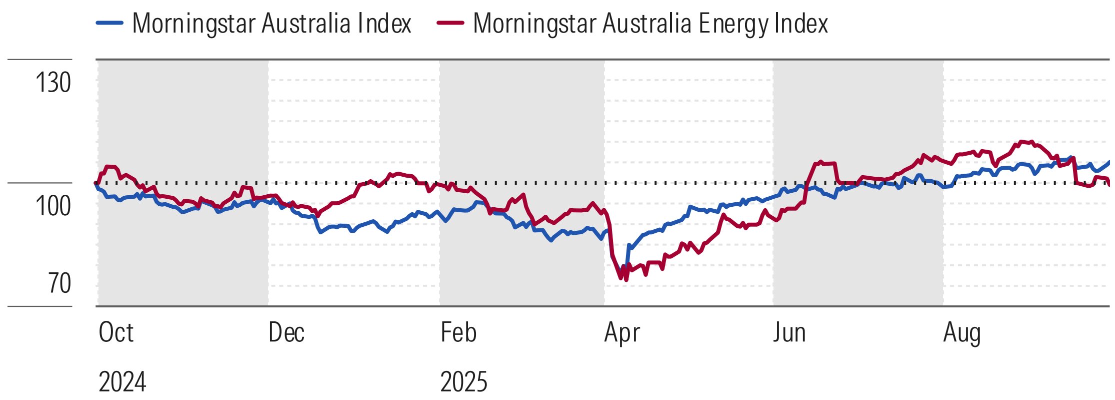
We remain bullish on oil demand relative to the market and have updated our midcycle Brent price to USD 65/barrel from USD 60/barrel. Expected supply constraints drive the higher price. From 2035 to 2050, we forecast oil demand to decline by 15% to 90.8 million barrels per day, or at a negative 1% CAGR, but anticipate supply to decline by well over 20%, or at a negative 2% CAGR. We don't expect any new major supply source like deepwater or shale.

Despite both near-term oil price weakness from OPEC+ hiking production and a potential supply glut next year, we think oil bears have overly rosy assumptions around decarbonization. But future oil demand ultimately comes down to whether substitutes reach cost parity. While electric trucks will hurt oil demand for freight, ships and aircraft are likely to be mostly unaffected by electrification.

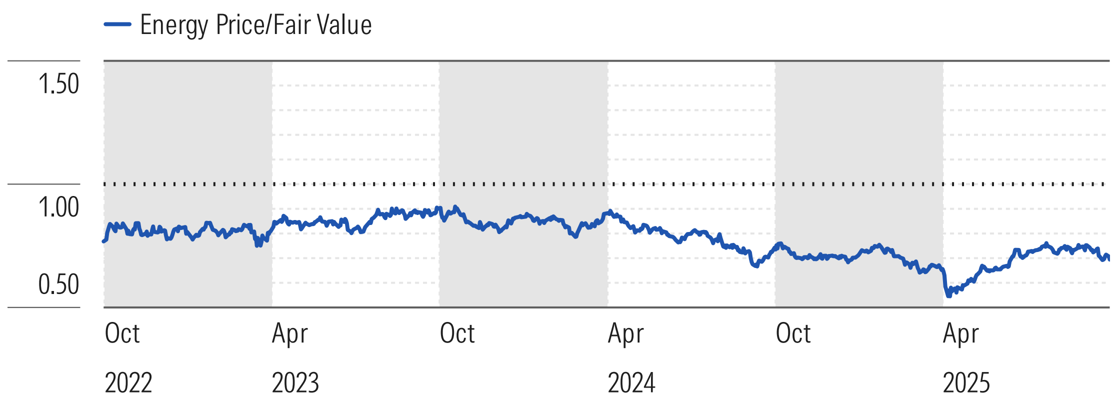
Petrochemical demand should rise strongly along with plastics demand, as consensus views surrounding plastics appear unrealistic. The market also tends to underappreciate the stickiness of oil demand from buildings using oil in heating and cooking applications.

The thermal coal price is broadly flat on last quarter because of sluggish economic growth and oversupply. We are more bullish than the market longer term in relation to demand for high-quality thermal coal produced by Whitehaven and New Hope, which are cheap. Likely constrained supply led by ESG and regulatory opposition also supports prices.

Energy Has Performed in Line With Market Since October 2024



Opportunities Still Abundant as Energy Remains Unloved



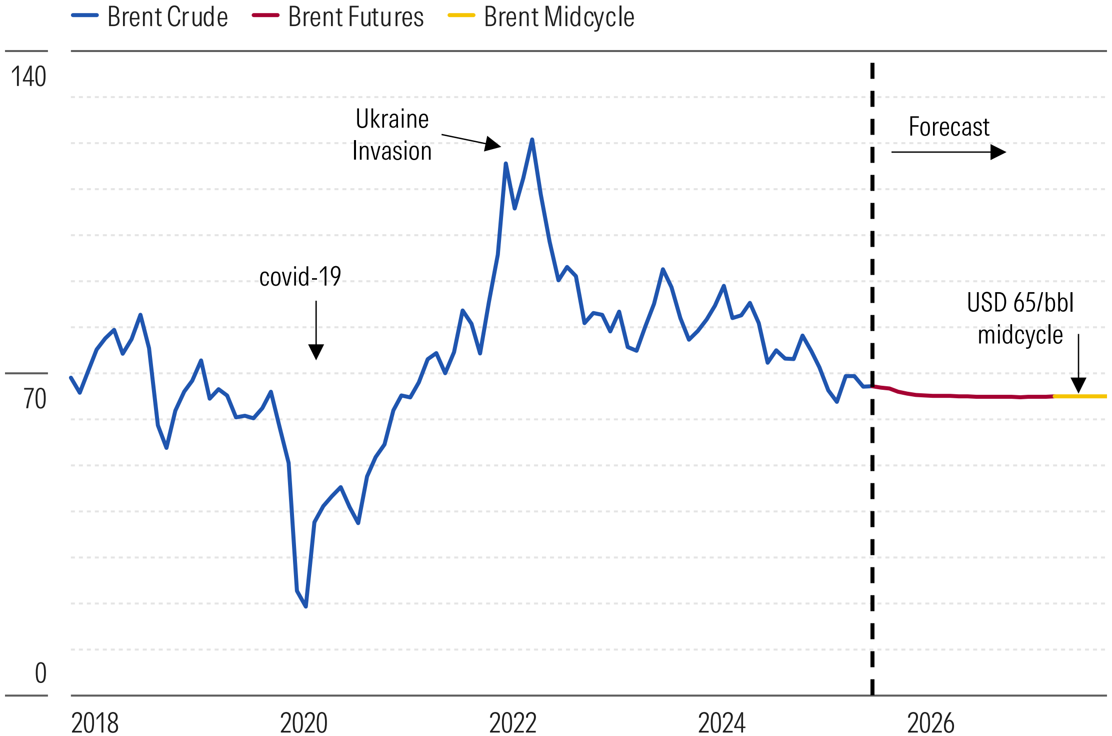
Source: Morningstar. Data as of Sept. 30, 2025.

Our Midcycle Oil and Liquified Natural Gas Price Forecasts Have Increased by 9%

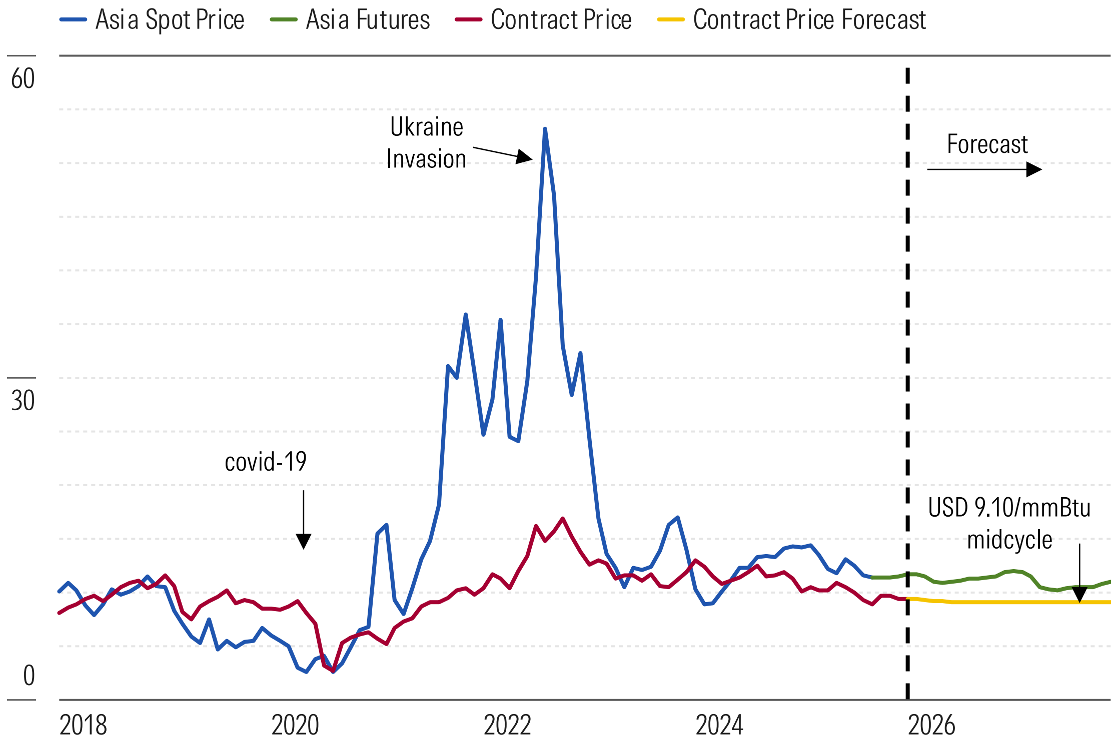
Our oil and gas producer fair value estimates now assume Brent crude and contract LNG at USD 65/bbl and USD 9.10 per million British thermal units from mid-2027, respectively.

On average, our fair values for oil producers increased by low-double-digit percentages including by 4% for Woodside to AUD 44.20 and by 5% for Santos to AUD 10.50 per share. Anticipated industry inflation is a partial counter to the higher energy price.

Strong Demand for LNG Sees Spot Prices Well Above Oil-Linked Contract Prices
Brent Crude prices (USD per barrel).



Strong Demand for LNG Sees Spot Prices Above Oil-Linked Contract Prices
LNG prices (USD per mmBtu).



Source: Investing.com, CME, Morningstar. Data as of September 2025.

Energy

Company (Ticker)		Rating	
Woodside Energy Group (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 2028 with the start of Pluto T2 and to reach weighted average cost of capital by 2033. We credit group production growing 16% by 2028 versus 2024. Woodside's robust balance sheet supports a strong 80% dividend payout ratio and healthy, fully franked yield, despite capital expenditures.
Price	**Fair Value**	**Uncertainty**	
AUD 23.03	AUD 44.20	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 43.73	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. 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 70% by 2028 from 2024, 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 6.0 billion by 2029 versus 2024.
Price	**Fair Value**	**Uncertainty**	
AUD 6.73	AUD 10.50	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 21.86	None	Standard	

Company (Ticker)		Rating	
Whitehaven Coal (WHC)		★★★★	Low near-term thermal and metallurgical coal prices caused by slower economic growth and China steel production, respectively, drive Whitehaven's roughly 30% discount to fair value. Yet with both markets oversupplied and prices moving into the cost curve, higher-cost producers are starting to reduce or cease production, helping balance the market. Over the longer term, we see prices supported by persistent demand, with supply also likely affected by difficulties obtaining regulatory approvals to extend or expand existing mines, or build new ones, because of ESG considerations.
Price	**Fair Value**	**Uncertainty**	
AUD 6.59	AUD 9.00	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 5.49	None	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Financial Services

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Shaun Ler | shaun.ler@morningstar.com

Strong Profit Growth Needed to Justify Share Prices Is Unlikely

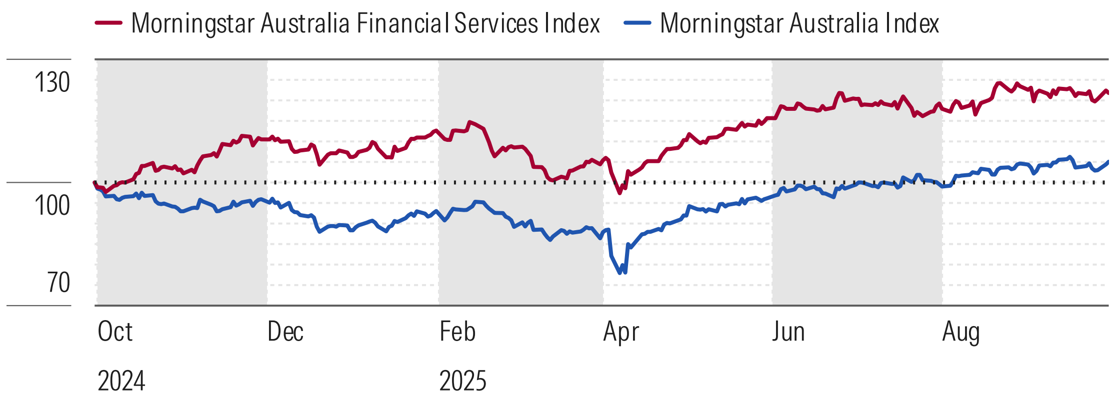
Major banks are mostly expensive. Commonwealth Bank's earnings were void of surprises, with single-digit credit growth, stable margins, and low bad debts summing up current industry conditions. Shares underperformed, though, as investors warmed to less expensive banks showing progress on cost savings and margin improvement. ANZ is taking action to lower costs and settle regulatory issues but, with execution and governance risks hanging over it, presents the best value.

Credit growth is healthy, well supported by population growth and solid house prices. Banks all hold surplus capital, which backs the outlook for modest dividend growth.

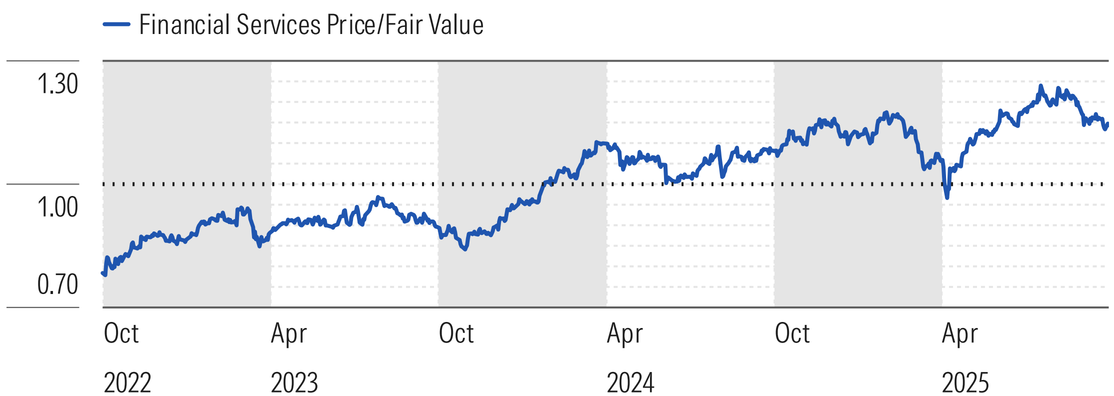
Lower-than-expected natural hazard expenses, higher investment income, and consecutive years of large premium rate increases see general insurer profitability at excessive levels. Given the commoditized nature of general insurance, competition has ended rapid rate increases. We think the sector is expensive as a highly profitable sector is likely to induce a fight for market share, which would weigh on future returns.

Asset and wealth managers face normalizing flows as cyclical tailwinds fade, with future growth rates likely below historical norms. Large mandate wins and new partnerships have prompted some firms like Hub24 to set aggressive growth targets, but headwinds are building as competition intensifies, growth investments constrain margins, and fee compression persists. We expect the distribution of flows to be more uneven, with gains concentrated among select few high-performers, such as asset manager Pinnacle, while most operators face future net outflows.

Financials Held Back by Heavyweight Commonwealth Bank's Modest Pullback



Stretched Valuations but Opportunities in Moat-Rated Firms Remain



Source: Morningstar. Data as of Sept. 30, 2025.

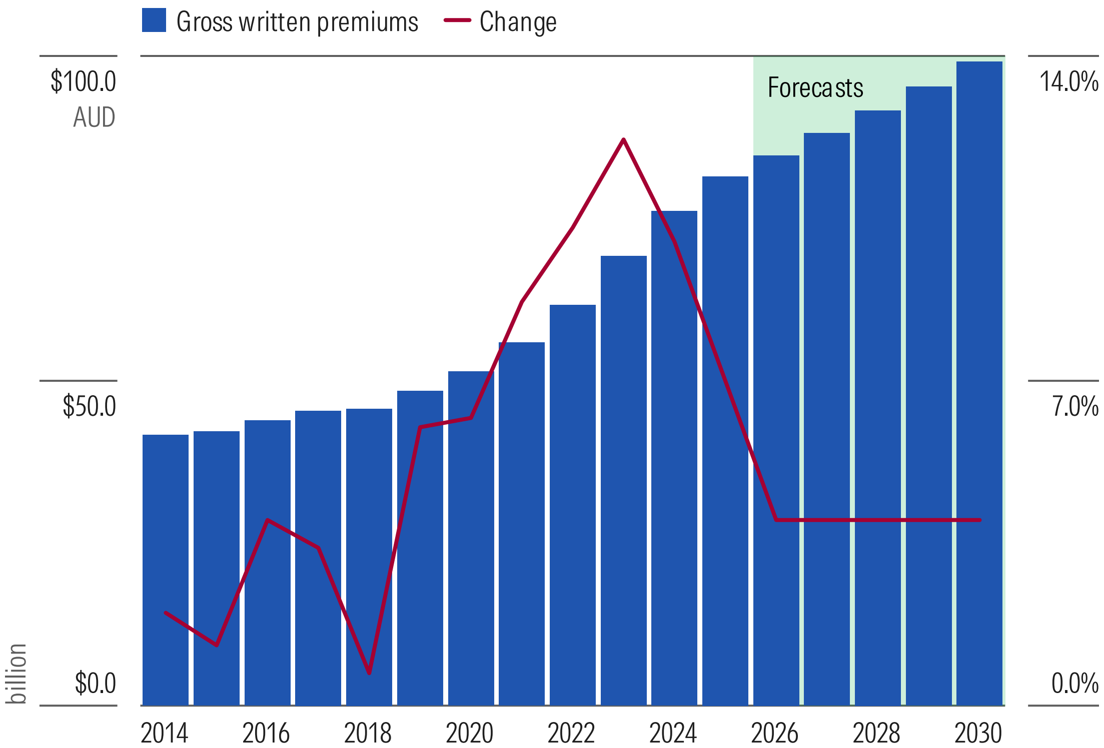
Strong Profit Growth Needed to Justify Share Prices Is Unlikely

Industrywide growth in general insurance premiums of 4%, AUB increasing its share of the intermediated market, and acquisitions support our positive view on earnings. The market is likely concerned earnings growth will stall without large premium increases.

Longer-term, as rate cuts are priced in, volatility rises from prior lows, and competition plays out, we expect net flows to be contained, with fee compression and higher investments in distribution constraining asset managers' ability to grow earnings.

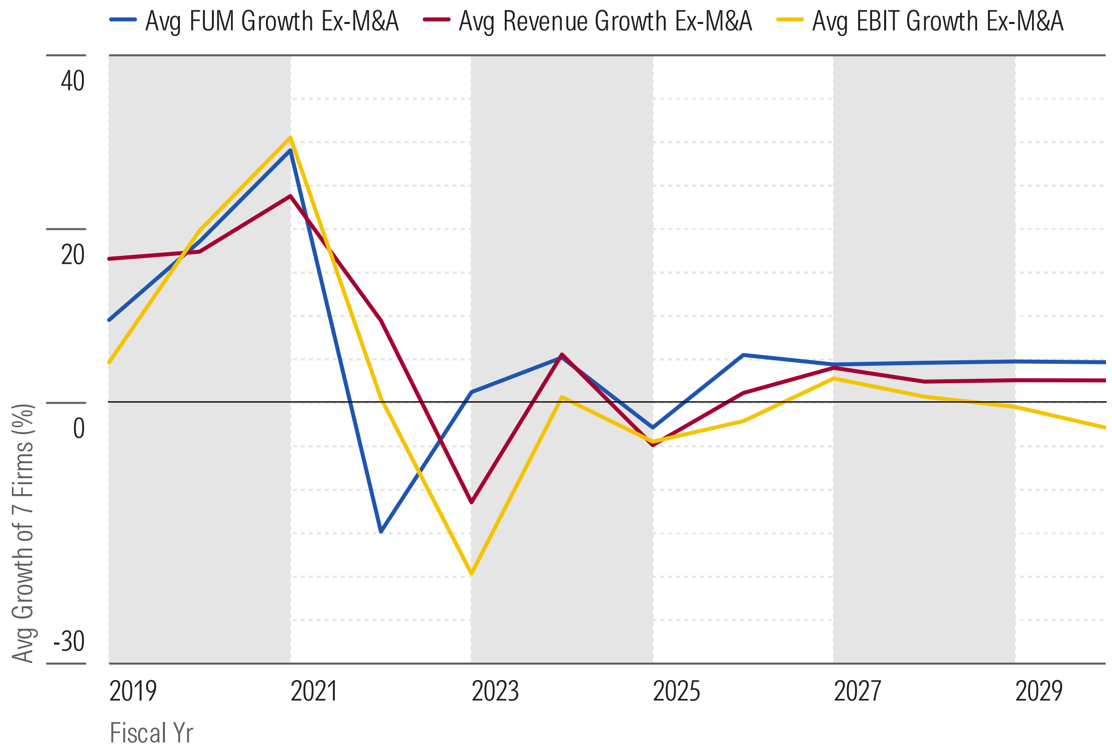
Lower Commissions if Premiums Fall Could Be Offset by Higher Fees

Growth in Australian general insurance gross written premiums.



Average Earnings Likely to Fall, Unless Active Funds Take Share From Passive

Average growth rates for covered asset managers.



Source: APRA, Morningstar. Data as of Aug. 29, 2025. (left) Company filings, Morningstar (right). Average rates are for the asset management divisions of Challenger, Perpetual, and Insignia; as well as GQG, Magellan, Pinnacle, and L1 Group. Excludes impacts from mergers and acquisitions. Calculations for revenue include base management fees only. Data as of Aug. 31, 2025. FUM growth is the sum of growth in net flows and investment returns.

Financial Services

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 and to deliver new listings and a long tail of revenue from trading and clearing activity.
Price	**Fair Value**	**Uncertainty**	
AUD 58.59	AUD 77.00	Low	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 11.38	Wide	Standard	

Company (Ticker)		Rating	
ANZ Group Holdings (ANZ)		★★★	ANZ Group is the smallest of the wide-moat major banks in Australia, and while not as large as peers, cost advantages, particularly relative to regional banks, support our expectation of above cost-of-equity returns over the long term. ANZ resorted to discounting and cashbacks to arrest lost home loan market share, but we expect investments in process and digital offerings to make the wide-moat bank more competitive in the future. At the same time, a new management team is reviewing strategic priorities to cut costs and lower nonfinancial risks, which should help drive earnings growth and returns on equity. We expect the acquisition of Suncorp Bank to modestly improve bank efficiency, increasing its funding from low-cost transaction accounts and leveraging its investment in technology, but the drawn-out integration and associated costs make it unlikely to be materially value-accretive. ANZ could lower its dividend payment modestly after paying regulatory penalties and operational restructuring, but we believe that, even on a trimmed final dividend, the firm still offers a much higher yield than its bank peers.
Price	**Fair Value**	**Uncertainty**	
AUD 33.21	AUD 32.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 99.09	Wide	Standard	

Company (Ticker)		Rating	
AUB Group (AUB)		★★★★	AUB is the second-largest general insurance broker network in Australia and New Zealand. Higher insurance premiums are an industrywide tailwind, with bolt-on acquisitions and operating leverage boosting earnings growth. We believe AUB has earnings upside from its market position, customer and insurer relationships, acquisition strategy, and organic growth opportunities. We expect the general insurance pie to expand with single-digit premium increases and for AUB to take share of the intermediated general insurance market. Ongoing marketing and operating efficiencies allow brokers to increase policies per client and service lower premium clients profitably. The investment in BizCover should attract smaller business clients.
Price	**Fair Value**	**Uncertainty**	
AUD 32.73	AUD 37.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.82	Narrow	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Healthcare

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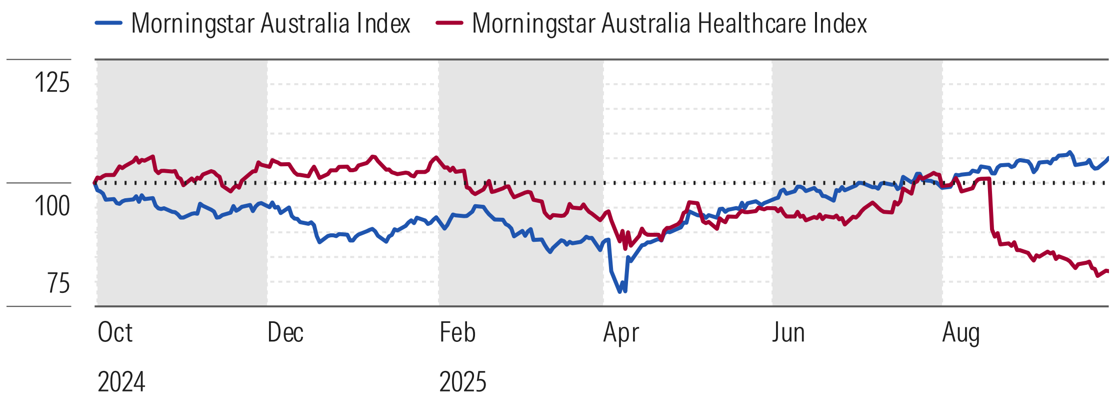
Buying Opportunities in High-Quality Healthcare Names

We view the healthcare sector as overvalued on average, but about half of our coverage is 4- or 5-star-rated. The most attractive names are Ramsay Health Care, CSL, and Sonic Healthcare, all with narrow moats, where we expect strong sales growth and margin expansion. Meanwhile, Pro Medicus, Fisher & Paykel Healthcare, and Polynovo are the most overvalued.

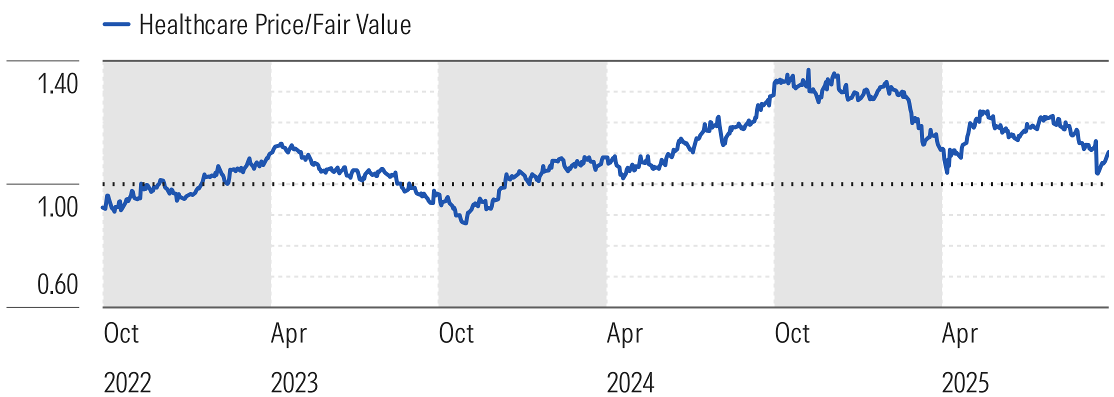
The August reporting season was more eventful than usual for healthcare and triggered large share price moves for many companies. The biggest gain in the sector was Ansell, up over 10% on a positive outlook due to minimal expected tariff impact and further cost savings. The largest share price decline in the sector was CSL, down over 25% since reporting. Revenue growth guidance of just 5% for next year came in softer than we, and the market, expected. Investors are questioning whether revenue growth can improve while significant restructuring is underway. Ansell currently trades close to our fair value estimate, while CSL shares are undervalued, as we expect margins to rebound on efficiency initiatives in the core plasma division yet to flow through.

We changed our fair value estimates for 11 healthcare names, with an average decrease of 1%. The most significant upgrade was increasing our fair value estimate for Regis Healthcare by 7%, largely due to higher forecast cash flow from accommodation deposits. The most significant downgrade was decreasing our fair value estimate for Ramsay by 7%, with wage pressures weighing on our prior assumed margin recovery. Regis currently trades close to our fair value estimate, while Ramsay shares are cheap, as we expect margins to rebound on higher reimbursement rates from insurers and efficiency gains from improving theater utilization, rostering, and procurement.

Healthcare Underperformed the Broader Market, Dragged by Heavyweight CSL



Several Names Attract Despite Sector Overvaluation



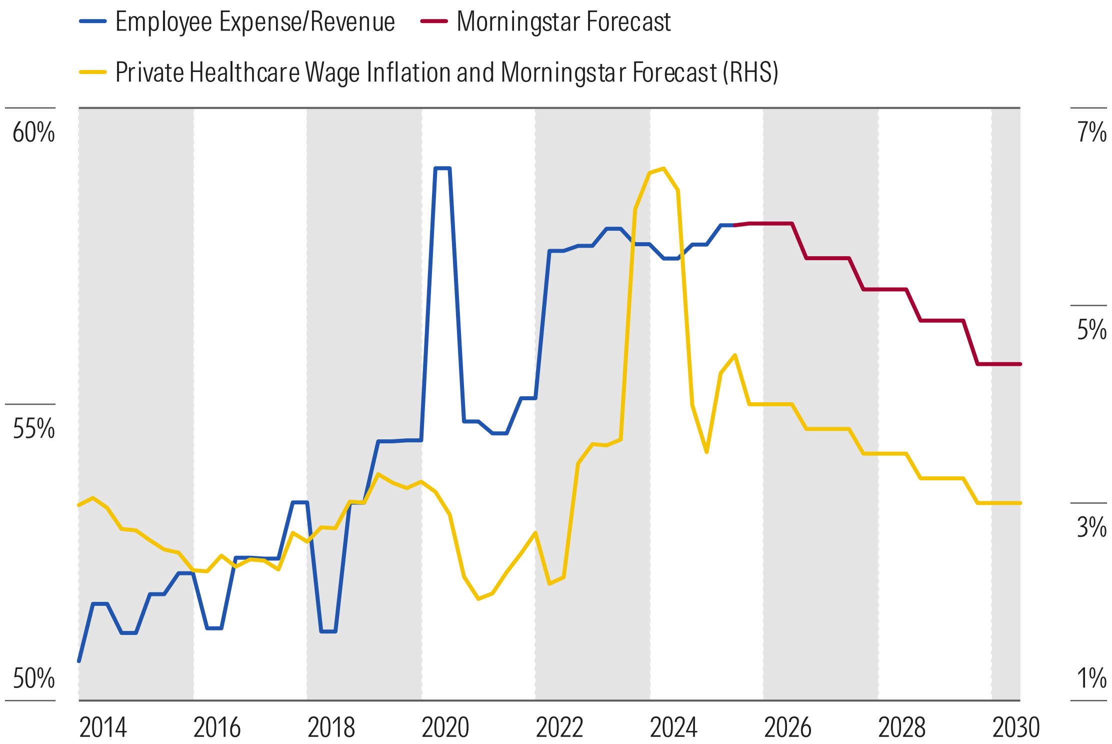
Source: Morningstar. Data as of Sept. 30, 2025.

Buying Opportunities in High-Quality Healthcare Names

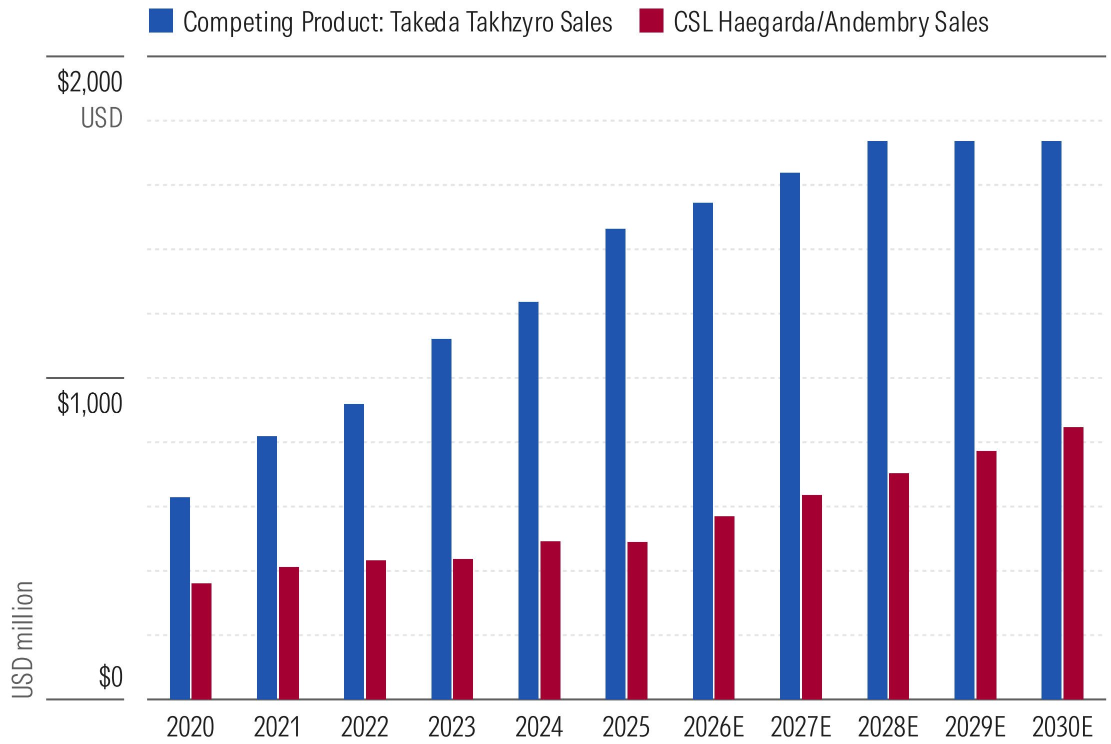
Industry wage inflation is stabilizing at a lower level. With better staff availability and contracted wage increases that are easing further, we forecast margin expansion as Ramsay benefits from a higher payout ratio from insurers on increasing premiums.

We expect CSL Behring's gross margin to expand as new higher-margin products offer greater convenience and take market share. Andembry launched in June 2025 and is the only treatment for hereditary angioedema to offer monthly self-administered dosing.

Market Concerned by Ramsay's Wage Growth, but Conditions Improving



CSL's New Andembry to Take Share From Takeda's Takhzyro on Better Dosing



Source: Morningstar, company filings, Australian Bureau of Statistics. Data as of June 30, 2025 (left). Morningstar, company filings. Data as of June 30, 2025 (right).

Healthcare

Company (Ticker)		Rating	
CSL (CSL)		★★★★★	CSL's biggest disappointment of late was soft fiscal 2026 revenue guidance of 5%. The firm is citing discipline in avoiding low-margin plasma contracts, but potential tariffs and significant research and development restructuring and demerging its vaccines division, Seqirus, are leaving investors skeptical on the outlook. But gross margin in the main plasma division, CSL Behring, expanded 130 basis points to 51%, and we forecast this to rise to its prepandemic level of 57% by fiscal 2028, broadly consistent with management's expectation. Major improvements in blood collection, donation times, and manufacturing yield are enabling faster and higher-volume donor collections that are yet to flow through, given a one-year lag between plasma collections and sales. We are optimistic on long-term demand for plasma, which is underpinned by chronic indications and grows through new indications and in less mature markets. See our CSL Stock Pitch, published in September 2025, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 198.20	AUD 305.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 96.16	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Ramsay Health Care (RHC)		★★★★★	Ramsay is delivering strong patient revenue growth, but group profitability is hampered by inflationary pressures, increased investment in digital, and Elysium, its troubled UK mental health operations. However, we expect margins to expand as Ramsay is successfully negotiating higher reimbursement rates with all major payors, with several contracts also moving dynamically with healthcare inflation for the first time. Contracted wage growth in Australia is also decreasing, and labor shortages are resolving on government initiatives and internal investment in recruiting and training programs, reducing the need for higher-cost agency staff. Long-term, we expect further margin expansion as the case mix shifts to higher-margin nonsurgical services such as rehabilitation, as theater utilization improves, and as digital investment efficiencies are realized.
Price	**Fair Value**	**Uncertainty**	
AUD 31.73	AUD 54.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.32	Narrow	Standard	
Company (Ticker)		**Rating**	
Sonic Healthcare (SHL)		★★★★★	Sonic is recording strong organic sales growth, and margins are improving despite recent acquisitions and cost pressures weighing on group profitability. Longer-term, we expect further margin expansion on increased operating leverage from higher volumes, synergies from recent acquisitions, and improved labor productivity as digitization and newer artificial intelligence tools expedite diagnoses. With inflation easing, the main cost pressures in 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 21.44	AUD 33.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 10.60	Narrow	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Industrials

Esther Holloway | esther.holloway@morningstar.com

Cyclically Weaker Near-Term Outlooks for Many Companies

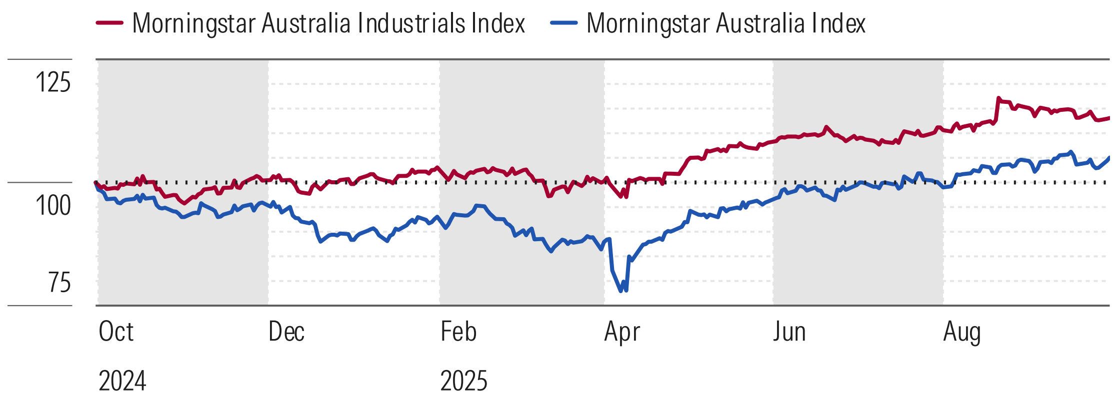
Tariff uncertainty has had a global ripple effect, dulling economic sentiment and resulting in lower expected near-term sales growth for much of our industrials coverage. Over the remainder of 2025 and through 2026, we expect consumers to pull back on discretionary spending including home repairs and maintenance for our construction-exposed stocks and food and beverage for our packaging coverage.

The August reporting season was mainly as expected. More surprising was guidance for fiscal 2026 and beyond, with cyclicality expected to be worse than we first thought.

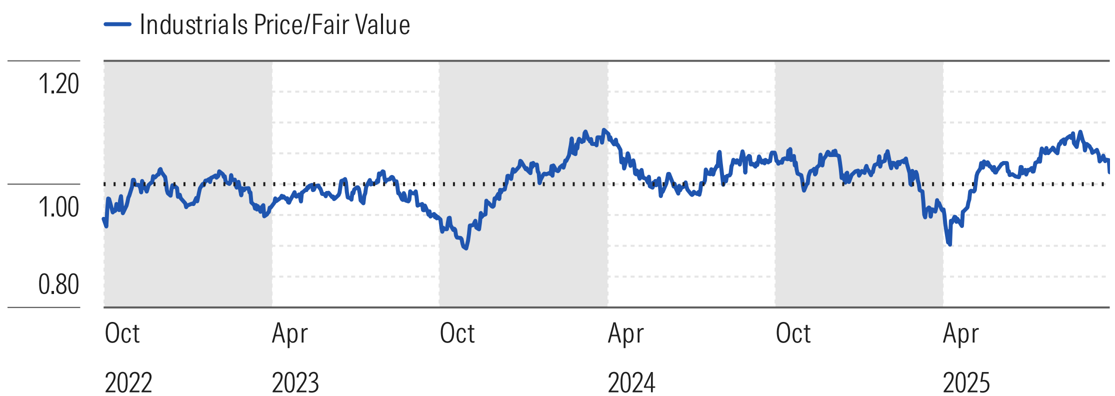
Reece was our biggest downgrade, with a 20% fair value estimate cut. Cyclicality is a headwind, particularly in the more competitively challenged US business. But we are also concerned about longer-term factors including increased competition in Australia, now that the second-largest plumbing supplier, Tradelink, has a new and focused owner. And in the US, a commercial plumbing business that Reece owns is challenged, with the former owner setting up a rival business and poaching staff and customers.

Our biggest upgrade was 8% for Codan. Its military and government customers are relatively immune to cyclicality, and new products and growth in global military spending support our rosy outlook. Increased sales in metal detection are underpinned by a high gold price, a boon for now, but we think the market is extrapolating this into the future, making this a 1-star stock at current prices.

Industrials Holding Its Ground



Most Stocks Slightly Overvalued



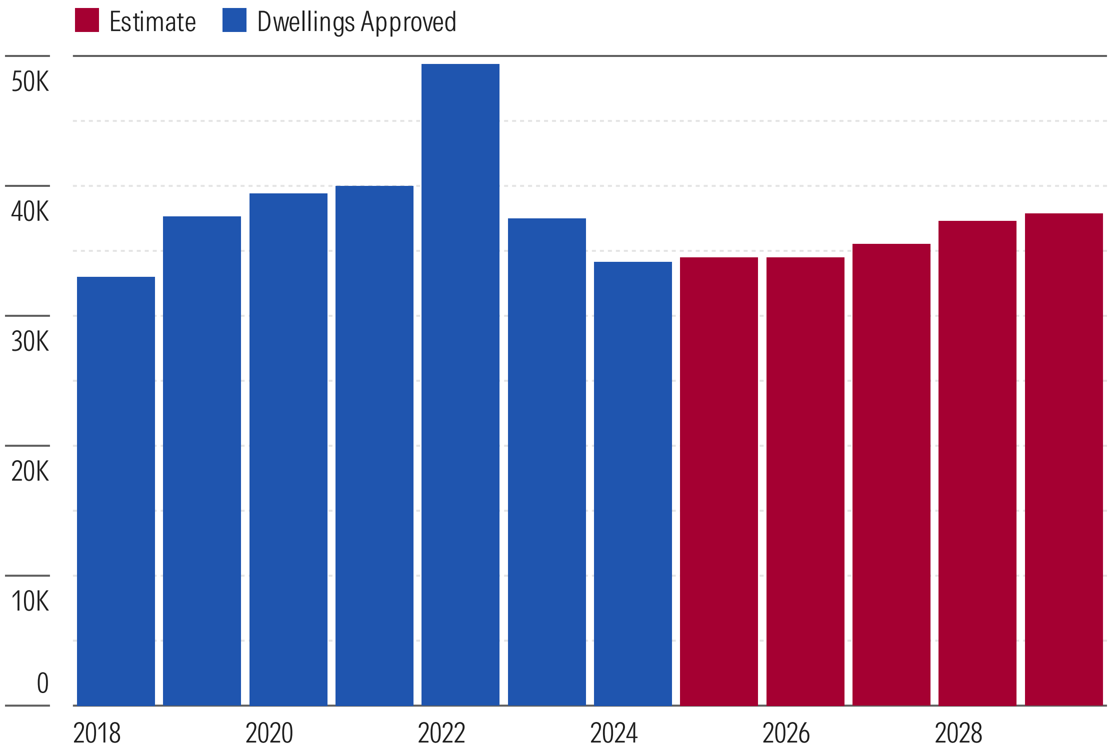
Source: Morningstar. Data as of Sept. 30, 2025.

Cyclically Weaker Near-Term Outlooks for Many Companies

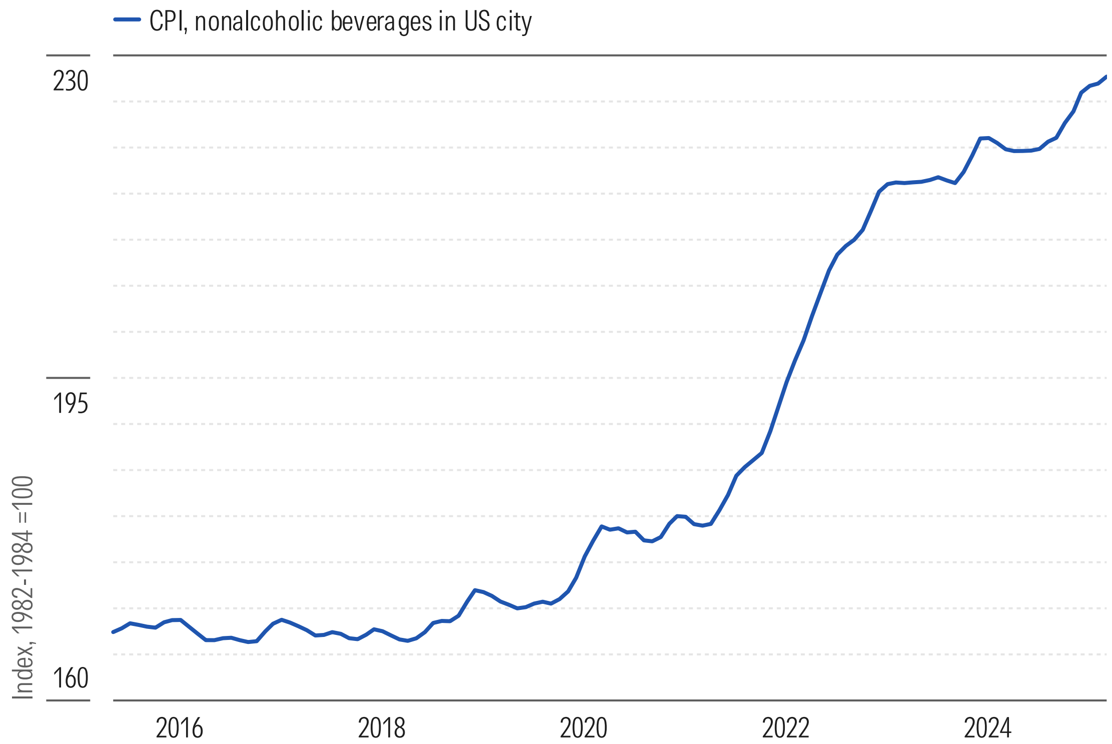
We expect a gradual recovery in New Zealand housing construction, supported by further interest rate cuts. Companies with sales linked to New Zealand residential construction include Fletcher Building, Reece, BlueScope Steel, and Reliance.

We expect Amcor to sell its North American beverage business over 2026. Sales of its specific size and branded bottles for convenience stores and service stations have slowed considerably, with price rises resulting in customers giving them a miss.

New Zealand New House Volumes Recovering
New dwellings approved, annual.



Amcor to Sell North American Beverages After Consumers Stop Buying
CPI, urban consumers, nonalcoholic beverages, and beverage materials in US city, avg.



Sources: Stats NZ, Morningstar. Data as of Sept. 23, 2025 (left). Federal Reserve Bank of St Louis. Data as of Sept. 23, 2025 (right).

Industrials

Company (Ticker)		Rating
Amcor (AMC)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 12.29	AUD 17.80	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 28.70	Narrow	Standard

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, and it has since grown bigger, with the Berry acquisition completing in the last quarter of fiscal 2025.

Company (Ticker)		Rating
Reliance Worldwide (RWC)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 4.09	AUD 5.70	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 3.16	Narrow	Standard

Narrow-moat Reliance Worldwide is best known outside of Australia for its plumbing fittings. Here, it has dominant market share in the “push-to-connect” category in the US for the SharkBite brand and in the UK for its John Guest equivalent. We think the market is concerned about the impact of tariffs, but we are less worried, with only a small portion of manufacturing costs exposed and a clear strategy to reduce materials from China and group operating costs. We also expect Reliance to pass through price rises via its strong relationships with key distributors, with a recent history of price increases accepted by distributors and customers alike. We estimate Reliance's push-to-connect products gaining market share within the broader plumbing connection category because of its unblemished multidecade track record of reliability and a younger generation of plumbers preferring to use this fitting type because of speed and ease of use.

Company (Ticker)		Rating
Aurizon Holdings (AZJ)		★★★★
Price	**Fair Value**	**Uncertainty**
AUD 3.19	AUD 4.40	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
AUD 5.58	None	Standard

Aurizon shares offer an attractive yield, underpinned by high-quality rail infrastructure and haulage operations. Considerable downside is priced into the shares, and our analysis suggests that risks for investors are skewed to the upside. Haulage volumes remain depressed because of low coal prices and high Queensland royalties, extending the downturn caused by wet weather in prior years. But we expect growing demand from India and Asia to help prices and haulage volumes recover in the medium term. Earnings should also benefit from Consumer Price Index-linked tariffs, as well as recent developments and acquisitions. We believe environmental concerns are overblown, presenting an opportunity for investors to acquire a company of above-average quality at a discount. Aurizon largely hauls coking coal from globally competitive mines. A commercially viable alternative to coking coal to make new steel is a long way off.

Source: Morningstar. Data as of Sept. 30, 2025.

Real Estate

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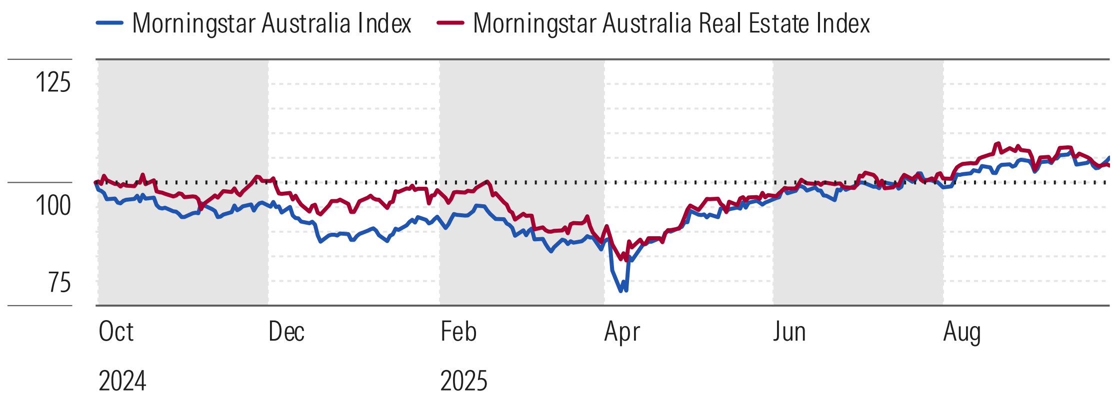
Rosier Outlook, but Not Without Caveats

The August 2025 earnings season reaffirmed the sector's brightening trajectory. Across the sector coverage, we made no valuation downgrades, with half the companies guiding better-than-expected near-term outlooks. One of the most notable upgrades was Stockland, driven by a jump in next year's expected residential settlements. Despite this, the securities are overvalued. Overall, the sector is close to being fairly valued, although some names are still cheap.

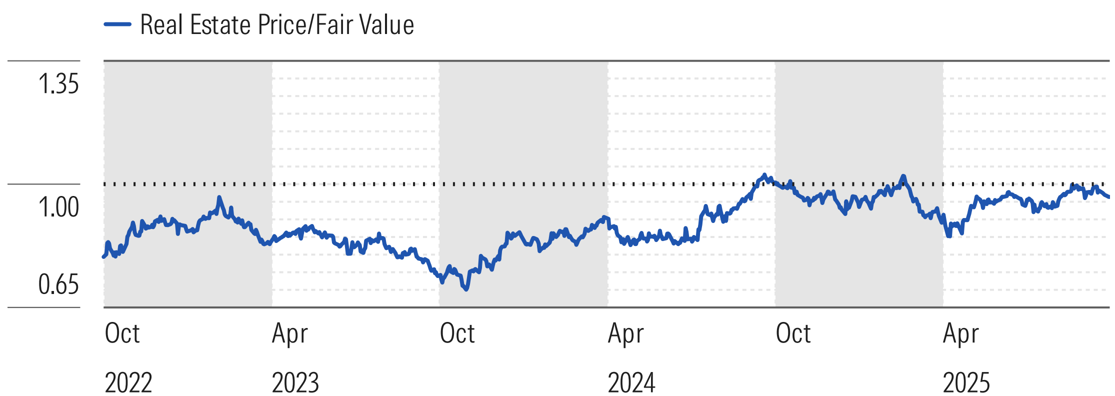
Our anticipated office recovery appears underway. Occupancy remained resilient, especially for high-grade well-located offices. Property valuations of premium or A-grade buildings held mostly steady as of June 2025, compared with six months ago. That said, lower-quality offices (like Growthpoint Properties Australia's portfolio) are likely to experience further devaluations before stabilizing. The retail sector performed solidly, as inflation pressures waned and consumer sentiment strengthened. Tenant demand is likely to stay robust in the near term. We expect stronger growth in discretionary spending, driven by real income gains and population growth. The heat is coming out of the industrials sector—industrials landlords are seeing vacancies tick up and rent growth normalize. We expect this trend to continue for the medium term, given that global trade uncertainties weigh on logistics tenants' leasing decisions.

On interest rates, elevated finance costs remain a headwind to earnings: Most REITs have hedged their debt below prevailing market rates. As hedges roll off, debt costs could rise. Despite falling interest rates, we think a return to the ultralow rates seen during covid is unlikely.

Persistently Elevated Bond Yields Continue to Weigh on Real Estate



Sector Nears Fair Value Estimates, but Bargains Remain



Source: Morningstar. Data as of Sept. 30, 2025.

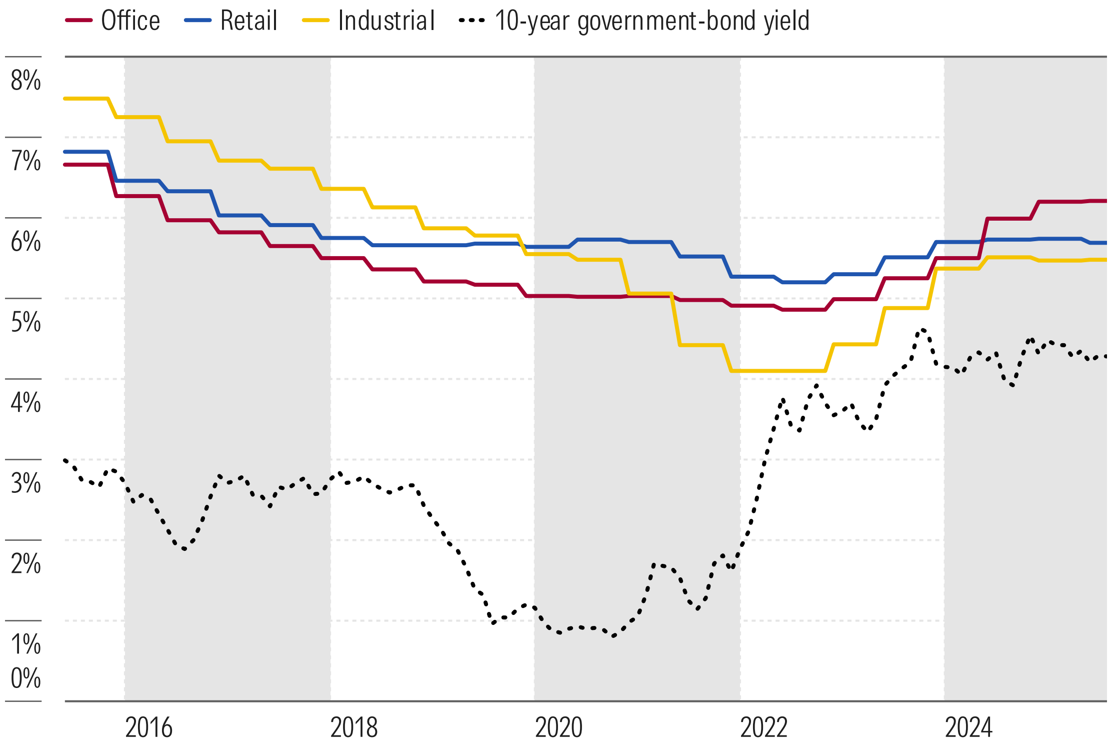
Rosier Outlook, but Not Without Caveats

As valuations steady and recover, capital investors are returning to the property sector. However, the sector's yield spreads to government bonds have narrowed considerably in recent times, making investment returns less appealing.

The recent feuds among several major Australian property fund managers highlight intensifying competition. Bigger fund managers enjoy more economies of scale, which allow them to charge lower fees to attract clients and undercut rivals.

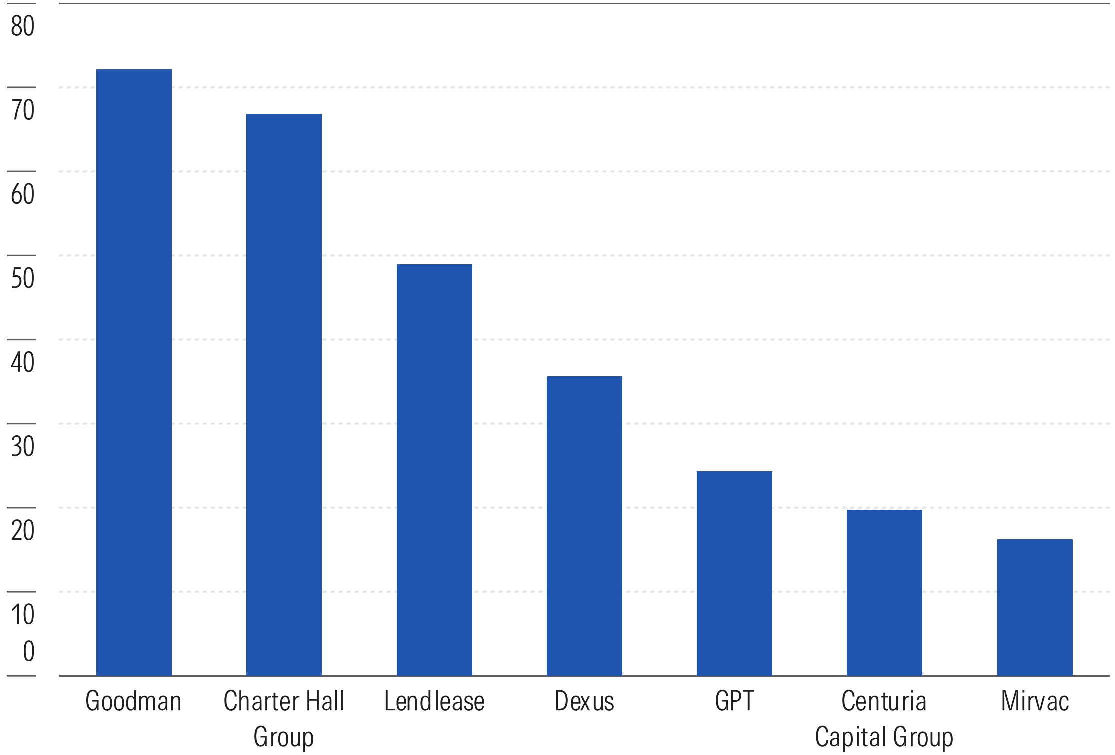
Real Estate Sector Now Offers Less Premium Over Government-Bond Yields

Capitalization rates[1] versus Australia 10-year government-bond yields.



Fund Managers With Scale Are More Likely to Grow at a Faster Pace

Third-party property assets under management of major industry players.



Source: RBA, company filings, Morningstar. Data as of Aug. 31, 2025.

[1] Capitalization rate: net operating income over property valuations. Office — GPT Group, Dexus, Mirvac. Retail — Scentre Group, Vicinity Centres, Region Group, Charter Hall Retail REIT. Industrial — Goodman Group, Centuria Industrial REIT.

SECTOR TOP PICKS

Real Estate

Company (Ticker)		Rating	
Dexus (DXS)		★★★★	Dexus' securities trade well below the firm's net tangible assets, with an attractive fiscal 2026 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 be sought after. Another concern the market has is Dexus' ability to attract investment inflows into its funds management business. But we think the market is penalizing Dexus too much. Its brand, scale, and management expertise should help the company weather the recent hiccups.
Price	**Fair Value**	**Uncertainty**	
AUD 7.18	AUD 9.60	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.72	None	Standard	
Company (Ticker)		**Rating**	
GPT Group (GPT)		★★★	GPT Group's Melbourne-skewed office portfolio has been a drag, but we expect office conditions in Melbourne to eventually catch up with other major capital cities, though at a slower pace. Tenant incentives such as fit-out payments to ready the space weigh on near-term cash flow, but GPT's office occupancy was 94% as of June 30, 2025, including nonbinding tenant agreements, up from 92% in June 2024. 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 the June 30, 2025's net tangible assets of AUD 5.31 per security, which ignores the value of the funds management business.
Price	**Fair Value**	**Uncertainty**	
AUD 5.37	AUD 5.80	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 10.29	None	Standard	
Company (Ticker)		**Rating**	
Charter Hall Retail (CQR)		★★★★	Charter Hall Retail REIT's earnings are relatively predictable, thanks to its focus on nondiscretionary retail and long leases to solid tenants. The majority of the leases lock in fixed or inflation-linked annual rent increases. Weighted average lease expiry of seven years is longer than that of most peers. Among major convenience retail REITs, Charter Hall Retail operates a higher-quality portfolio—its supermarket tenants generate higher sales turnover on average. Within this cohort, however, Charter Hall Retail's securities are trading at a steeper discount to net tangible assets. This is likely due to concerns around its elevated level of gearing (net debt/tangible assets). Recently, the REIT sold assets to seed the incubation of a new Charter Hall wholesale pooled fund. This is an encouraging sign of capital investors returning to the convenience retail sector, which should, in turn, support asset values. With an ongoing capital recycle program and improving property valuations, management should be able to rein in gearing.
Price	**Fair Value**	**Uncertainty**	
AUD 4.13	AUD 4.60	Low	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.40	None	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

Technology

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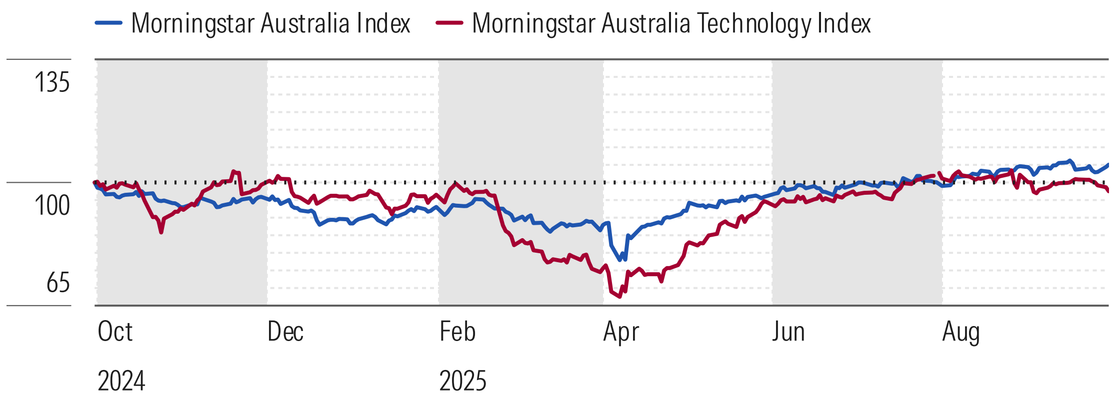
Technology Sector Breaking the Laws of Economics

The technology sector has underperformed the broader Australian market in recent months due to WiseTech, the index's largest component, falling on a weak outlook for fiscal 2026. Across our coverage, though, shares screen as materially overvalued and close to earlier valuation peaks.

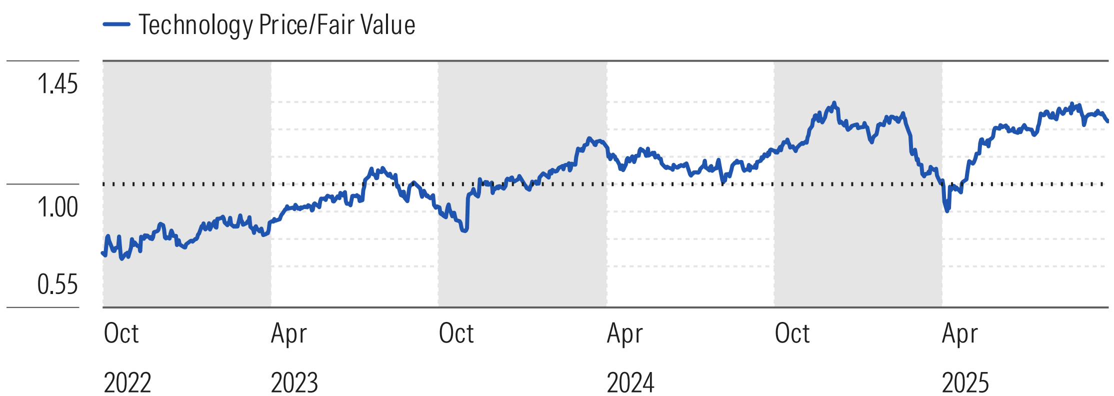
We believe this is part of broader froth in the sector. Whether it is Figma closing its first day of trading up 250%, the return of big crypto IPOs with Circle Internet Group, or quantum computing stocks seemingly breaking the laws of physics, signs of froth abound. We believe an unmooring of valuation gravity is the likely cause. With US President Donald Trump browbeating Federal Reserve Chair Jerome Powell to lower rates, markets may expect interest rates will be forced down below their neutral rate, which could spark a potential repeat of 2020-21 of inflating asset prices.

But the 2020-21 period was followed by 2022, when many technology stocks collapsed 75% or more as interest rates rose and gravity returned. Our approach is to remain disciplined and value companies based on their discounted cash flows through the cycle. Few companies still screen as attractive, but there are exceptions. SiteMinder is still viewed as a consumer discretionary company rather than the likely winner of a large and attractive category. Another example is Fineos, where the market is likely awaiting further customer wins and more earnings growth. We think that this is underway, with the pace of new client wins, advanced-stage leads, and product take-up accelerating and with free cash flow generation improving significantly in the recent two quarters.

Technology Firms Softened Following Reporting Season



Technology Shares Overvalued, Despite Softening Share Prices



Source: Morningstar. Data as of Sept. 30, 2025.

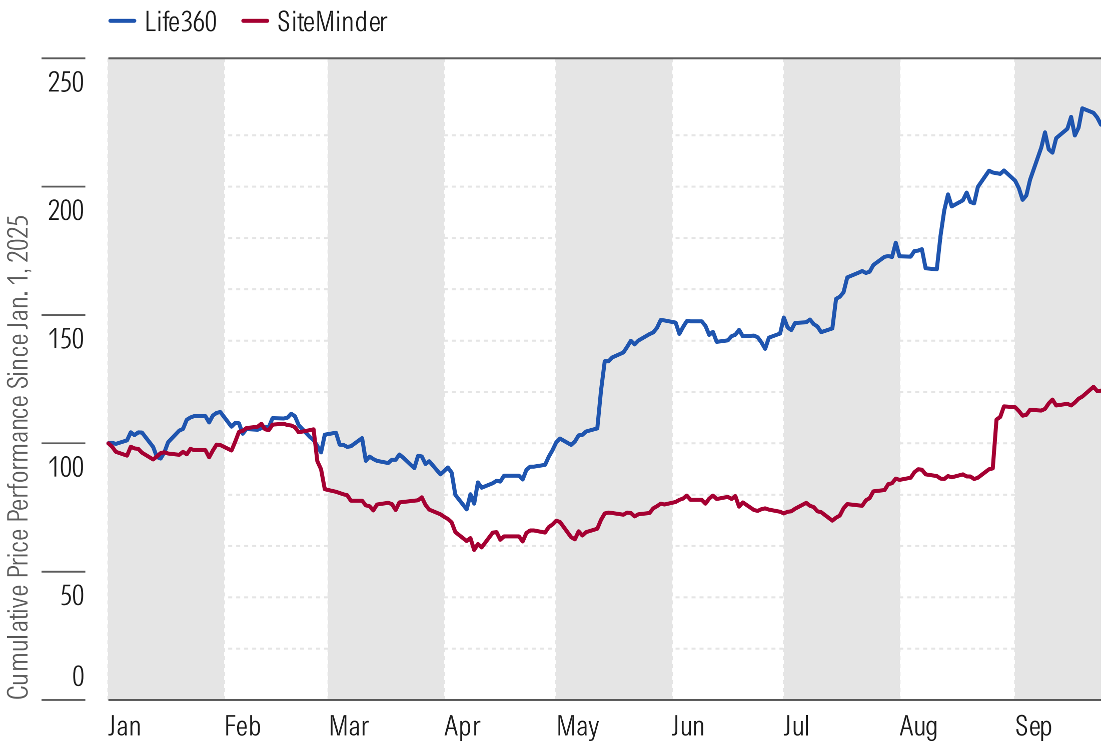
Technology Sector Breaking the Laws of Economics

Life360 seems to us an example of a company where the valuation is becoming detached from fundamentals. Growth in advertising revenue, which has been the driver of the market narrative, has been flat quarter on quarter. Yet shares continue to fly.

SiteMinder remains undervalued. New products are leading to improved conversion and higher average revenue per customer. Contrary to Life360's new growth driver, where growth has flattened, SiteMinder's growth has only just begun.

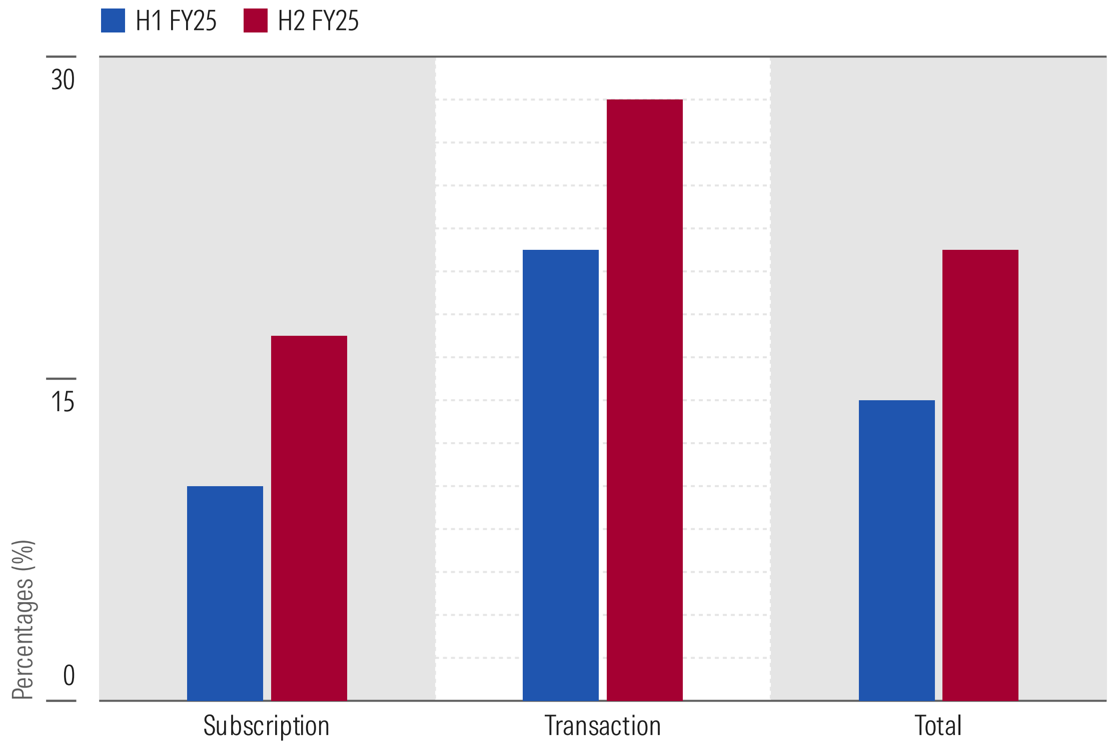
Life360's Shares Have Materially Outperformed SiteMinder's

Share price performance Life360 (Chess Depository Interest) and SiteMinder.



SiteMinder's New Transaction Products Are Leading to a Material Acceleration

SiteMinder annual revenue growth in subscription and transaction revenue.



Source: Morningstar Direct, company filings.

SECTOR TOP PICKS

Technology

Company (Ticker)		Rating	
Fineos (FCL)		★★★★	We think the market underestimates wide-moat Fineos' potential for revenue growth, margin expansion, and ability to emerge as a leader in its market area. Earnings growth prospects are strong with insurers' growing adoption of cloud 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. Outsourcing services work to global consulting firms also provides a more efficient growth model, opening doors to new clients through the consultants' existing business relationships. 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.
Price	**Fair Value**	**Uncertainty**	
AUD 2.81	AUD 3.90	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 0.95	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, like SiteMinder, that can fractionalize large fixed technological and regulatory costs over a larger customer base than 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 7.21	AUD 10.75	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.03	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 15.67	AUD 20.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.78	Wide	Exemplary	

Source: Morningstar. Data as of Sept. 30, 2025.

Utilities

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Flat Outlook for Australian Utilities, Strong Rebound This Year for Most in NZ

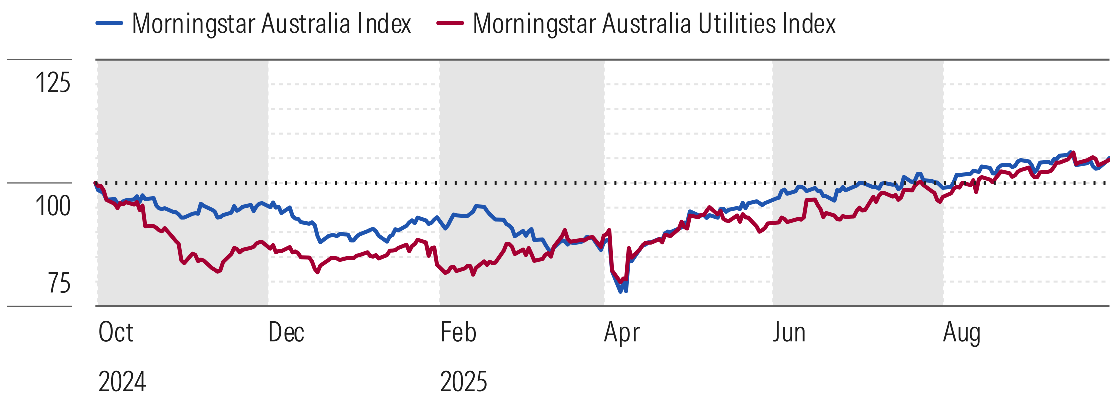
Utilities are fairly valued on average. Cheapest is no-moat AGL Energy. Narrow-moat APA Group and Meridian Energy are also worth considering.

Australian utilities reported softer earnings in fiscal 2025, though still solid. The outlook is relatively flat, as higher retail prices and contributions from developments balance rising fuel supply costs and other headwinds. Origin Energy's share price has outperformed as it looks to cash in on its investment in utility-specific retail IT platform Kraken, which is considering an initial public offering. Despite making little money, investment banks are touting valuations of GBP 10 billion (Origin's share is 23%). In contrast, AGL's shares have fallen on an overreaction to slightly soft fiscal 2026 earnings guidance and concerns about the reliability of its power stations.

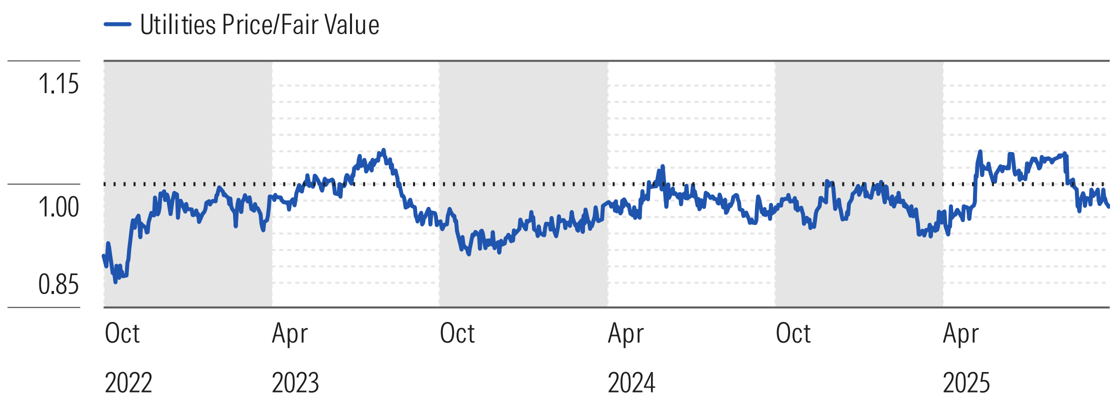
In New Zealand, utilities had a mixed reporting season. Those heavily reliant on hydroelectricity like Meridian suffered because of dry weather and expensive backup power, while those with flexible thermal power stations like Genesis Energy did better. But dry weather doesn't last long in New Zealand, and the impact of droughts on utilities will lessen over time as more renewable energy supply is built. Meridian is slightly undervalued. Its earnings bounced back strongly in July and August on normalization of rainfall, and further growth is expected in coming years from rising retail prices and completion of renewable energy and battery developments.

Gas pipeline owner APA Group is close to fairly valued after a strong rally in 2025. It offers a big yield but with limited long-term growth potential.

Australian Utilities Performed in Line With the Broader Market



ANZ Utilities Are Fairly Valued on Average



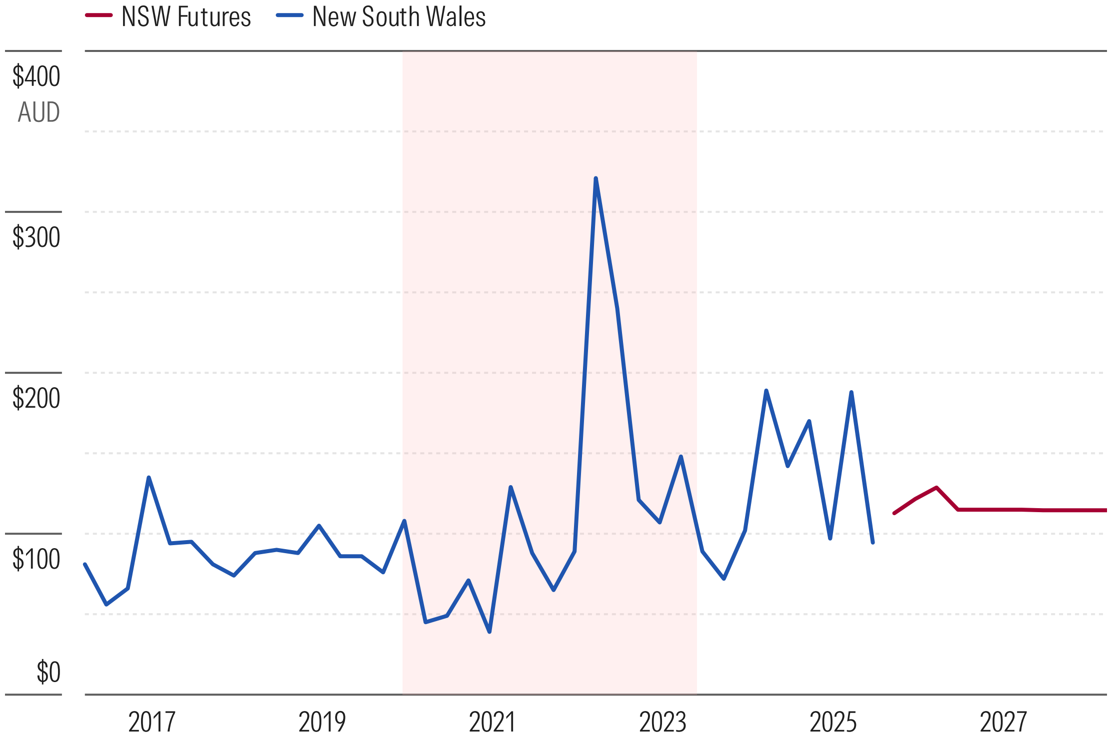
Flat Outlook for Australian Utilities, Strong Rebound This Year for Most in NZ

The imposition and lifting of covid lockdowns caused Australian wholesale electricity prices to crash, then spike higher. Since 2023, prices and futures have settled at levels conducive to solid generation profits, especially for AGL, with its cheap coal supply.

AGL trades on an EV/EBITDA of less than half ANZ peers. It generates strong free cash flows that help fund investment in batteries and other assets to offset medium-term headwinds from the expiration of fuel supply contracts and the closure of coal power stations.

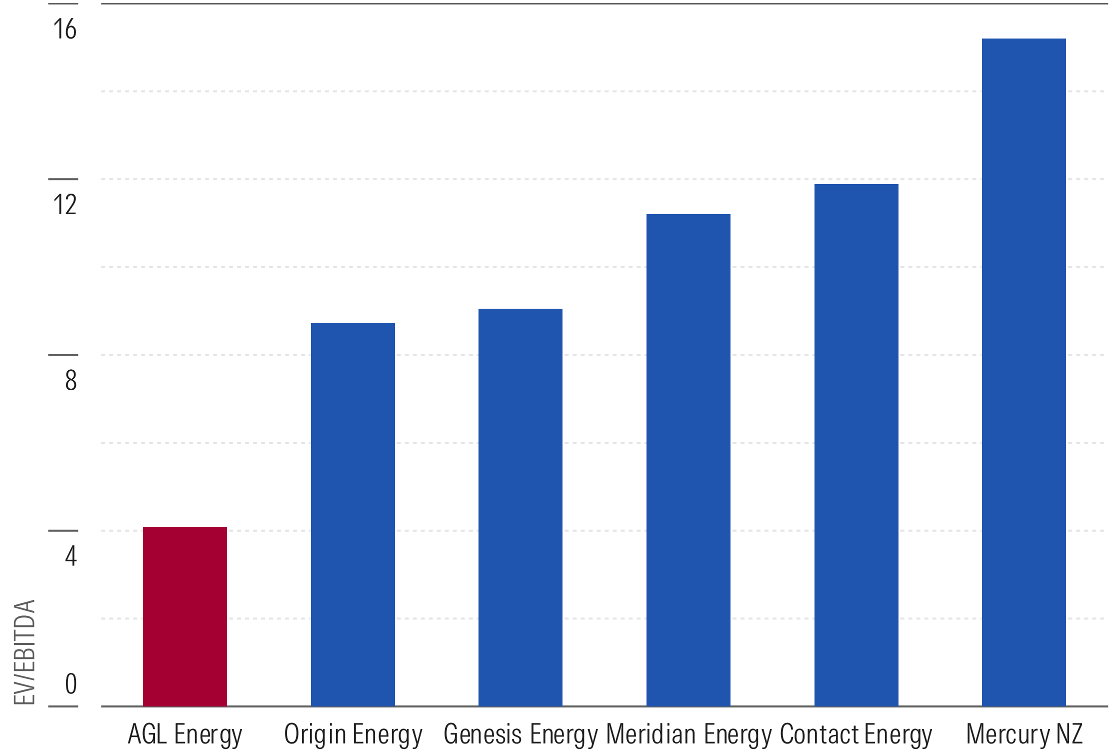
Electricity Prices Have Settled at Attractive Levels After Covid Volatility

Quarterly average wholesale electricity prices (AUD per megawatt hour).



AGL's Cheap Valuation More Than Compensates for Headwinds

Forward enterprise value/EBITDA multiples for ANZ utilities.



Source: Australian Energy Regulator, ASX Energy. Data as of Sept. 15, 2025 (left). Morningstar. Data as of Sept. 15, 2025 (right).

Utilities

Company (Ticker)		Rating	
AGL Energy (AGL)		★★★★	AGL Energy trades well below fair value. Earnings have recovered, and the long-term outlook is relatively stable as investment in renewables and batteries offsets headwinds from the expiration of cheap fuel supply contracts and the closure of coal-fired power stations. We expect electricity prices to remain elevated, supported by coal power station closures, 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 8.85	AUD 12.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 5.95	None	Standard	

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 8.88	AUD 9.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 11.68	Narrow	Poor	

Company (Ticker)		Rating	
Meridian Energy (MEZ)		★★★	Meridian Energy is one of New Zealand's largest utilities. Its narrow moat is underpinned by its irreplaceable hydroelectric schemes, which are reliable and flexible like gas and coal power stations but which are much cheaper to run, have long lives, and emit zero carbon dioxide. Meridian has conservative financial leverage and is well-placed to fund its renewable energy and battery development pipeline. Although fiscal 2025 earnings were down due to dry weather, strong earnings growth is expected in the coming years from the normalization of rainfall, higher retail prices, and the completion of renewable energy and battery developments.
Price	**Fair Value**	**Uncertainty**	
AUD 4.90	AUD 5.40	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 12.91	Narrow	Standard	

Source: Morningstar. Data as of Sept. 30, 2025.

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