MORNINGSTAR Market Outlook

Australian Equity Market Outlook: 2024 Q4

Market rally led by large caps; better value in smaller stocks.

Table of Contents

Morningstar Equity Research

Adrian Atkins
Senior Equity Analyst

Lochlan Halloway
Australian Equity Market Strategist

Winky Tan, CFA
Equity Analyst

Market Outlook

Lochlan Halloway | lochlan.halloway@morningstar.com

Blue Chips Look Expensive, More Opportunities in Smaller Caps

The local market surged to record highs in the September quarter of 2024, with the S&P/ASX 200 benchmark closing at 8,270, up 6% in three months. On an unweighted average, our coverage trades at a 6% premium to our fair value estimates. We consider this modestly overvalued, a touch above the 10-year average price/fair value of 1.04.

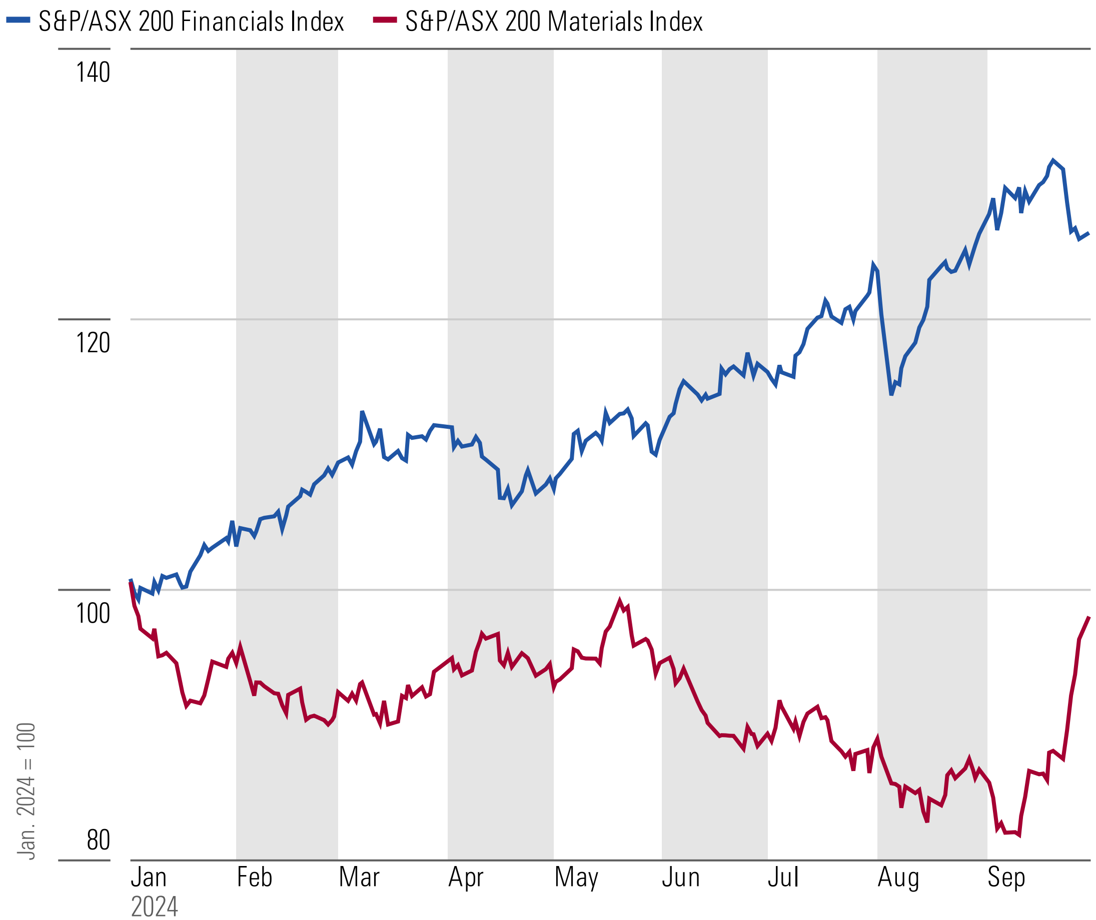
Financials led the charge for most of the quarter, rising despite rich valuations. On an unweighted basis, the sector trades roughly 8% above fair value. This is primarily the major banks, which trade at an average premium of 17%. CBA remains by far the most expensive, 40% overvalued.

Financials retreated somewhat in late September. The Chinese authorities' plan for monetary and fiscal stimulus lit a fire under the materials sector, which had been the biggest underperformer in 2024. Emboldened by a potential benefit to resources demand, investors poured back into our miners, with banks funding a rotation.

While the stimulus package is a short-term positive, it's not a long-term game-changer. China faces significant structural headwinds, including a declining population, diminishing returns on infrastructure spending, an oversupplied residential property market, and a construction overhang. More substantive measures may come, but we think the package is more likely a stop-gap than a fundamental fix.

China Stimulus Sees Resources Surge at Banks' Expense

Total return.



Source: Macrobond, Morningstar. Data as of Sept. 30, 2024.

Blue Chips Look Expensive, More Opportunities in Smaller Caps

The materials sector rallied hard on the stimulus news. Iron ore leaped to USD 110 per metric ton at the end of September, from USD 90 only weeks earlier and well above our long-term assumption of USD 70 per metric ton. Accordingly, the materials sector, dominated by iron ore miners, trades at a 5% unweighted premium to fair value—not as expensive as financials, but still overvalued.

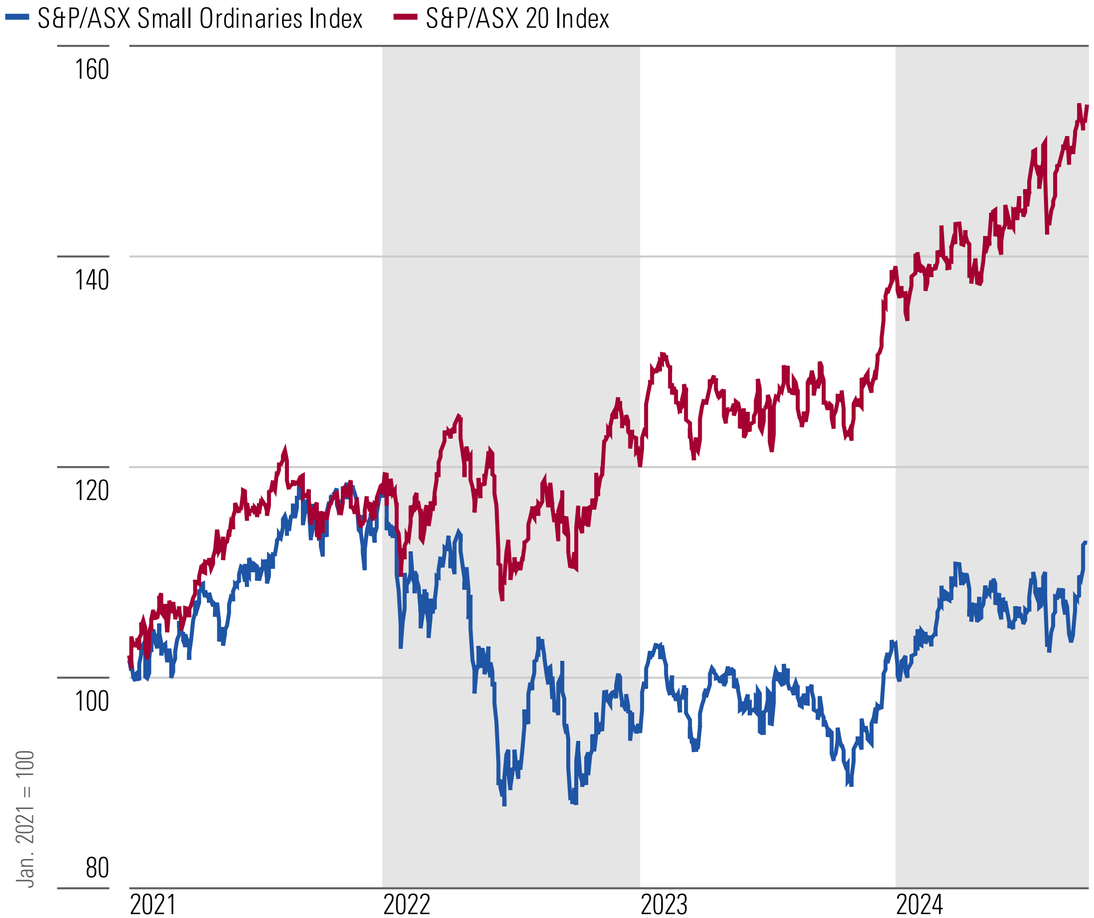
But some of our resources coverage still looks attractive, including lithium plays IGO and Mineral Resources. Energy trades at the biggest discount of all sectors, roughly 25% below fair value. Coal miners Whitehaven and New Hope look cheap, as do Woodside and Santos, the latter trading at almost half our fair value estimates.

The divergence between large and small caps is stark. The 20 largest stocks on the ASX, which account for almost 60% of the benchmark S&P/ASX 200 index, trade at a premium of nearly 12%. Very few large caps trade at a discount, except for Santos, Woodside, Telstra, and CSL. ANZ is the only major bank close to fairly valued.

For small caps, almost 40% of our coverage trades in 4- or 5-star territory, and most fall outside the S&P/ASX 100. In 2022, when recession fears were building, many smaller names were cast off in a flight to quality and still haven't caught up to their larger peers. We think this end of the market can do well if the Reserve Bank of Australia can take some of the economic risk off the table by sticking a soft landing.

Small Caps Still Haven't Recovered From 2022 Rout

Total return.



Source: Macrobond, Morningstar. Data as of Sept. 30, 2024. Note: Small Ordinaries includes all companies in the S&P/ASX 300, excluding those in the S&P/ASX 100.

Economic Outlook

Lochlan Halloway | lochlan.halloway@morningstar.com

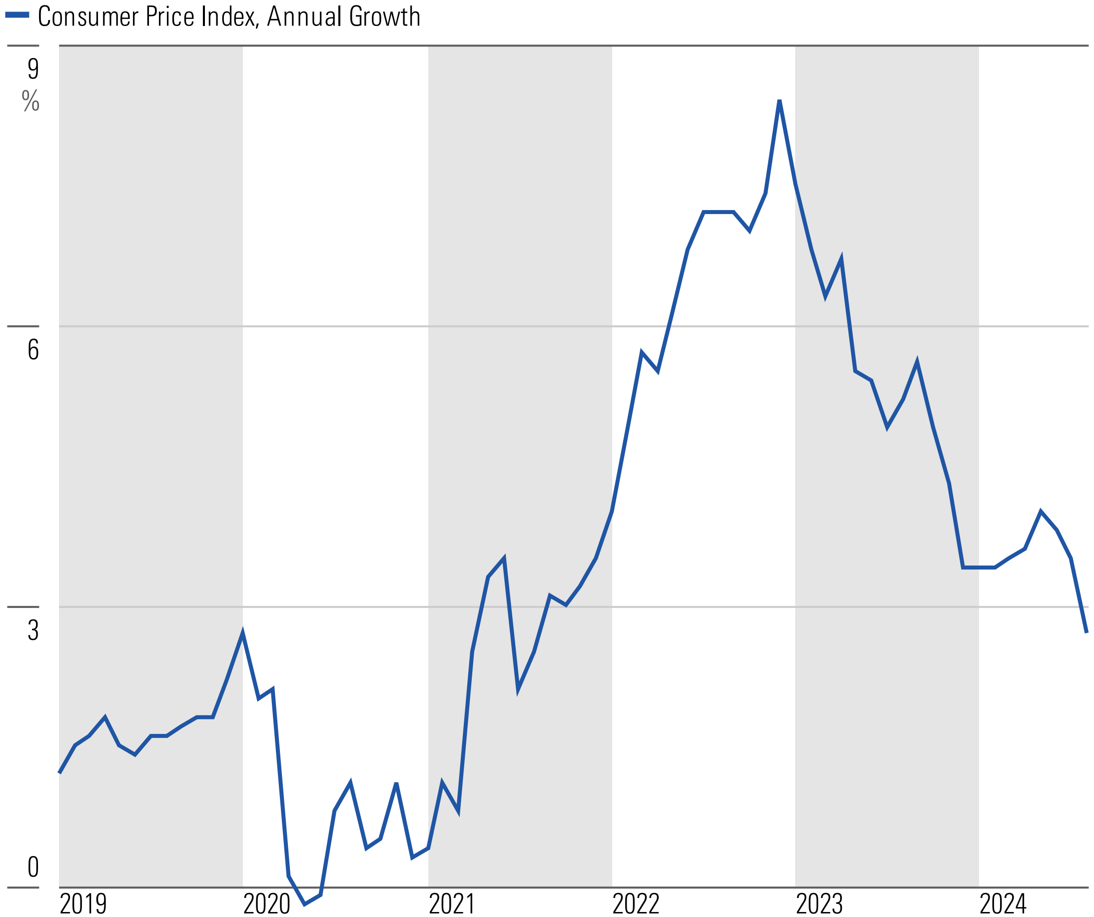
Market at Odds with RBA Over Rate Cuts in 2024

Australia's economy is progressing toward a soft landing. Annual inflation of 2.7% in August 2024, down from 3.5% in July, was the lowest reading in three years. Temporary energy bill relief was a factor, reducing annual inflation by 0.3 percentage points on our estimates. But the moderation was broader than electricity, with annual inflation falling in eight of the 11 Consumer Price Index categories. Nonetheless, monthly inflation indicators are volatile, and we look to the September 2024 quarterly inflation update, due on Oct. 30, to confirm this progress.

Restrictive monetary settings are curtailing inflation, but economic growth is anemic. Real gross domestic product rose 1% in the year to June 2024, the slowest pace since lockdown-affected 2020. Household consumption is lagging and accounts for almost 60% of economic activity. It rose only 0.5% in the year to June 2024. Interest payments weigh on consumers, and in per capita terms, June marked the sixth consecutive quarter of real GDP decline. We expect spending to pick up through fiscal 2025 as stage 3 tax cuts take effect. But much depends on households' propensity to spend rather than save the windfall.

Despite progress on inflation, RBA Governor, Michele Bullock has made it clear the board doesn't foresee a cut before Christmas. Given the debacle of former Governor Lowe's perceived "commitment" to no hikes before 2024, it's surprising to see the RBA test the waters of forward guidance again. But now they've done it, it seems unlikely they'll risk another knock to their credibility by walking this back.

Progress on Inflation



Source: Australian Bureau of Statistics, Morningstar. Data as of Aug. 31, 2024.

Market at Odds With RBA Over Rate Cuts in 2024

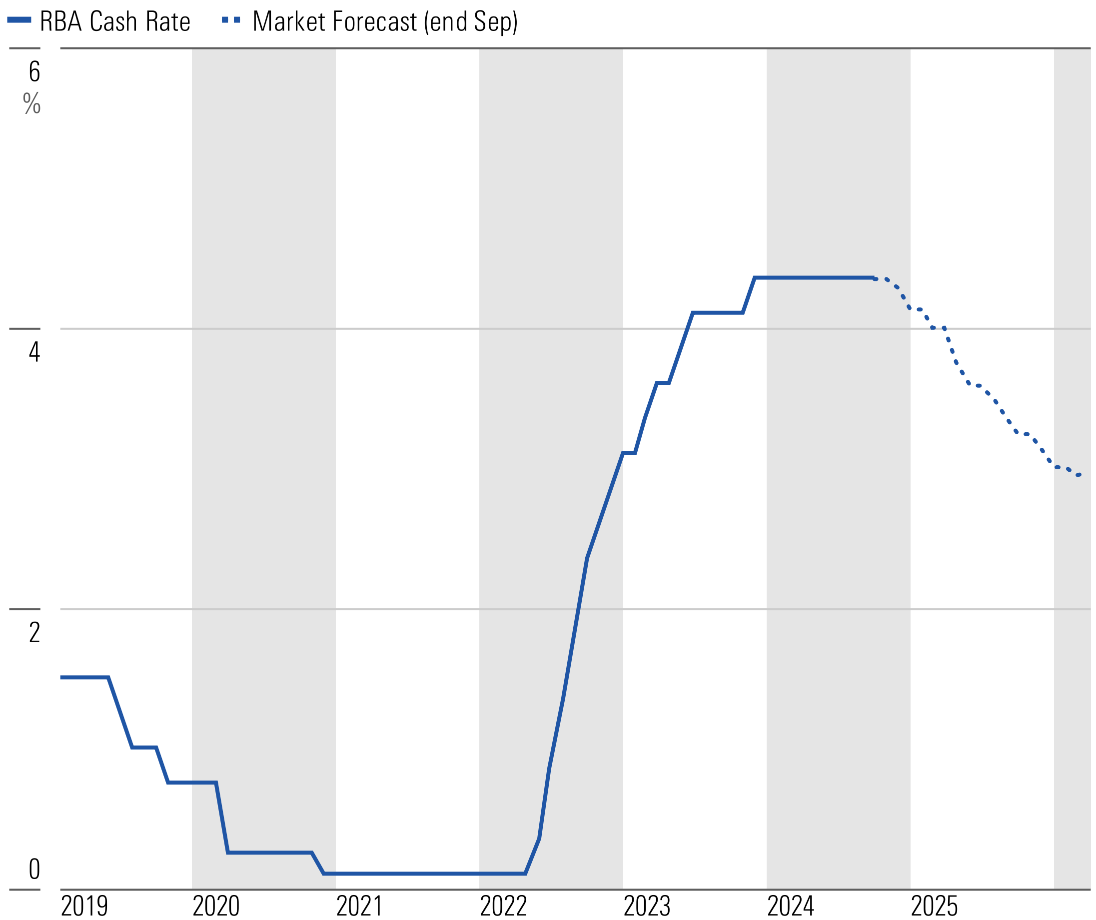
But the market isn't convinced by the Governor's rhetoric. Cash rate futures price a 25% chance of a cut at the November meeting and almost a 90% chance in December, the year's final meeting. The market and the Governor can't both be right.

Presumably, markets are getting a steer from other central banks, many of whom have begun monetary easing. The most influential, the US Federal Reserve, did so emphatically with a 50-basis point cut in September. Risks to global growth abound, including a possible United States recession or further turbulence in China. While the US recession is not our base case, and planned stimulus assuages near-term concerns in China, rapid deterioration on either front could force the RBA to pivot.

But another hike can't be ruled out either. Inflation is cooling, but the RBA's preferred 'trimmed mean' measure, which strips out volatile items, including fuel and electricity, is still above target at 3.4% in August 2024. Observing the experience offshore, the last mile of the inflation battle is the hardest, and any stubborn stickiness could test the market's narrative for cuts this year.

Disagreeing with the RBA on the variable it controls, the cash rate, is a brazen game. Futures traders often overshoot on the way up and down. Recall that when our last Market Outlook was released in early July, futures priced a 50% chance of a hike in August. That meeting was a nonevent. If the RBA sticks to its guns and doesn't cut this year, which is more likely than not, fixed-income markets may be disappointed.

Market Looking for Cuts This Year Despite RBA's Warning



Source: Reserve Bank of Australia, Westpac, Morningstar. Data as of Sept. 30, 2024.

Valuation Overview and Top Picks

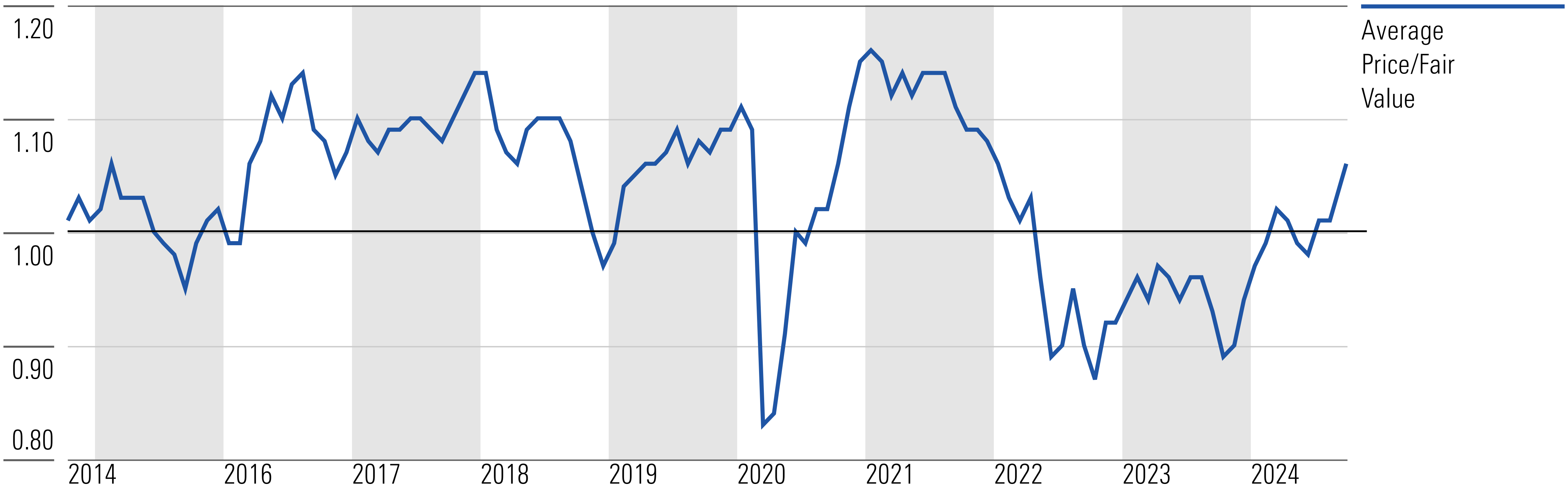
Adrian Atkins | adrian.atkins@morningstar.com

Market Is Slightly Overvalued, Broadly in Line With the Average for the Past Decade

Australian and New Zealand stocks rallied in the September quarter on falling interest rates in the US, Europe, and elsewhere and on planned Chinese stimulus, which boosted miners late in the quarter. As of Sept. 30, 2024, our Australia and New Zealand coverage was at a 6% premium to fair value on an unweighted average, compared with a 10% discount in the October 2023 dip. In the broad scheme of things, we still have a close to fairly valued market, and markets can become more overvalued and stay that way if history is any judge.

Stocks Overvalued on Average

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



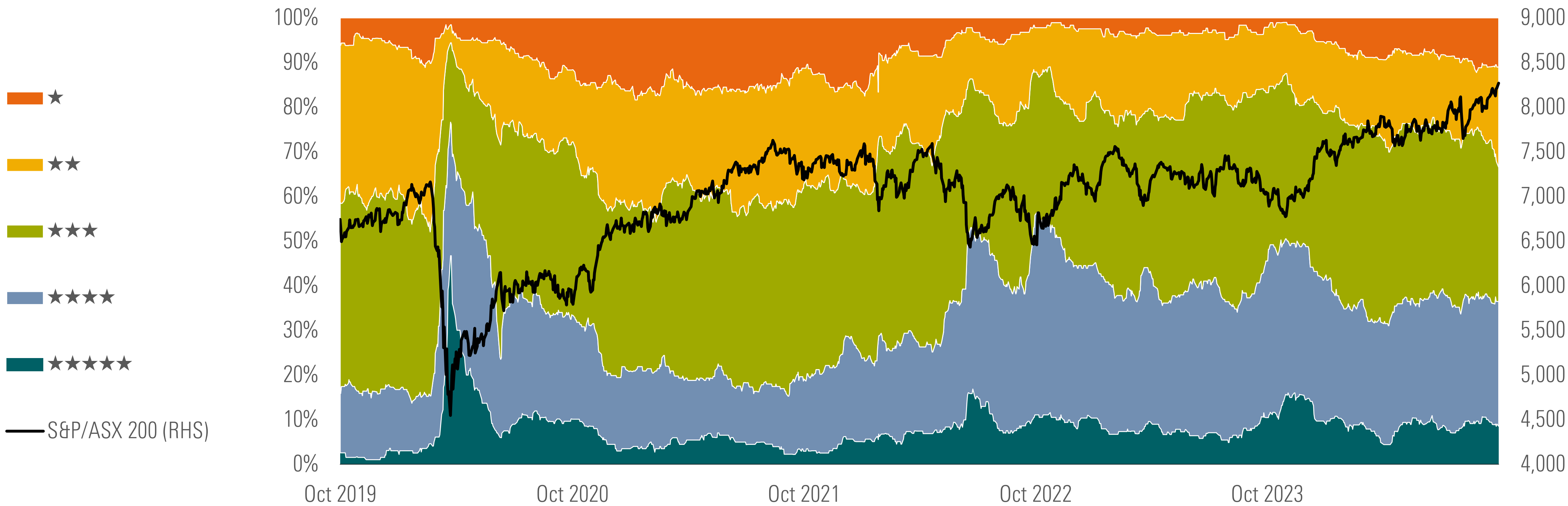
Source: Morningstar. Data as of Sept. 30, 2024.

Still Plenty of 4- and 5-Star Ratings Despite the Rally Since Late 2023

About 37% of Australian and New Zealand stocks under coverage are either 4- or 5-star-rated, well above the trailing 10-year average of 25%. Opportunities are most abundant in smaller stocks—about 60% of our 4- and 5-star rated stocks are outside the S&P/ASX 100 index. Despite being lesser known, many of these stocks have strong competitive advantages and solid outlooks and can be found in the top picks list in this report.

Positive Ratings Remain Plentiful

Star rating distribution over time.



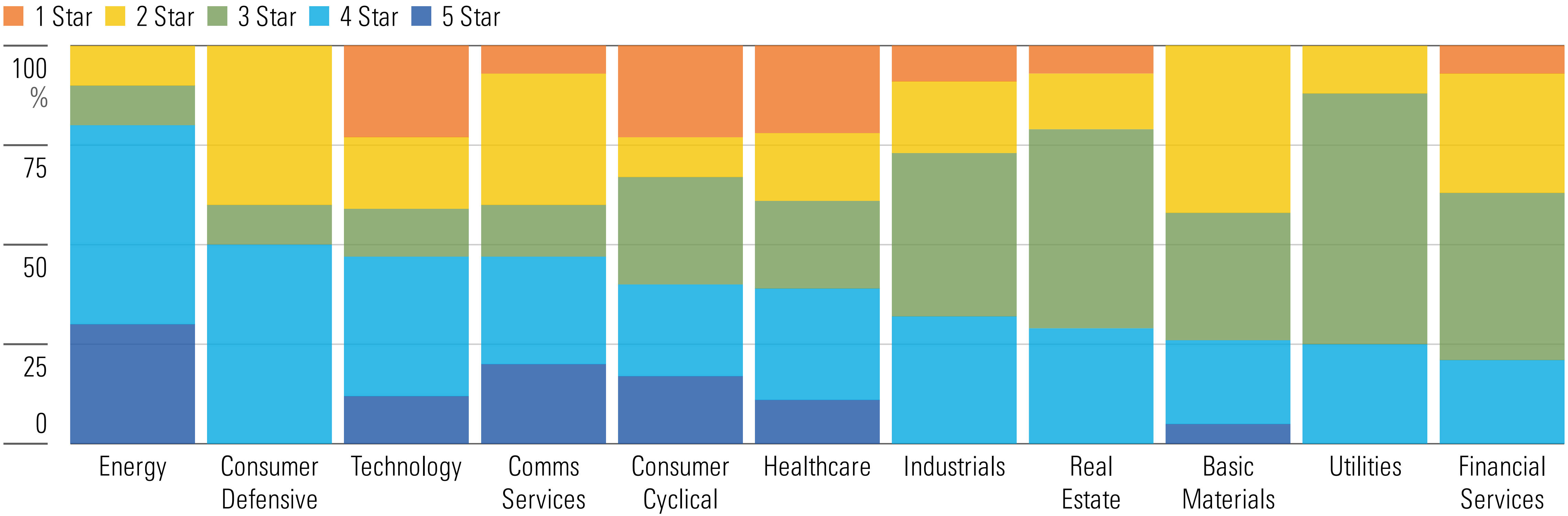
Source: Morningstar. Data as of Sept. 30, 2024.

Positive Ratings in Many Sectors

Sectors diverged substantially in 2024, with those likely to benefit from lower interest rates such as consumer cyclicals, financials, real estate, and technology outperforming. Energy is the most undervalued sector as sluggish economic growth weighs on energy demand and prices, but we see attractive long-term value on offer. We also see many undervalued stocks in the consumer, healthcare, technology, and communications services sectors.

Plenty of Positive Ratings in Most Sectors

Star rating distribution by sector.



Source: Morningstar. Data as of Sept. 30, 2024.

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Basic Materials							
Nufarm (NUF)	★★★★★	AUD 7.70	AUD 3.97	High	None	0.52	AUD 1.52
Iluka Resources (ILU)	★★★★	AUD 9.50	AUD 6.88	High	None	0.72	AUD 2.98
IGO (IGO)	★★★★	AUD 7.50	AUD 5.68	High	Narrow	0.76	AUD 4.44
Communication Services							
Nine Entertainment (NEC)	★★★★★	AUD 2.70	AUD 1.30	High	None	0.48	AUD 1.99
Spark New Zealand (SPK)	★★★★	AUD 4.20	AUD 2.86	Medium	Narrow	0.68	AUD 5.04
TPG Telecom (TPG)	★★★★	AUD 6.40	AUD 4.94	Medium	None	0.77	AUD 9.15
Consumer Cyclical							
Kogan.com (KGN)	★★★★★	AUD 10.70	AUD 5.15	Very High	None	0.48	AUD 0.52
Domino's Pizza Enterprises (DMP)	★★★★★	AUD 58.00	AUD 34.35	High	Narrow	0.59	AUD 3.28
Bapcor (BAP)	★★★★	AUD 7.30	AUD 5.33	High	Narrow	0.73	AUD 1.80
Consumer Defensive							
IDP Education (IEL)	★★★★	AUD 23.00	AUD 16.18	High	Narrow	0.70	AUD 4.43
Endeavour Group (EDV)	★★★★	AUD 6.10	AUD 4.99	Low	Wide	0.82	AUD 8.99
a2 Milk (A2M)	★★★★	AUD 7.20	AUD 6.25	High	Narrow	0.87	AUD 4.52

Source: Morningstar. Data as of Sept. 30, 2024.

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Energy							
Woodside Energy (WDS)	★★★★★	AUD 45.00	AUD 24.36	Medium	None	0.54	AUD 47.85
Santos (STO)	★★★★★	AUD 12.50	AUD 6.84	High	None	0.55	AUD 22.80
Whitehaven Coal (WHC)	★★★★	AUD 9.30	AUD 7.09	Very High	None	0.76	AUD 6.04
Financials							
Insignia Financial (IFL)	★★★★	AUD 3.60	AUD 2.62	High	None	0.73	AUD 1.76
ASX (ASX)	★★★★	AUD 75.00	AUD 63.93	Low	Wide	0.85	AUD 12.40
NIB Holdings (NHF)	★★★★	AUD 7.20	AUD 5.93	Medium	Narrow	0.82	AUD 2.88
Health Care							
Ramsay Health Care (RHC)	★★★★★	AUD 62.00	AUD 41.56	Medium	Narrow	0.67	AUD 9.58
ResMed (RMD)	★★★★	AUD 40.50	AUD 35.17	Medium	Narrow	0.87	AUD 51.85
Ansell (ANN)	★★★	AUD 33.50	AUD 31.69	Medium	Narrow	0.95	AUD 4.64
Industrials							
Aurizon Holdings (AZJ)	★★★★	AUD 4.50	AUD 3.51	Medium	Narrow	0.78	AUD 6.50
Brambles (BXB)	★★★★	AUD 22.00	AUD 18.64	Medium	Wide	0.85	AUD 26.50
Amcor (AMC)	★★★	AUD 17.80	AUD 16.42	Medium	Narrow	0.92	AUD 23.67

Source: Morningstar. Data as of Sept. 30, 2024.

Top Picks in Each Sector

Company and Sector	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)
Real Estate							
Dexus (DXS)	★★★★	AUD 10.60	AUD 7.59	Medium	Narrow	0.72	AUD 8.15
The GPT Group (GPT)	★★★★	AUD 5.55	AUD 5.05	Medium	None	0.91	AUD 9.54
Charter Hall Group (CHC)	★★★	AUD 16.60	AUD 16.12	Medium	Narrow	0.97	AUD 7.55
Technology							
Fineos (FCL)	★★★★★	AUD 3.10	AUD 1.35	Very High	Wide	0.44	AUD 0.47
SiteMinder (SDR)	★★★★	AUD 10.00	AUD 6.20	High	Narrow	0.62	AUD 1.76
Pexa Group (PXA)	★★★★	AUD 17.25	AUD 14.90	Medium	Wide	0.86	AUD 2.63
Utilities							
Manawa Energy (MNW-NZ)	★★★★	NZD 6.10	NZD 4.95	Medium	Narrow	0.81	NZD 1.56
APA Group (APA)	★★★★	AUD 9.30	AUD 7.76	Medium	Narrow	0.83	AUD 10.05
AGL Energy (AGL)	★★★	AUD 12.00	AUD 11.98	High	None	1.00	AUD 7.96

Source: Morningstar. Data as of Sept. 30, 2024.

Basic Materials

Jon Mills | jon.mills@morningstar.com

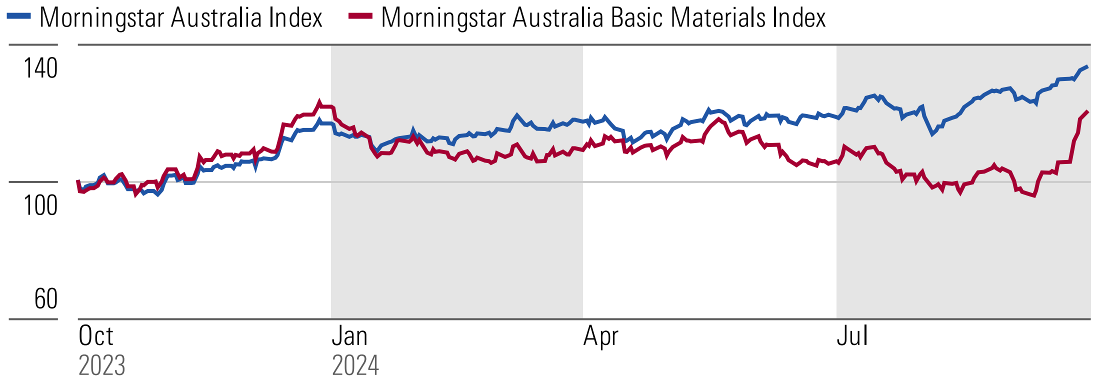
Sector Overvalued on Average, but a Wide Dispersion

Our basic materials coverage is broadly overvalued, though in our mining coverage there is a wide dispersion. Mineral Resources is materially undervalued, but Deterra Royalties is fairly valued, and other iron ore miners BHP, Rio and Fortescue are overvalued. Iluka Resources is cheap on soft mineral sands demand, but we expect demand to recover given significant long-term supply challenges for zircon and high-grade titanium dioxide feedstocks.

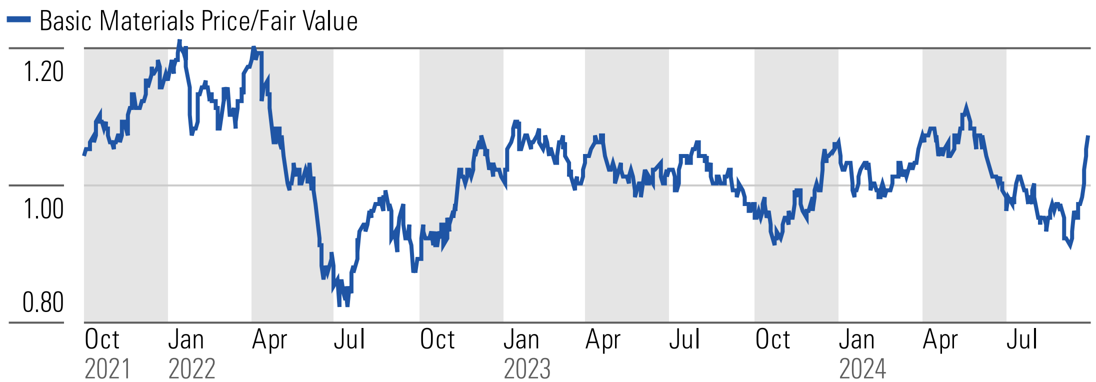
Gold is higher, with gold miners rallying strongly, and our coverage is now fairly valued at best. The weak demand for steel in China for most of the quarter affected iron ore and other steelmaking commodities, while base metals prices fell due to worries over slower global economic growth. However, prices recovered late in the quarter on attempts by China to stabilize its residential property sector and stimulate the economy. However, a falling population, lower returns on infrastructure projects, and increasing trade frictions are likely longer-term structural demand headwinds for these commodities.

We expect technology-based productivity solutions to lift EBITDA margins for Orica and IncitecPivot. We expect customers to seek productivity gains by adopting premium products and offerings. Orica is fairly valued, and Incitec is somewhat undervalued despite recent price improvement. Nufarm is attractively priced. The crop protection company is not optimistic for the remainder of fiscal 2024, with industry weakness persisting. However, the longer-term outlook for the seed technologies business is favorable, given solid demand projections for Omega-3 canola.

Basic Materials Rally Back on China Stimulus



Sector Broadly Overvalued



Source: Morningstar. Data as of Sept. 30, 2024.

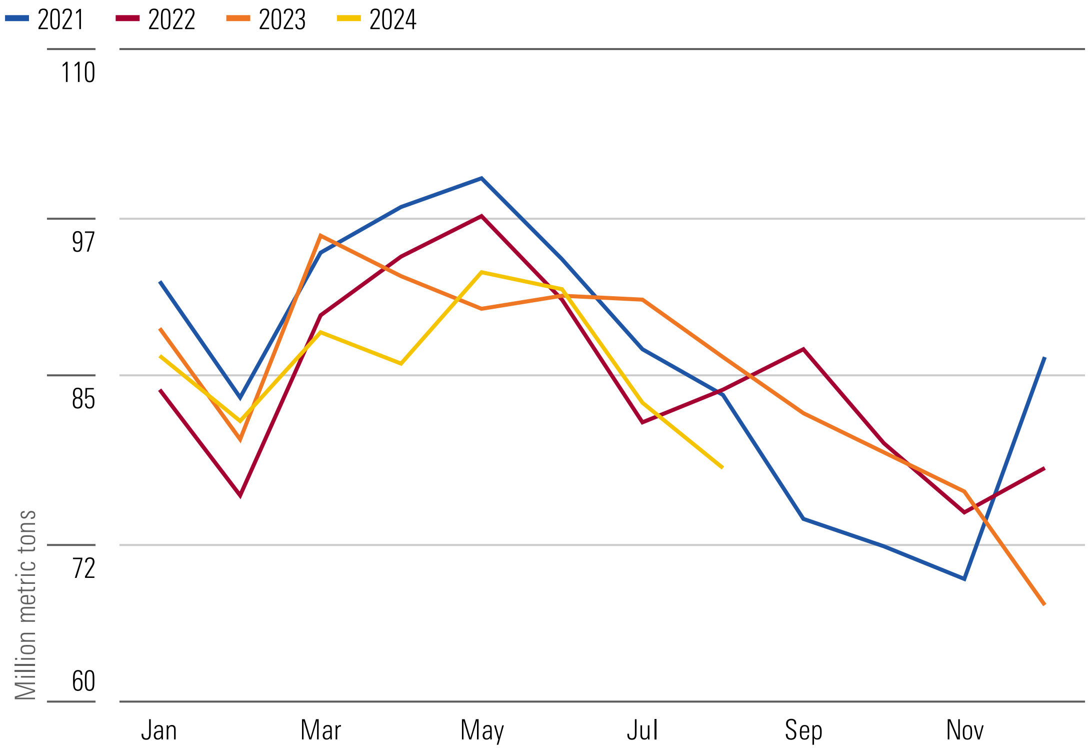
Sector Overvalued on Average, but a Wide Dispersion

China steel production has softened but is still elevated. Most steelmakers are losing money and steel exports are up. Increased government assistance for residential property supports near-term iron ore prices but long-term structural headwinds remain.

Gold is up with the Federal Reserve recently cutting interest rates for the first time since the onset of covid-19 in 2020. Rising fiscal imbalances in the US and likely higher long-term inflation also support gold prices.

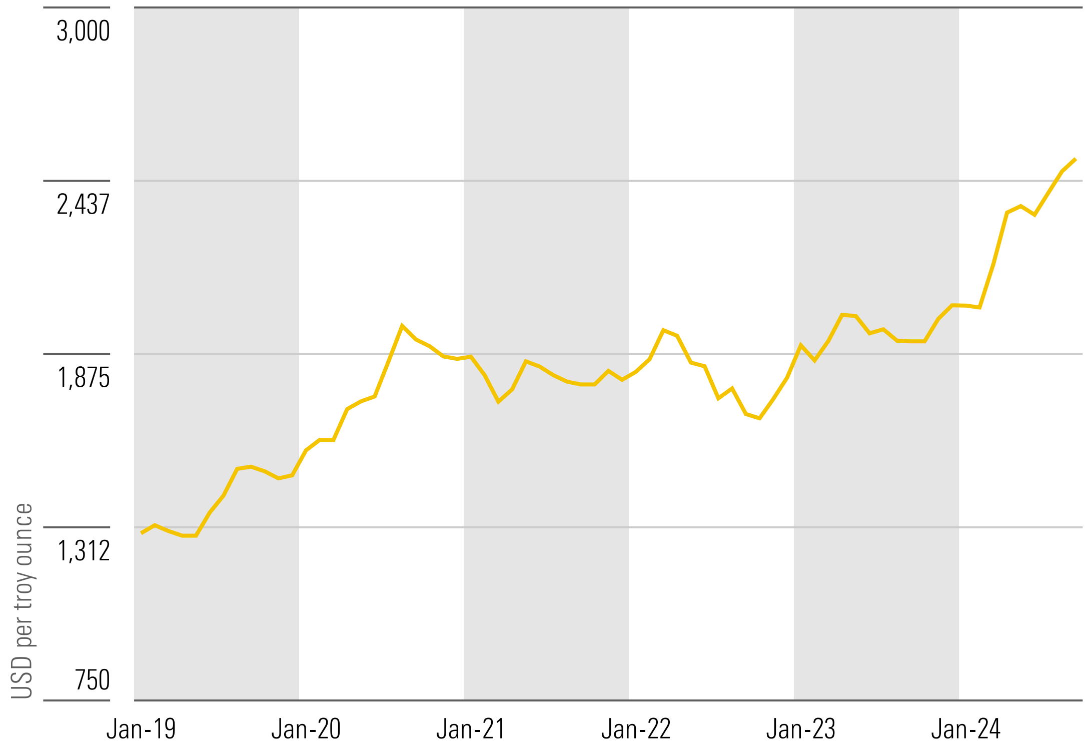
Steel Production Modestly Down on 2023, but Still Strong

China steel production.



Lower Real Interest Rates, Rising Fiscal Deficits Driving Higher Gold Price

Gold price.



Basic Materials

Company (Ticker) Nufarm (NUF)		**Rating** ★★★★★	Australian agricultural innovator Nufarm is on track to meet fiscal 2026 revenue aspirations of more than AUD 4.6 billion, up 30% on fiscal 2023's AUD 3.5 billion. This captures new crop protection product introductions and accelerated seed technology growth via Omega-3 canola and bioenergy developments. Nufarm's modest dividend doesn't particularly appeal, but the stock is a growth story. We project a five-year EPS CAGR of 22% for an attractive prospective mid-single-digit P/E by fiscal 2028. Nufarm's top 22 pipeline crop protection projects have all passed proof of concept and target an addressable market of around USD 6.6 billion. As for seed technologies, Omega-3 canola revenue is growing fast and bioenergy carinata planting for biofuel offtake is agreed with BP.
Price AUD 3.97	**Fair Value** AUD 7.70	**Uncertainty** High	
Market Cap (bil) AUD 1.52	**Economic Moat** None	**Capital Allocation** Standard	
Company (Ticker) Iluka Resources (ILU)		**Rating** ★★★★	Uncertainty over the extent of increased government support to help fund the blowout in capital expenditure to build Iluka's rare earths refinery at Eneabba is adding to concerns over reduced mineral sands demand due to slower global property markets. However, additional government support is likely given the strategic nature of the refinery, with Iluka's likely increased capital contribution also manageable. The refinery is also an option for higher rare earths prices. With net cash of around AUD 150 million at the end of June 2024, its solid balance sheet means it can ride out what we see as a cyclical downturn.
Price AUD 6.88	**Fair Value** AUD 9.50	**Uncertainty** High	
Market Cap (bil) AUD 2.98	**Economic Moat** None	**Capital Allocation** Exemplary	
Company (Ticker) IGO (IGO)		**Rating** ★★★★	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 near 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 AUD 5.68	**Fair Value** AUD 7.50	**Uncertainty** High	
Market Cap (bil) AUD 4.44	**Economic Moat** Narrow	**Capital Allocation** Standard	

Source: Morningstar. Data as of Sept. 30, 2024.

Communication Services

Brian Han | brian.han@morningstar.com

Telcos Feel the Heat While Media Companies Are Under Pressure to do Something, Anything

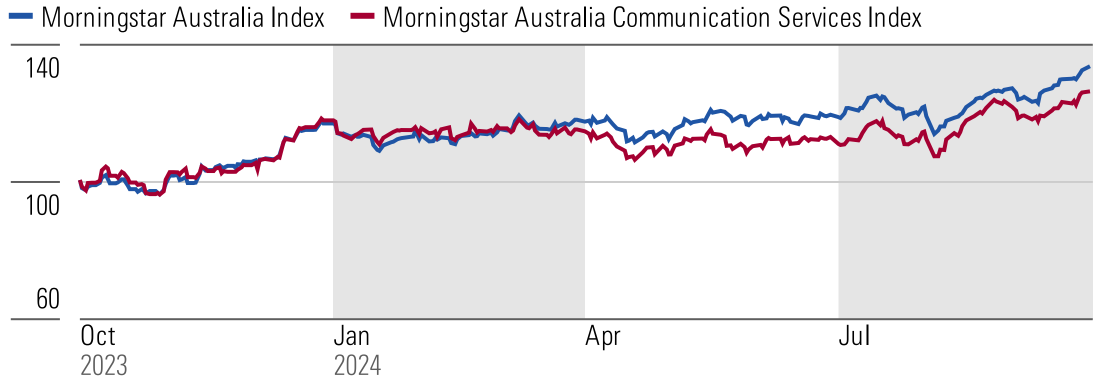
The weak economy is hitting demand for telecommunications despite being a defensive sector. Mobile services revenue growth is slowing for Telstra and TPG Telecom, not helped by recent price rises. Consumer broadband revenue is in decline. Enterprise and wholesale services are under more pressure as companies and governments rein in IT/communications spending. The same economic headwinds are also buffeting Spark and Chorus in New Zealand.

Fortunately, all companies we cover are well-equipped to weather the storm. Balance sheets are solid, free cash flow meaningful, and we see clear cost-cutting options. As such, we see limited risks to dividends. Importantly, tough economic conditions put growth aspirations on hold, which is not bad given the risk of overinvestment.

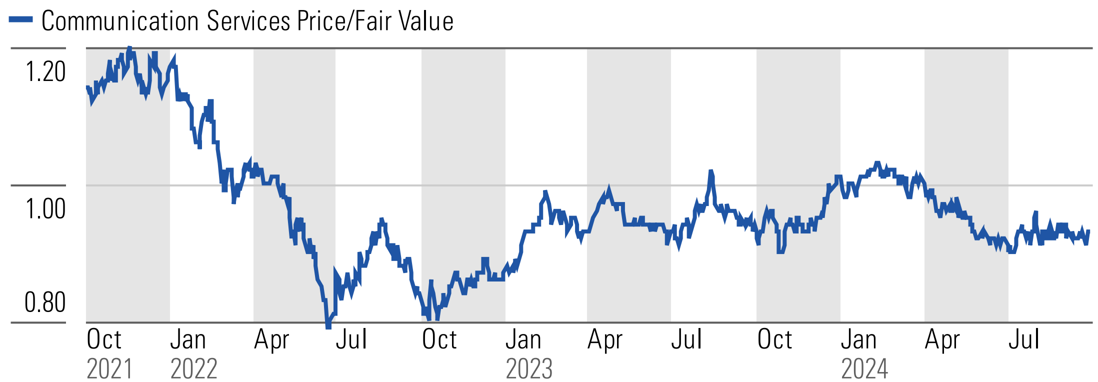
In media, economic weakness is magnified. Advertising conditions are weak, given depressed consumer sentiment and corporate confidence. Cost cutting is relentless but insufficient to stem the earnings decline, considerably below 2022 levels. All this is in addition to the unceasing structural pressures from digital technology and social media consumption by audiences.

With cyclical headwinds persisting and structural challenges escalating, shareholder pressure for media companies to do something—anything—mounts, including consolidation, asset sales, spinoffs, distributions, and wholesale management changes. This is hardly a surprise, given the bargain basement multiples and big discounts to our fair value estimates most media companies trade at.

Underperformance Mostly Driven by Media Stocks



Big Discount in Media, Some Telecoms Also Show Value



Source: Morningstar. Data as of Sept. 30, 2024.

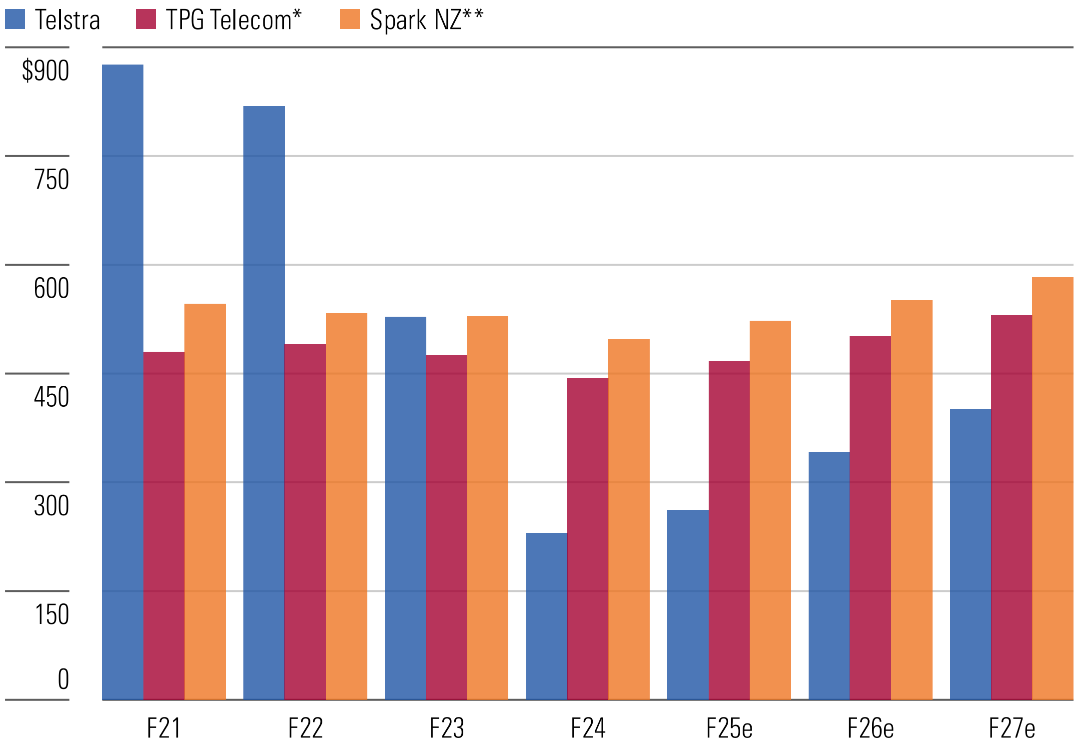
Telcos Feel the Heat While Media Companies Under Pressure to do Something, Anything

Weak economic conditions see businesses curtailing telecommunications and IT-related project spending. Cost-cutting and efficiency improvements are underway in response.

Most media shares trade on low multiples. Much of the pessimism is warranted given severe structural headwinds. However, News Corp's recent re-rating shows what can happen when traditional media companies execute on digital transformation.

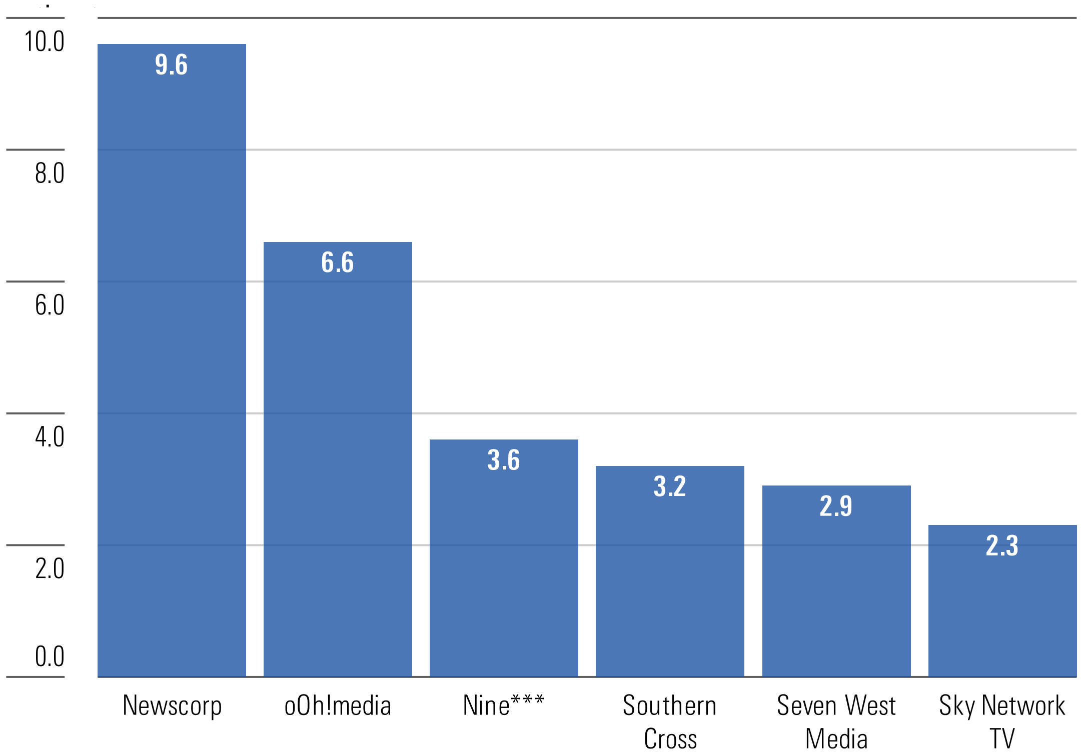
Enterprise and Wholesale Earnings Under Pressure

EBITDA from enterprise and wholesale (in AUD million, except Spark in NZD million).



Most Media Shares on Bargain Basement Multiples

Enterprise value/EBITDA based on current stock price and Morningstar fiscal 2025.



* December-year end and 2024 is Morningstar estimate. ** Gross profit (not EBITDA) from IT, procurement, and data centers in NZD million. *** Excluding 60%-owned Domain.
Source: Company reports and Morningstar. Data as of September 2024, (left). Company reports and Morningstar. Data as of September 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 60% ownership of the digital real estate business Domain. The publishing unit has transformed to become a digital-first news provider, decreasing exposure to traditional print media. Business diversification and a solid balance sheet position Nine to weather the advertising downturn. The ability to flex costs and utilize efficiencies is not at the expense of the competitive position, with Nine's audience, revenue share, and subscriptions growing across all businesses. 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 1.30	AUD 2.70	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.99	None	Standard	

Company (Ticker)		Rating	
Spark New Zealand (SPK)		★★★★	Challenging economic conditions in New Zealand exert revenue pressure on narrow-moat Spark, particularly for business spending on communications and IT-related projects. This saw a 3% decline in fiscal 2024 EBITDAI, the first fall in eight years, and exposed structural cost issues in Spark's IT businesses. But cost reductions and efficiency improvements are kicking in with management focused on free cash flow maximization via greater capital expenditure discipline. As such, we see the current 8% yield as maintainable and attractive as investors wait for cost-outs and the economic recovery to come through.
Price	**Fair Value**	**Uncertainty**	
AUD 2.86	AUD 4.20	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 5.04	Narrow	Standard	

Company (Ticker)		Rating	
TPG Telecom (TPG)		★★★★	No-moat TPG Telecom 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 and recovery in the corporate unit. Benefits of cost-out and business simplification initiatives are starting to emerge, just as the current capital expenditure hump from 5G and IT modernization is beginning to moderate. 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 4.94	AUD 6.40	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 9.15	None	Standard	

Source: Morningstar. Data as of Sept. 30, 2024.

Consumer Cyclical

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

Tax Cuts Fueling Revival in Discretionary Spending

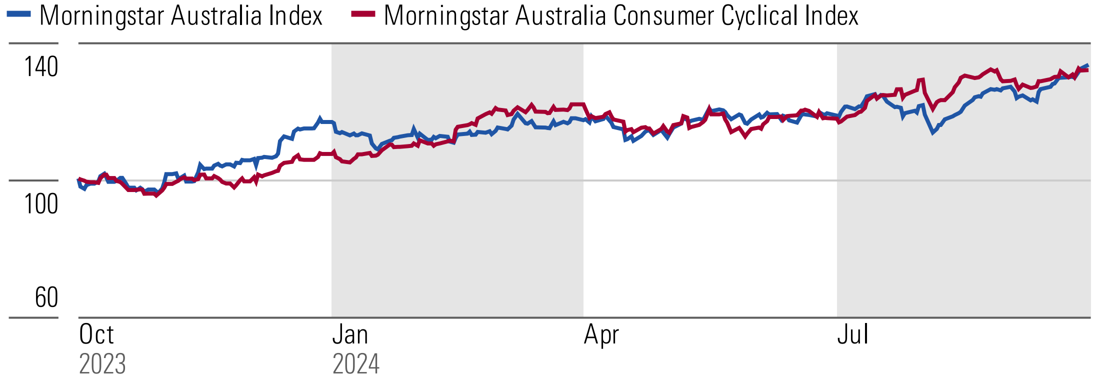
Fiscal 2024 was a year to forget for the Australian retailing sector. Shoppers are hurting, with elevated cost-of-living pressures compounded by high interest rates. For those retailers with exposure to New Zealand, things were even worse, compounded by declining house prices that reversed the wealth effect.

But we continue to forecast a rebound in sales and earnings from fiscal 2025 with strengthening consumer demand. We expect retail spending to pick up owing to a larger workforce, higher wages, and meaningful tax cuts. Significant interest rate cuts could boost consumer sentiment and present upside risk to our near-term outlook.

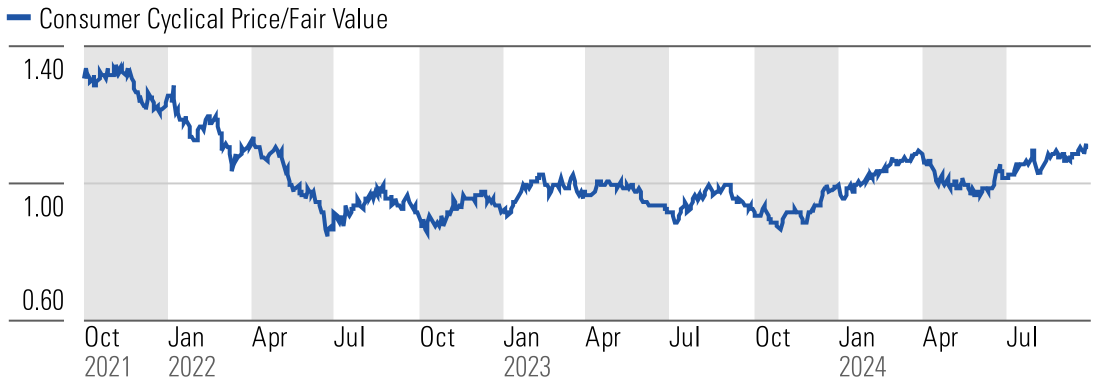
Consumers are already spending more on nonessential goods. Sales growth is improving at discretionary retailing chains operated by Super Retail and at Woolworths' Big W discount department stores. Electronics goods retailers JB Hi-Fi, Harvey Norman, and Kogan are reporting strengthening sales momentum. Although the outlook for no-moat Kogan is improving, its shares are significantly undervalued.

By contrast, consumers continue to cut back on gambling spending amid cost-of-living pressures, with the outlook worsened by mounting regulatory headwinds like proposed advertising bans and mandatory carded play. Gambling spend has historically been resilient through economic cycles, so the current slowdown in both wagering and casino gambling is proving more severe and protracted than we anticipated. Nevertheless, we still expect a recovery from the current cyclical downturn, and gaming shares are undervalued, on average.

Cyclicals Beat the Market in a Difficult Year… Slightly



Cyclicals are Slightly Expensive on Average, but Plenty of Bargains Remain



Source: Morningstar. Data as of Sept. 30, 2024.

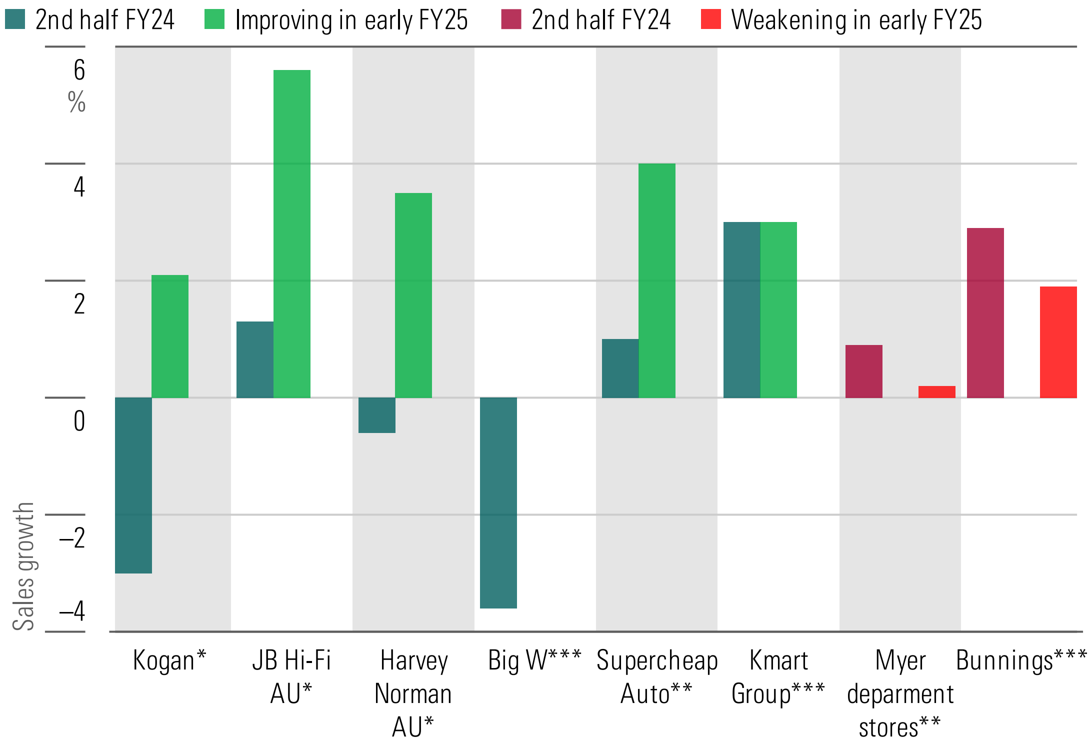
Tax Cuts Fueling Revival in Discretionary Spending

For most of our discretionary retail coverage, consumers are beginning to spend again following a fiscal 2024 to forget. No-moat Myer department stores and wide-moat Wesfarmers-owned Bunnings are missing out on this trend.

Following the dramatic shift toward goods during the pandemic, spending patterns have corrected. Consumers are now spending more on services. However, a potential reduction in interest payments on mortgages could benefit discretionary goods more than services.

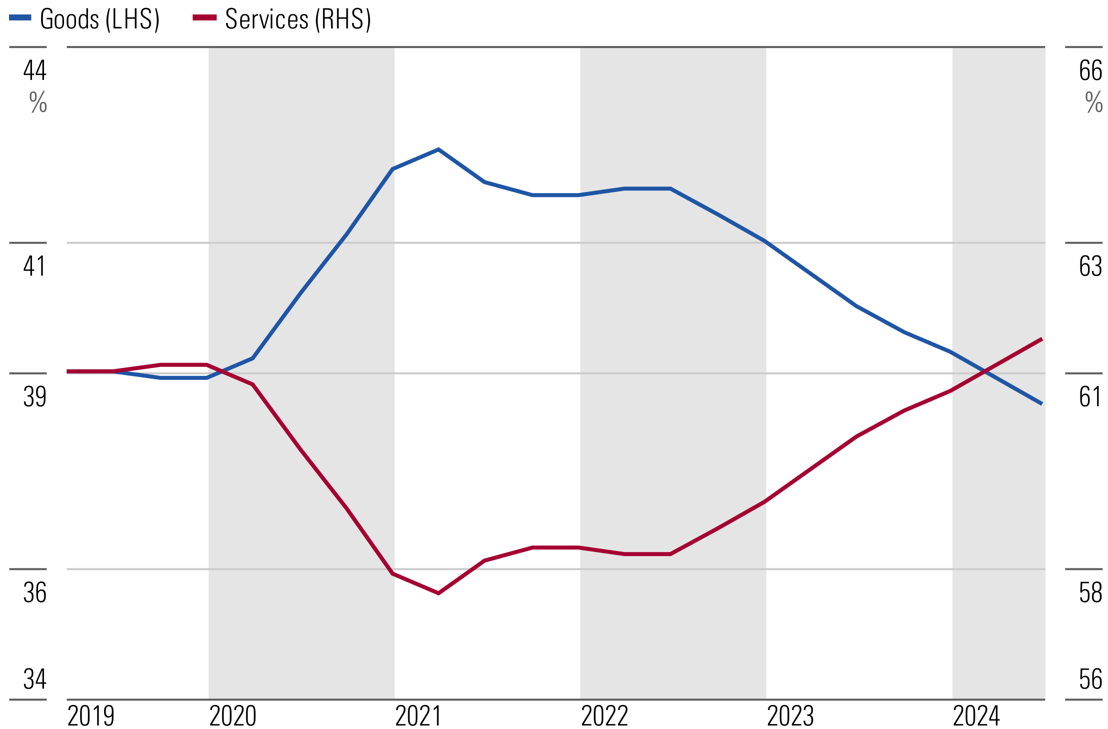
Many Retailers Seeing Sales Momentum Improving in Early Fiscal 2025

Sales growth rate in early 2025 and second half of fiscal 2024 vs PCP.



Spending Shifting to Services from Goods—a Headwind for Retailers

Consumption split of goods and services.



Source: Australian Bureau of Statistics, data as of June 30, 2024, company filing, Morningstar. Note: Kogan, JB Hi-Fi, and Harvey Norman second half fiscal 2024 sales growth compared with July 2024 trading; Supercheap Auto and Myer compared with first seven weeks of fiscal 2025; Big W, Kmart, and Bunnings compared with first eight weeks.

SECTOR TOP PICKS

Consumer Cyclical

Company (Ticker)		Rating	
Kogan.com (KGN)		★★★★★	While Kogan's operating margins already improved, the next earnings leg-up depends on sales growth. A hangover from brought-forward sales during the pandemic lockdown and consumers' diminishing discretionary buying power are crimping demand for household goods—including Kogan's top-selling product categories. We believe the market is excessively focused on undisputably soft current trading conditions. However, we expect revenue growth to reignite as consumers buy more online and fiscal stimulus boosts household incomes. We forecast solid gross sales growth from fiscal 2025, averaging 7% per year over the next decade.
Price	**Fair Value**	**Uncertainty**	
AUD 5.15	AUD 10.70	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 0.52	None	Exemplary	
Company (Ticker)		**Rating**	
Domino's Pizza Enterprises (DMP)		★★★★★	Domino's Pizza is a high-quality company with a long growth runway. We forecast a 20% earnings CAGR for the next five years, underpinned by its global store rollout. Domino's sales growth has been volatile, and the share price tends to reflect near-term trading conditions rather than longer-term potential. The near-term outlook is uncertain and hinges on improving store economics. However, we believe the market is overly discounting Domino's intact and significant long-term growth potential. We forecast the network to approach 6,000 stores by fiscal 2034, from some 3,800 as of June 2024, below management's long-term ambition of 7,100.
Price	**Fair Value**	**Uncertainty**	
AUD 34.35	AUD 58.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 3.28	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 5.33	AUD 7.30	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.80	Narrow	Exemplary	

Source: Morningstar. Data as of Sept. 30, 2024.

Consumer Defensive

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

Fallout From Legal Claims Immaterial for Supermarkets

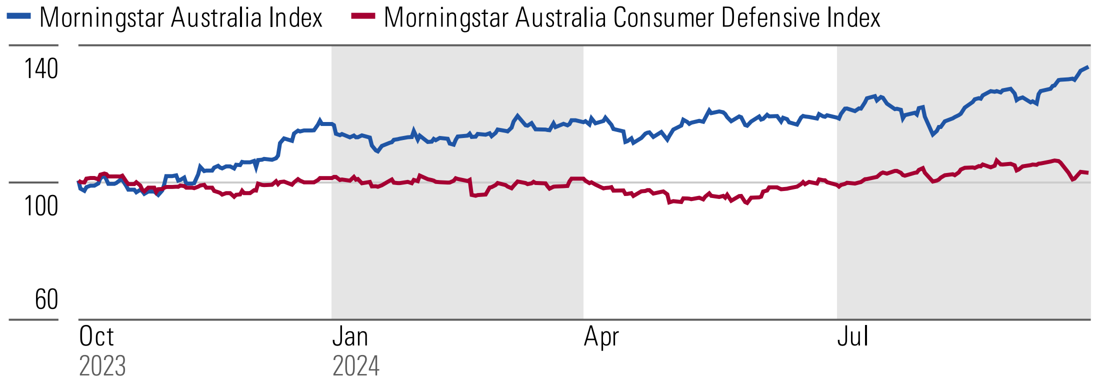
Inflation no longer boosts food sales, with growth primarily relying on higher volumes. Rising costs at supermarkets are also weighing on operating margins. Hourly wages are up 4%, and supermarkets are investing heavily in modern logistics and online fulfillment.

Further, Coles and Woolworths face heightened public scrutiny. The Australian Competition and Consumer Commission alleges that Woolworths and Coles breached Australian consumer law by making misleading claims about discounts. While the outcome of these legal proceedings is highly uncertain, we don't expect a material impact on our valuations. The trading period in question is relatively short, at less than two years, and the number of products is relatively small, at fewer than 300 items, compared with supermarket ranges of over 20,000 items.

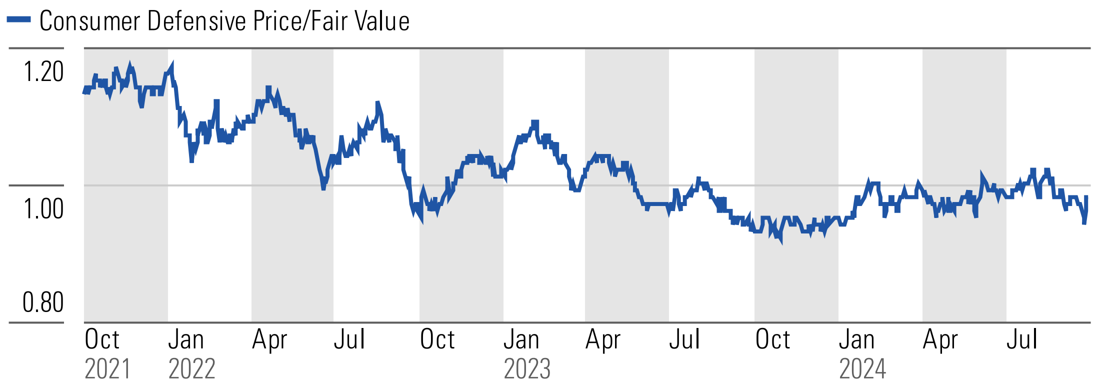
We also think any erosion of price trust has already occurred. This is apparent in a survey published by market research company Roy Morgan. In the 12 months to March 2024, Coles and Woolworths slipped in their ratings and are no longer among Australia's five most trusted brands. Yet, Coles and Woolworths are overvalued. We believe current P/Es are too high for relatively low-growth, defensive yield stocks.

The Australian Department of Agriculture, Fisheries and Forestry forecasts a bumper crop harvest in 2025—a 25% increase from 2024 and significantly higher than the 10-year average. But shares in GrainCorp are expensive. Recent earnings performance reflects historically high supply chain margins rather than purely operating leverage, which shouldn't persist in a midcycle environment.

Defensives Have Underperformed the Market



Defensives Are Roughly Fairly Valued on Average



Source: Morningstar. Data as of Sept. 30, 2024.

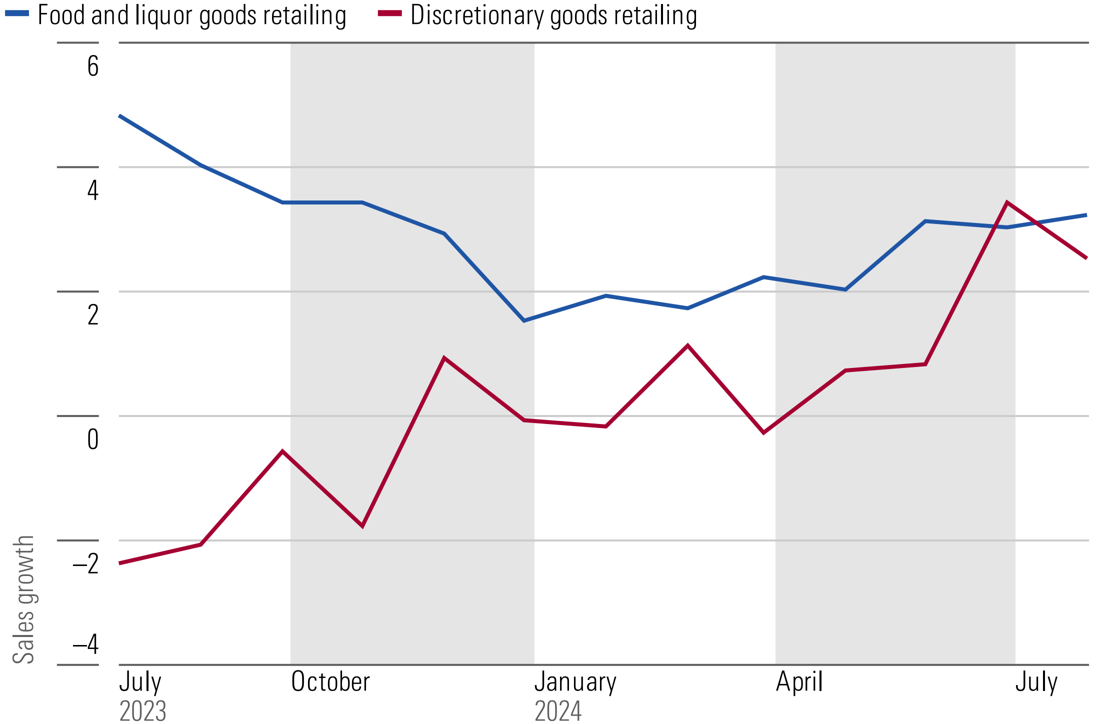
Fallout From Legal Claims Immaterial for Supermarkets

Defensive categories, like supermarkets and liquor, are less exposed to improving household budgets. But discretionary spending is improving as mortgage pain from past interest rate hikes maxes out and tax cuts kick in from July 2024.

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

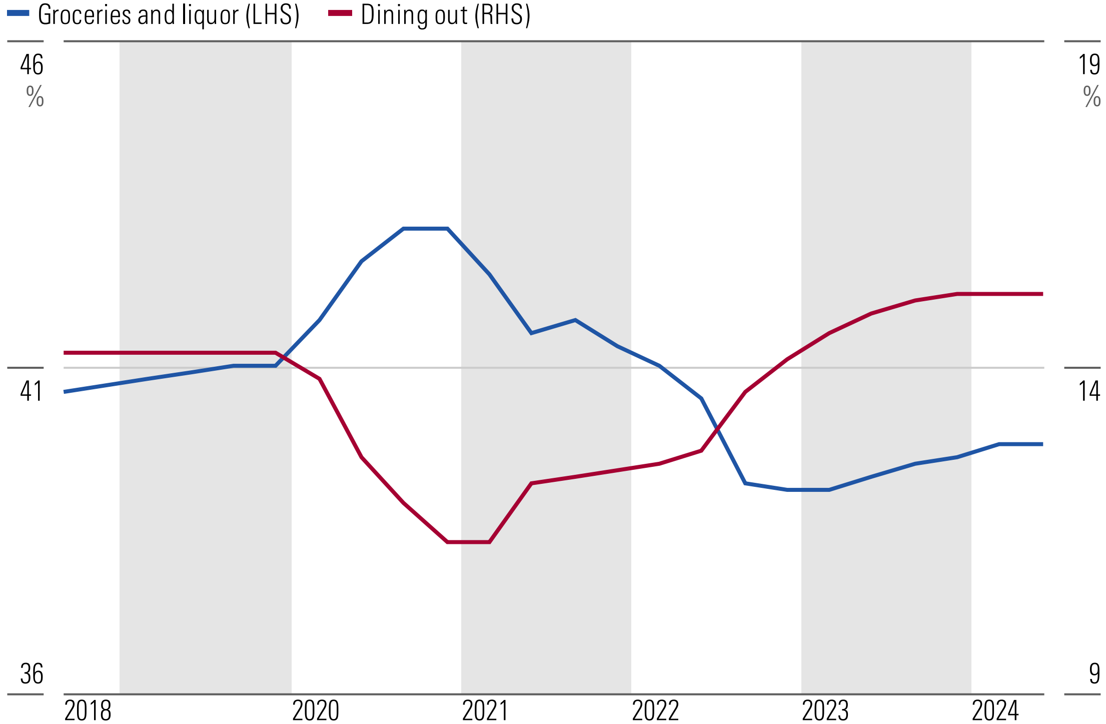
Momentum in Discretionary Spending Building

Monthly seasonally adjusted sales growth versus the PCP.



Reversion to More At-Home Dining Potential Tailwind for Supermarkets

Category share of retail spending, rolling 12 months.



Source: Australian Bureau of Statistics. Data as of July 31, 2024 (left), and June 30, 2024 (right). Note: Discretionary sales excluding cafes, restaurants, and takeaway

SECTOR TOP PICKS

Consumer Defensive

Company (Ticker)		Rating	
IDP Education (IEL)		★★★★	We expect IDP Education to benefit from the long-term demand for higher education. The firm continues to boast significant market share gains in student placement. In fiscal 2024, the firm reported aggregate volume growth across Australia, Canada, the UK, and the US of 17%, compared with an estimated 13% industry decline. However, tighter immigration and visa settings will likely see industry volumes continue to decline near-term. Nonetheless, IDP continues to take market share from less reputable players, and we anticipate this will partially offset near-term regulatory challenges. It remains a high-quality operator, boasting superior average student visa approval rates, and is a part-owner of one of the world's most recognized and trusted certifiers of English proficiency.
Price	**Fair Value**	**Uncertainty**	
AUD 16.18	AUD 23.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 4.43	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Endeavour Group (EDV)		★★★★	Endeavour shares trade at an attractive valuation and fully franked yield. We think the market underappreciates the defensive long-term earnings outlook as consumers curtail nonessential spending. However, fiscal stimulus should boost household budgets in fiscal 2025. We forecast underlying Australian liquor retailing sales increasing midsingle digits after barely growing in fiscal 2024. Longer term, liquor demand is defensive and underpinned by inflation and population growth and we expect the structural premiumization trend to counterbalance declines in per person liquor consumption. As Australia's largest liquor retailer, with its eminent Dan Murphy's and BWS branded chains, we expect Endeavour's liquor sales to grow in line with the market. We believe concerns about regulatory risk for its gaming operations are overdone and are accounted for in the price.
Price	**Fair Value**	**Uncertainty**	
AUD 4.99	AUD 6.10	Low	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 8.99	Wide	Exemplary	
Company (Ticker)		**Rating**	
a2 Milk (A2M)		★★★★	There is much to like about a2 Milk, notably in China, the key battleground. A2's share of Chinese-language-labeled infant formula is growing, supported by a2 Platinum's solid brand health, underpinning its narrow moat. Granted, there are hurdles. Births in China are declining and the tailwind of consumers preferring foreign brands no longer blows. Offsetting the falling number of births in China, we anticipate further premiumization and for a2 Milk to capture market share. We forecast 8% annual revenue gains to fiscal 2029 as channel inventory levels normalize and market share increases. We also see improved sales of higher-margin English-label products and operating leverage from higher revenue.
Price	**Fair Value**	**Uncertainty**	
AUD 6.25	AUD 7.20	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 4.52	Narrow	Standard	

Source: Morningstar. Data as of Sept. 30, 2024.

Energy

Mark Taylor | mark.taylor@morningstar.com

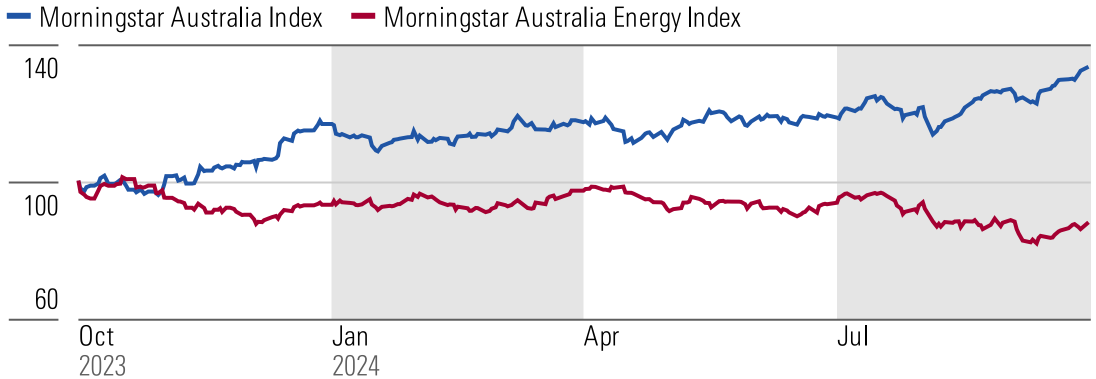
Hydrocarbon Demand Is Not Going Away Anytime Soon

The effort to decarbonize global energy supply is naturally a key concern for investors when considering hydrocarbons. But oil demand is not going anywhere anytime soon—our forecast calls for little decline in oil demand by 2050. Despite media headlines, oil demand continues to grow. We think it will likely continue to grow for years and, even once it peaks, will decline at a slow, extended pace. Petroleum products will remain integral to the global economy for decades because of a lack of viable substitutes and superior efficacy and cost. EVs pose a threat to only about 25% of global oil demand with much used in jet fuel or noncombustible products. Further, because the oil supply suffers a natural decline, new investment is required until global demand declines at a greater rate than the natural decline rate of the global supply of 5%-6% per year.

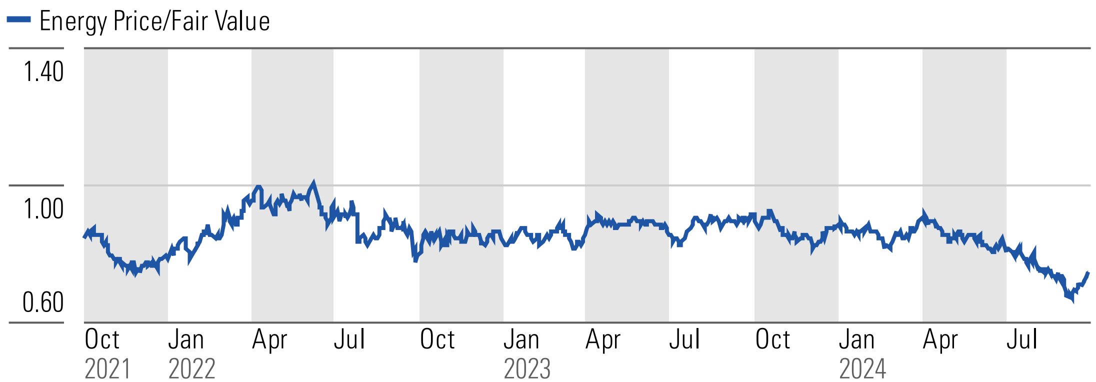
With respect to natural gas, expected population increase to 10 billion by 2050 from 8 billion, and rising per capita GDP, are expected to drive rising demand. There is the added opportunity for LNG to displace coal in power generation. Importantly for LNG-leveraged Australian producers like Woodside and Santos, strong LNG demand growth of more than 50% is expected by mid-next decade.

At around USD 75 per barrel, Brent crude remains above our unchanged USD 60 nominal midcycle estimate. The news is brighter for natural gas with spot LNG up more than 60% to USD 13 per mmBtu from February 2024 lows. Our midcycle LNG price remains USD 8.40 per mmBtu from 2026, reflecting the marginal cost of supply. Our midcycle price forecasts are healthy for Australian exploration and production companies, whom we expect to continue to enjoy robust free cash flows, with much likely to go to shareholders via buybacks and dividends.

Energy Sector Continues to Struggle Despite Favorable Dynamics



The Energy Sector Is Cheap Cheap Cheap



Source: Morningstar. Data as of Sept. 30, 2024.

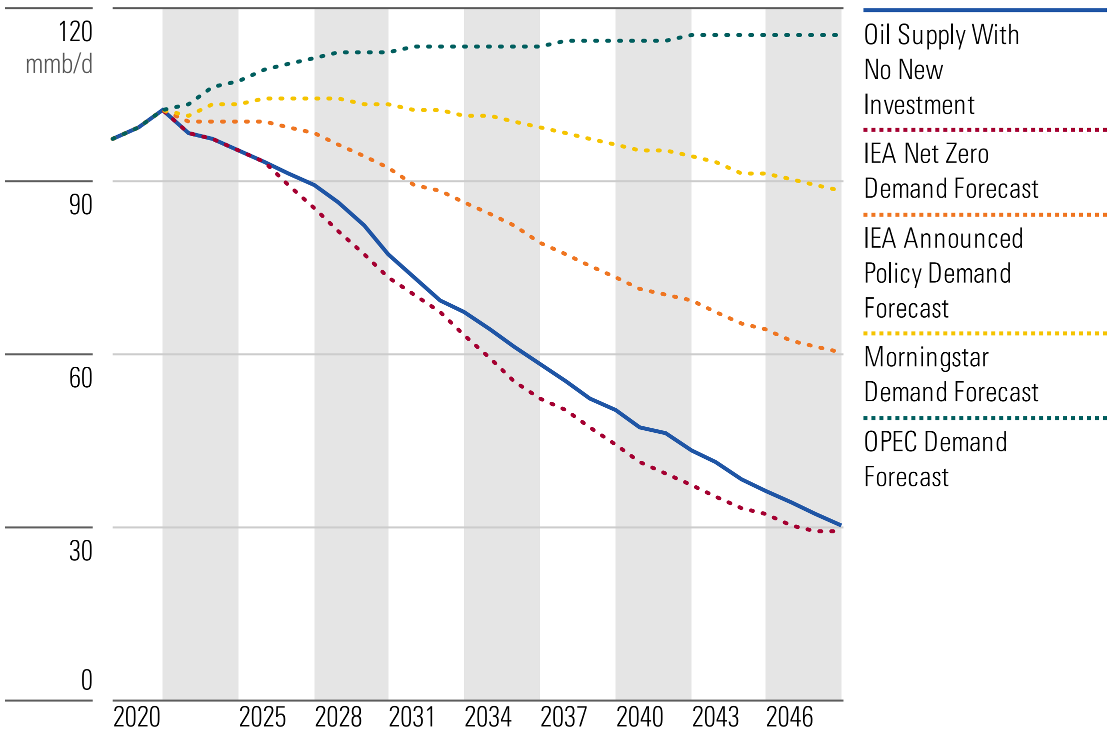
Hydrocarbon Demand Is Not Going Away Anytime Soon

Given natural oil field decline of 5% to 6% annually, only under a net zero by 2050 scenario will new oil supply not be needed. New production will need to be incentivized, and we see the marginal supply cost as USD 60 per barrel for Brent crude.

Spot and futures prices are above our midcycle levels of USD 60 per barrel for Brent crude and USD 8.40 per million Btu for Asia LNG. If this persists, LNG producer earnings could beat our medium-term earnings estimates.

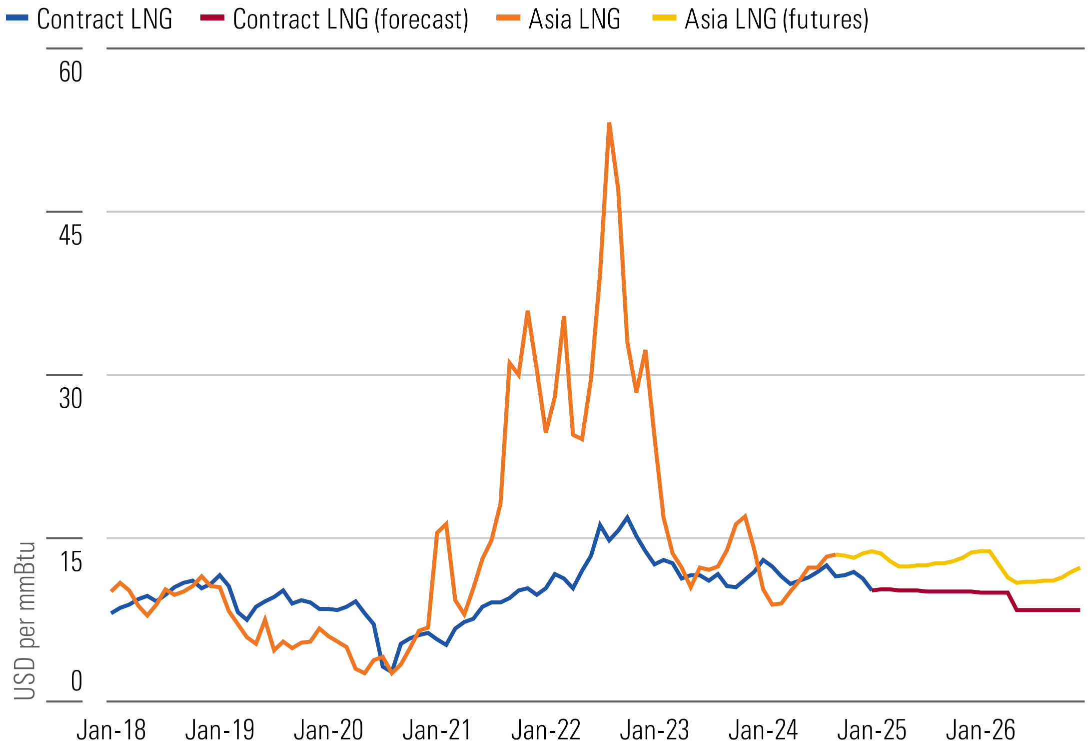
Most Supply Scenarios Still Require Considerable New Oil Field Investment

Oil demand and supply forecasts (million barrels per day).



LNG Futures Currently Exceed the Brent-Referenced Contract

LNG Price – USD per mmBtu



Source: Morningstar, International Energy Agency, Organization of Petroleum Exporting Countries (left). Investing.com, World Bank, CME Group (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 exceed WACC before the decade's end. We credit group production growing 15% by 2028 versus 2023. Woodside's balance sheet is conservatively geared to support 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 the circumstance dictates.
Price	**Fair Value**	**Uncertainty**	
AUD 24.36	AUD 45.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 47.85	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 85% by 2028 from 2023, chiefly from the Pikka oilfield development in Alaska and the reinvigoration of Darwin LNG's output with the Barossa gas field development. We forecast a strong five-year EBITDA CAGR of 11% to USD 6.3 billion by 2028 versus 2023.
Price	**Fair Value**	**Uncertainty**	
AUD 6.84	AUD 12.50	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 22.80	None	Standard	
Company (Ticker)		**Rating**	
Whitehaven Coal (WHC)		★★★★	Whitehaven continues to be penalized for ESG concerns. We think its purchase of two metallurgical coal mines from BHP is a good one, diversifying its production to roughly half thermal coal and half metallurgical coal. Debt to help finance the purchase is manageable, though returns to shareholders are likely to be constrained until it is repaid. New coal supply is restrained, affected by ESG concerns and opposition from regulators, which could bring longer-term price upside. Demand for metallurgical coal for use in steelmaking is likely to persist, with alternative green steel technologies unlikely economic at scale for decades. We also think demand for Whitehaven's high-quality thermal coal is likely to be strong for at least the next decade, especially from Southeast Asia. High-quality thermal coal meets the energy needs of countries such as Japan and South Korea while meeting emissions targets under various international agreements.
Price	**Fair Value**	**Uncertainty**	
AUD 7.09	AUD 9.30	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 6.04	None	Standard	

Source: Morningstar. Data as of Sept. 30, 2024.

Financial Services

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

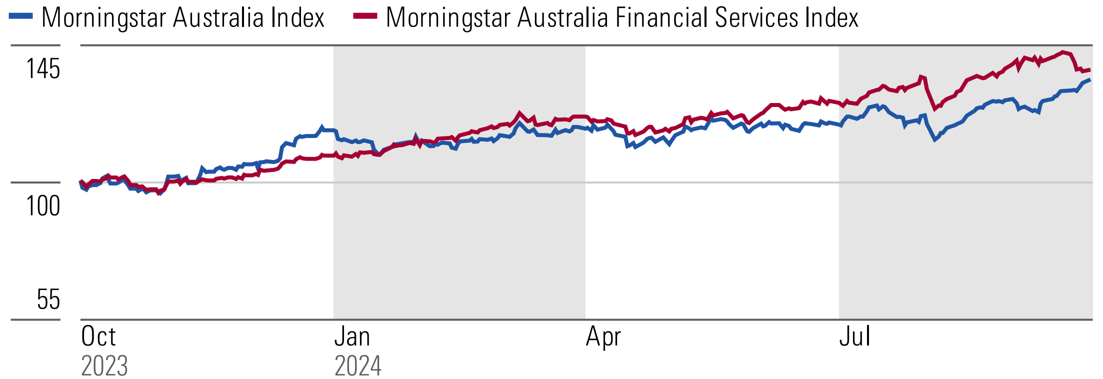
Financials Extend Outperformance and Stretch Valuations

Financials performed strongly in the quarter, with major banks and insurers now mostly overvalued. We do not expect cuts to the US federal-funds rate, and the outlook for lower rates in Australia, to materially affect bank earnings. Broader economic conditions and competition impact margins more materially. Bank results showed a stabilization of margins and bad debts below long-term averages, two earnings drivers in the spotlight for investors. More borrowers are falling behind on payments, but equity buffers, rising house prices, and low unemployment mean this is not translating into a rise in loan losses. Across the sector, we expect credit growth, modest margin improvement, and cost savings to underpin mid-single-digit EPS growth for the next five years. Dividends are well supported by surplus capital, with further buybacks likely.

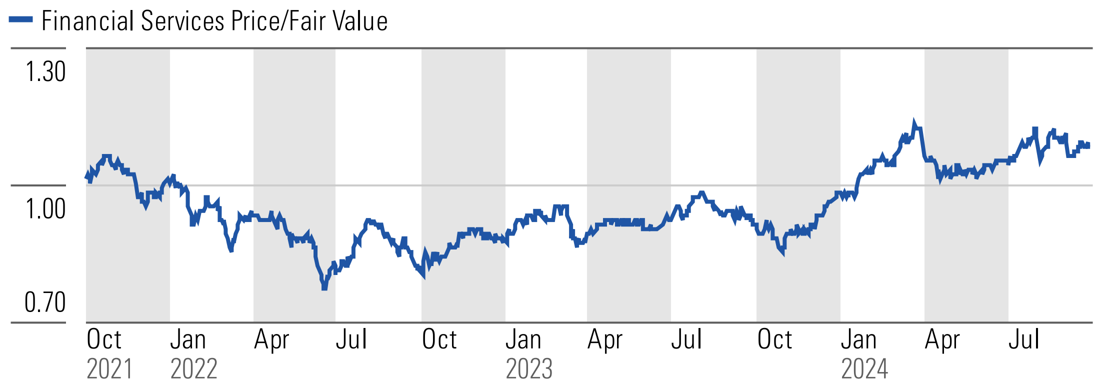
The earnings outlook for general insurers, IAG Group and Suncorp is positive. Higher claims are being matched with higher premium rates. While investment income on policyholder and shareholder funds will likely decline, it should stay well above the 2020-22 period of extremely low cash rates. We prefer narrow-moat-rated insurance brokers, Steadfast and AUB Group, over the insurers on valuation grounds, given they can ride industry tailwinds without the underwriting risk.

We anticipate a normalization of fund flows for asset managers following depressed capital markets in 2022-23. For underperforming managers, we expect a shift in capital allocation toward capital returns rather than focusing on growth. Shareholders are demanding more efficient use of capital given the shrinking funds under management.

Economic Conditions Provide Favorable Backdrop for Financials



Financial Services Overvalued on Average



Source: Morningstar. Data as of Sept. 30, 2024.

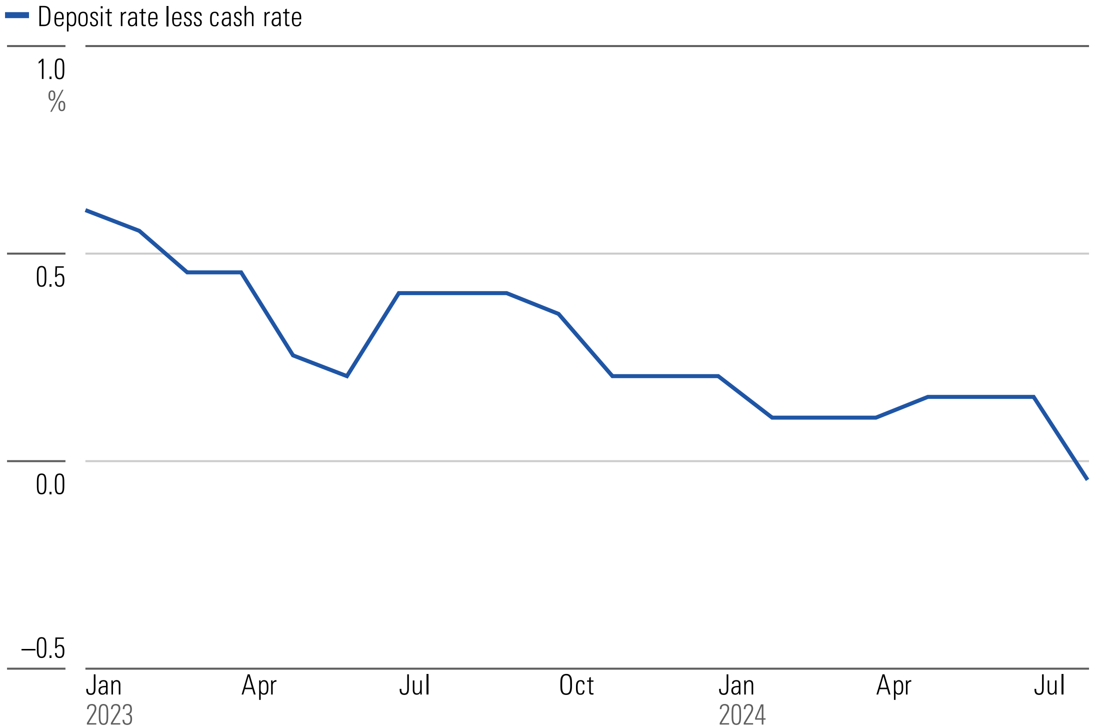
Financials Extend Outperformance and Stretch Valuations

Competition for mortgages is intense, and while there appears to be a modest increase in discounting, the benefits from higher returns on equity and deposit hedges and a reduction in deposit rates support modest margin improvement.

We anticipate that underperforming asset managers like Magellan and Perpetual will face growing pressure to return excess cash to shareholders. Given their structural challenges, we view this as a prudent approach to capital allocation.

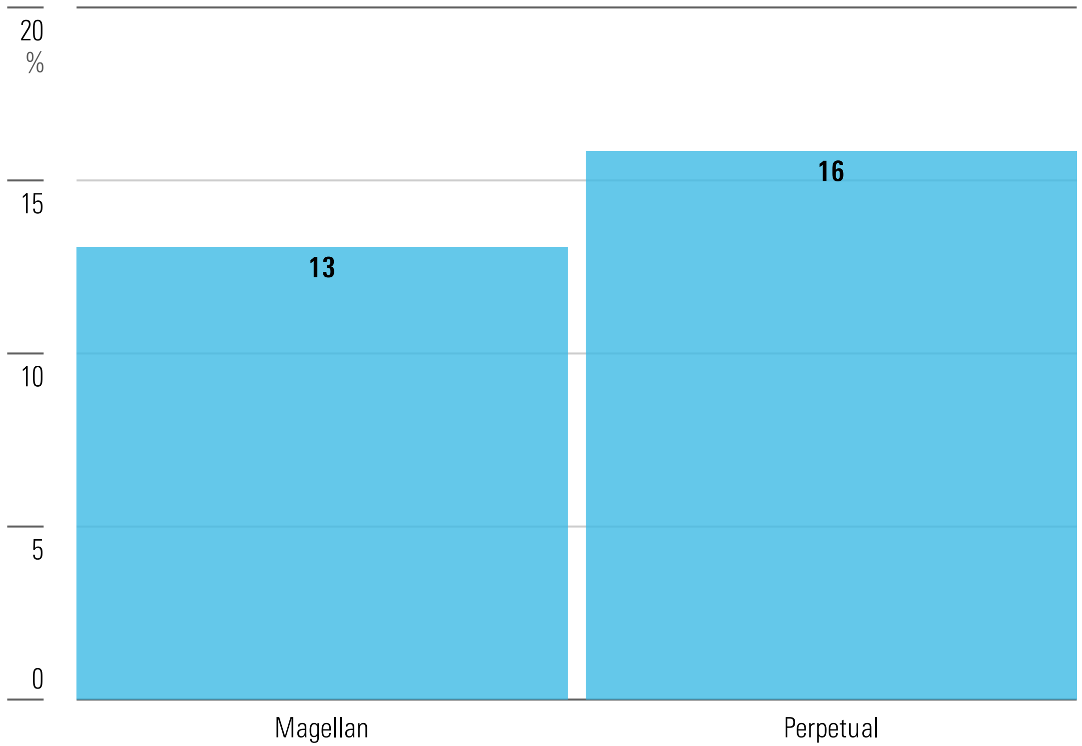
Deposit Rates Falling Ahead of Expected Rate Cuts

1-Yr average bank deposit rate less RBA cash rate.



Potential for Further Capital Returns Beyond Current Dividend Levels

Surplus cash per share as a proportion of latest closing price.



Source: Australian Prudential Regulation Authority. Data as of August 2024 (left). Morningstar (right).

Financial Services

Company (Ticker)
Insignia Financial (IFL)

Rating
★★★★

Price
AUD 2.62

Fair Value
AUD 3.60

Uncertainty
High

Market Cap (bil)
AUD 1.76

Economic Moat
None

Capital Allocation
Standard

We believe the market underestimates Insignia's ability to stabilize earnings, with cost-outs counterbalancing tepid revenue declines. There is still ample room to remove duplicate or nonessential costs to extract scale efficiencies. Moreover, we think revenue will decline in the long term but at a manageable rate. This reflects our expectation for a slower compression in fees and likely improved fund flows over the medium term. As administered funds increase, cost synergies are extracted, and operating margins stabilize, debt serviceability should improve, enabling greater shareholder distributions. We think the odds of multiple expansions are good at current prices, particularly if outflows lessen, margins stabilize, and dividends are promptly reinstated.

Company (Ticker)
ASX (ASX)

Rating
★★★★

Price
AUD 63.93

Fair Value
AUD 75.00

Uncertainty
Low

Market Cap (bil)
AUD 12.40

Economic Moat
Wide

Capital Allocation
Poor

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

Company (Ticker)
NIB Holdings (NHF)

Rating
★★★★

Price
AUD 5.93

Fair Value
AUD 7.20

Uncertainty
Medium

Market Cap (bil)
AUD 2.88

Economic Moat
Narrow

Capital Allocation
Standard

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 to encourage participation to change and allow NIB to deliver consistent underwriting profits and returns on equity. The sudden decline in margins in the second half fiscal 2024 spooked investors, but NIB has been overearning in recent years, thanks to 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 been able to recoup claims inflation with premium rate increases, so we don't think this downward margin pressure will worsen materially. In the short term, demand from foreign students will likely dip as the government introduces new student caps, but we expect growth in foreign workers and premium rate increases to support medium-term growth.

Source: Morningstar. Data as of Sept. 30, 2024.

Healthcare

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

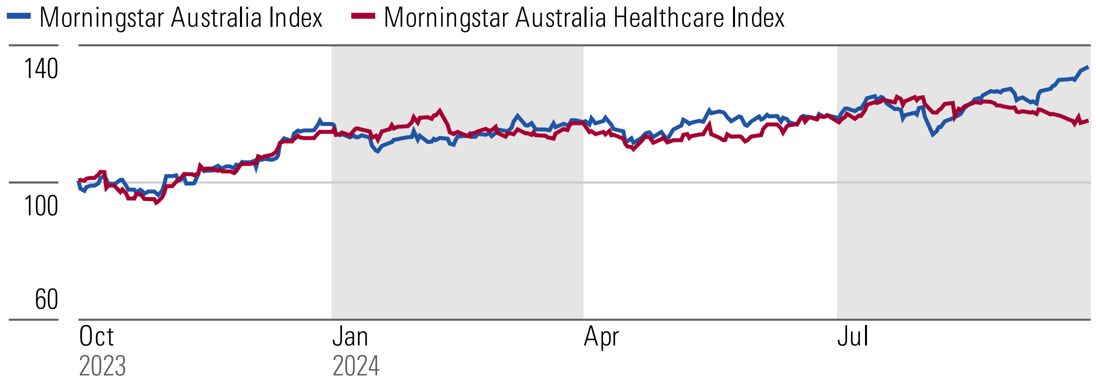
Buying Opportunities in High-Quality Healthcare Names

The healthcare sector performed broadly in line with the Morningstar Australia Index in the September quarter of 2024. We view the sector as overvalued on average, but roughly half of our coverage still trades in 4- or 5-star territory. The most attractive names are ResMed, where we expect continued strong revenue growth, and Ramsay, Sonic, and Ansell, where we see margins expanding. Meanwhile, Pro Medicus, Polynovo, Sigma, and Fisher & Paykel are the most overvalued.

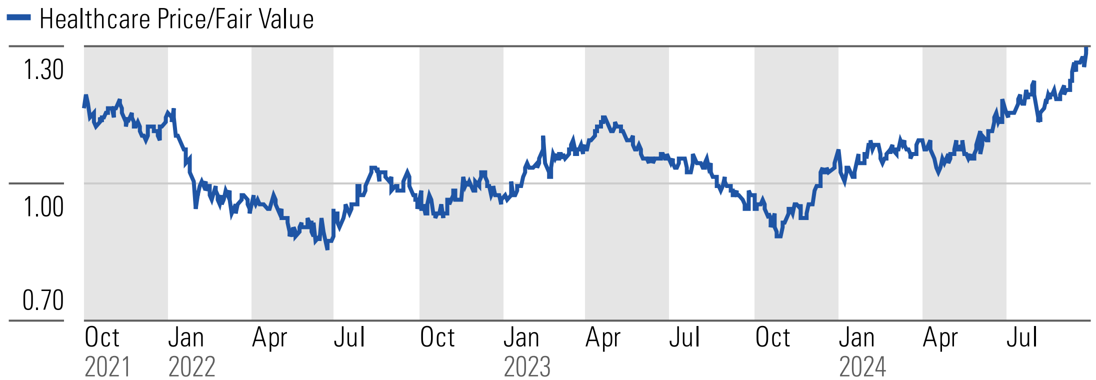
While the August reporting season triggered significant share price moves for many healthcare companies, results were broadly in line with our expectations, apart from Ramsay. We changed our fair value estimates for five healthcare names with an average increase of 2%. The most significant change was a 9% cut to our fair value estimate for Ramsay as government support lagged wage inflation. We still think shares are undervalued and expect margin recovery in the longer term.

In contrast, pathology providers all reported solid results. The industry saw significant improvement in profitability in the second half of fiscal 2024, as a recovery in volumes and operational efficiency initiatives more than offset rent and wage inflation. Sonic, Healius, and ACL remain undervalued. We expect further margin expansion on increased operating leverage from higher volumes and improved labor productivity through digital initiatives. We also expect average fee increases through increased pricing, additional government funding, and favorable mix benefits.

Healthcare Underperformed the Broader Market



Several Names Still Attract Despite Overvaluation of Sector



Source: Morningstar. Data as of Sept. 30, 2024.

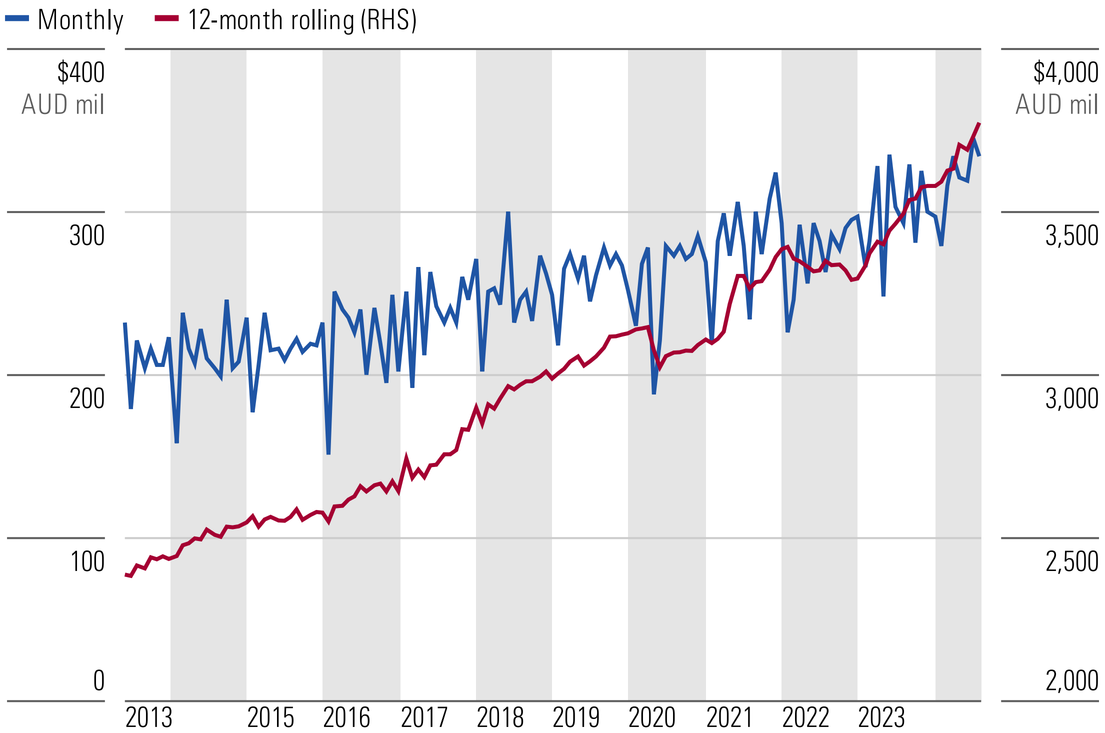
Buying Opportunities in High-Quality Healthcare Names

Despite the pandemic disrupting routine pathology testing, underlying demand is defensive and underpinned by population growth, aging demographics, a higher incidence of diseases, wider adoption, and a higher number of tests available.

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

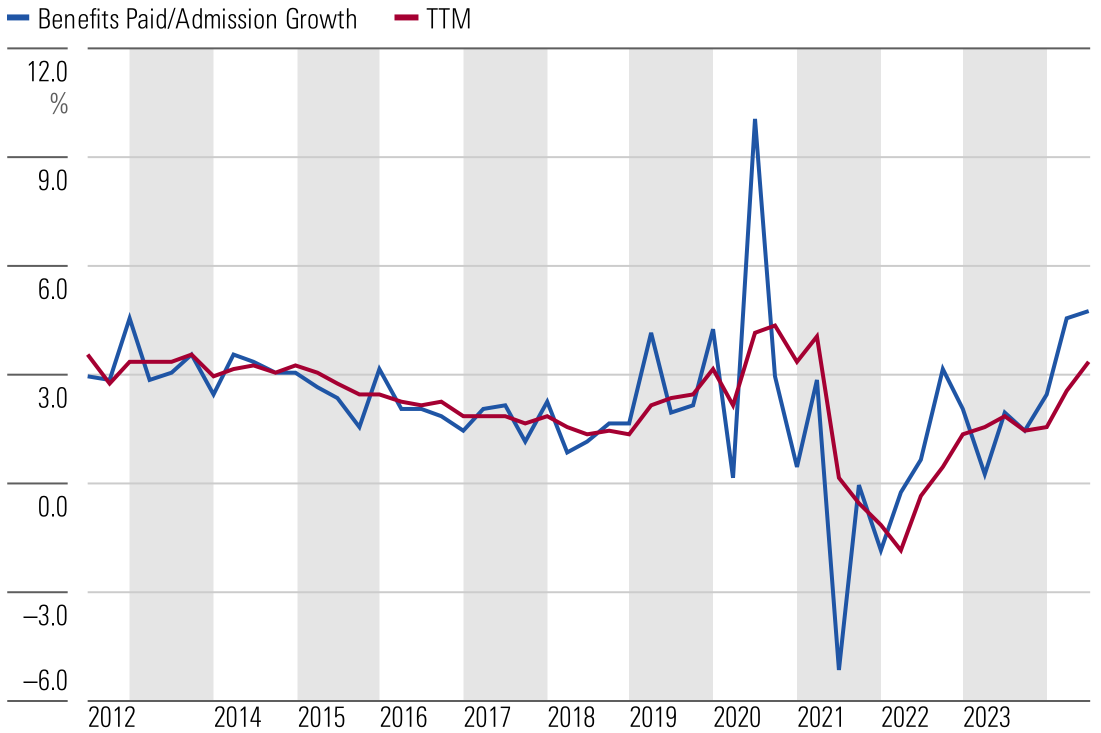
Core Pathology Revenue Growth Recovering

Total pathology industry benefits paid, excluding coronavirus Medicare items.



Recovery in Average Prices to Support Ramsay's Top Line

Australian private health insurance benefits paid per admission growth.



Source: Medicare. Data as of July 31, 2024 (left). Australian Prudential Regulation Authority. Data as of June 30, 2024 (right).

Healthcare

Company (Ticker)		Rating	
Ramsay Health Care (RHC)		★★★★★	Ramsay's fiscal 2024 patient revenue was up a strong 7%, but group profitability was weighed by inflationary pressures, lower government support, and accelerated 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 with immigration recovering, and Ramsay continues to invest in recruiting and training. The firm negotiated higher reimbursement rates to meet cost inflation and has deleveraged its balance sheet by selling its share of Ramsay Sime Darby. Please see our stock pitch "Margin improvement ahead; shares are cheap." published on Dec. 13, 2023, for more details.
Price	**Fair Value**	**Uncertainty**	
AUD 41.56	AUD 62.00	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 9.58	Narrow	Exemplary	
Company (Ticker)		**Rating**	
ResMed (RMD)		★★★★	ResMed is seeing strong new patient flow with sleep apnea diagnosis rates recovering and device availability improving. Group EBIT increased 2% sequentially in the June quarter of 2024, largely reflecting strong mask sales and solid profitability being maintained. We think widespread adoption of weight loss drugs will take time, given the high cost, limited supply, and side effects. Obesity is also just one risk factor for sleep apnea, and many sleep apnea patients who experience weight loss stay obese. In most cases, they will likely still benefit from a Cpap device.
Price	**Fair Value**	**Uncertainty**	
AUD 35.17	AUD 40.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 51.85	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Ansell (ANN)		★★★	We expect Ansell's margin pressures to abate with customer inventory levels largely normalizing. A productivity program is set to deliver over USD 50 million of cost savings by fiscal 2026, over 25% of fiscal 2024 EBIT. Employee expenses are falling through automation in packaging and streamlining management. Due to Ansell's narrow moat based on intangible assets, we see limited competitive pressure. We forecast gross margin expansion as Ansell "insources" more manufacturing, better utilizes its facilities, and improves the sales mix. Ansell also acquired Kimberly-Clark's Personal Protective Equipment business, which strengthens the group's product differentiation and provides greater exposure to higher-margin product categories.
Price	**Fair Value**	**Uncertainty**	
AUD 31.69	AUD 33.50	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 4.64	Narrow	Exemplary	

Source: Morningstar. Data as of Sept. 30, 2024.

Industrials

Esther Holloway | esther.holloway@morningstar.com

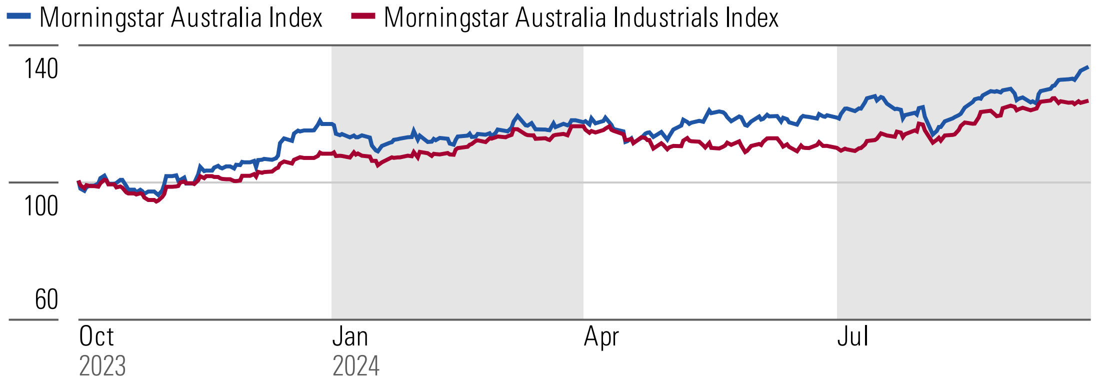
Waiting for Lower Cash Rates to Lift Demand

Industrials stocks are slightly overvalued on average, with about half trading in 3-star territory and a scattering on either side of this. We expect near-term pain for our cyclical building product coverage as recent cash rate drops in the US and New Zealand take a while to work through the system, and we await a rate cut in Australia. To this end, we expect earnings to be stronger in 2025 for residential exposed building product companies, including Fletcher Building, James Hardie, Reliance Worldwide, Reece, and BlueScope Steel.

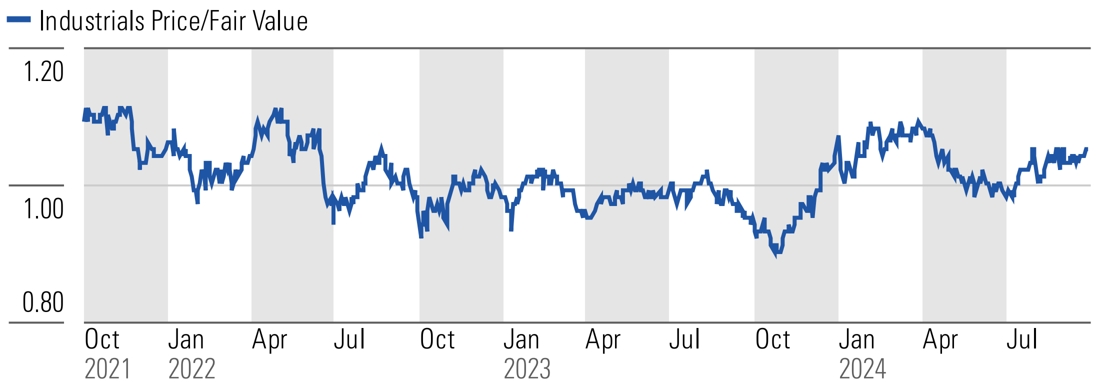
Less exposed to cyclicality is wide-moat Brambles. Brambles' key end-use is the movement of fast-moving consumer goods, demonstrating consistent demand through the economic cycle with volumes flat on the prior year. Thus, fiscal 2024 revenue growth of 7% was mostly from price increases, with most contracts allowing for regular price increases and inflationary claw-backs. Underlying EBIT growth of 17% reflected impressive productivity and scale benefits. We expect a similarly strong fiscal 2025 with margin improvement from scale benefits and digitization. Our long-run revenue CAGR estimate of about 6% is derived from a combination of price, volume, and new business.

Logistics companies Qube and Aurizon reported strong earnings growth in fiscal 2024, and we expect further, albeit more modest, growth in 2025 as economic conditions remain supportive. Atlas Arteria had a tough quarter, in which it reported soft earnings, lost a legislature appeal against the new infrastructure tax in France, and had the regulator knockback its request for a big toll increase at the troubled Dulles Greenway. Larger peer Transurban is performing better, with no nasty surprises and solid organic growth underpinned by population growth and mostly CPI-linked tolls.

Industrials Sector Lags the Index



Industrial Stocks Slightly Overvalued



Source: Morningstar. Data as of Sept. 30, 2024.

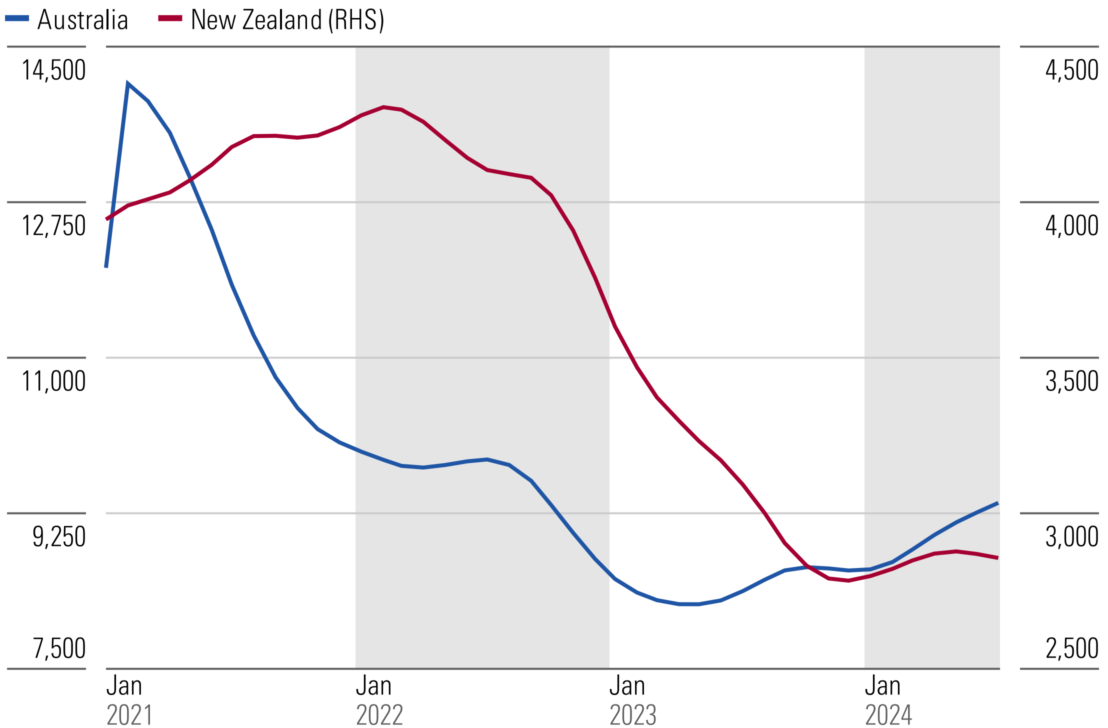
Waiting for Lower Cash Rates to Lift Demand

New house approvals are almost half that of their pandemic-induced highs. While we have seen a modest improvement over the year to date in Australia, New Zealand's approval volumes are undulating. But we expect near-term recoveries as rates fall.

Coal exports are steadily recovering as mines dry out following heavy rainfall in recent years. This recovery should boost Aurizon's haulage volumes and support pricing by absorbing overcapacity in the market.

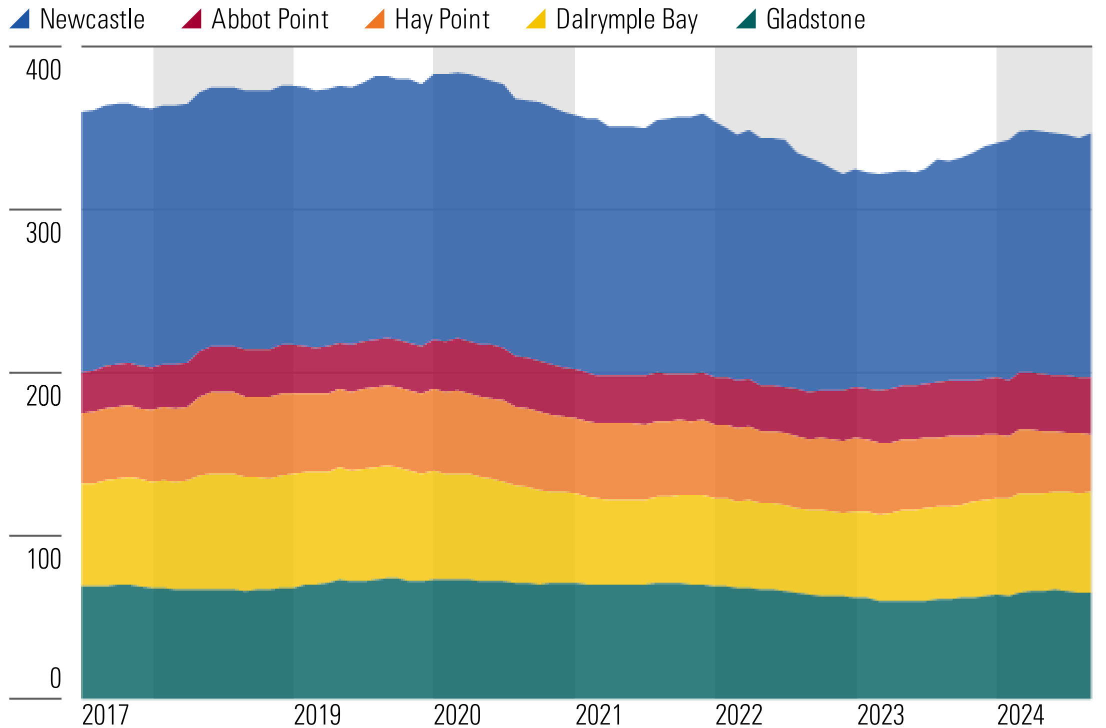
Glimpses of a Recovery in Residential Sector

Housing approvals Australia and New Zealand (trend).



Coal Exports Steadily Recovering

Coal exports from Australia's main ports (trailing 12 months, million metric tons).



Source: Australian Bureau of Statistics, Stats NZ. Data as of Sept. 2, 2024 (left). North Queensland Bulk Ports, Gladstone Ports, Port of Newcastle. Data as of Aug. 31, 2024 (right).

Industrials

Company (Ticker) Aurizon Holdings (AZJ)		**Rating** ★★★★	The shares of Aurizon offer an attractive yield underpinned by defensive rail infrastructure and haulage operations. Considerable downside is priced into the shares, and our analysis suggests that risks skew to the upside for investors. Haulage volumes were weak in recent years because of wet weather, but the outlook is for volumes to recover and haulage tariffs to rise with the Consumer Price Index. We think environmental concerns are overblown, providing an opportunity. Aurizon largely hauls coking coal from globally competitive mines, and a large-scale commercial alternative to coking coal for virgin steelmaking is a long way off.
Price AUD 3.51	**Fair Value** AUD 4.50	**Uncertainty** Medium	
Market Cap (bil) AUD 6.50	**Economic Moat** Narrow	**Capital Allocation** Standard	
Company (Ticker) Brambles (BXB)		**Rating** ★★★★	As the world's largest supplier of reusable wooden pallets, Brambles is generally the market leader in 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, fast-moving consumer goods 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 AUD 18.64	**Fair Value** AUD 22.00	**Uncertainty** Medium	
Market Cap (bil) AUD 26.50	**Economic Moat** Wide	**Capital Allocation** Exemplary	
Company (Ticker) Amcor (AMC)		**Rating** ★★★	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 AUD 16.42	**Fair Value** AUD 17.80	**Uncertainty** Medium	
Market Cap (bil) AUD 23.67	**Economic Moat** Narrow	**Capital Allocation** Standard	

Source: Morningstar. Data as of Sept. 30, 2024.

Real Estate

Winky Tan | yingqi.tan@morningstar.com

Inflection Point Nearly in Sight

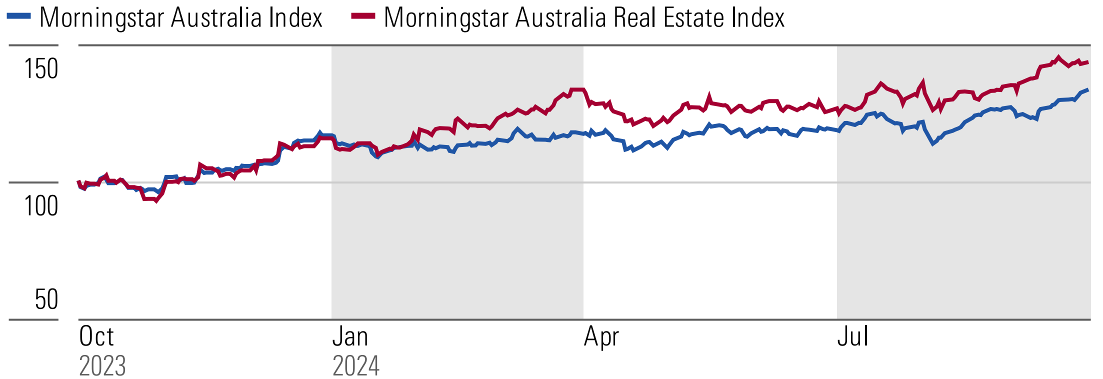
Australia's 10-year government bond yields fell modestly in the quarter as inflationary pressures waned and major global central banks started cutting rates. As a bond proxy, Australian REITs rose, and the sector is now close to fairly valued. Most REITs we cover had solid results and reasonable outlooks in the August earnings season.

We expect solid rental growth in retail. Given the resilient consumer demand, high-quality retail REITs like Scentre and Vicinity had robust June-half leasing results. Specialty occupancy costs (tenants' lease expenses divided by sales) are below 2019 levels, suggesting rents are manageable for tenants and landlords can get further rent increases.

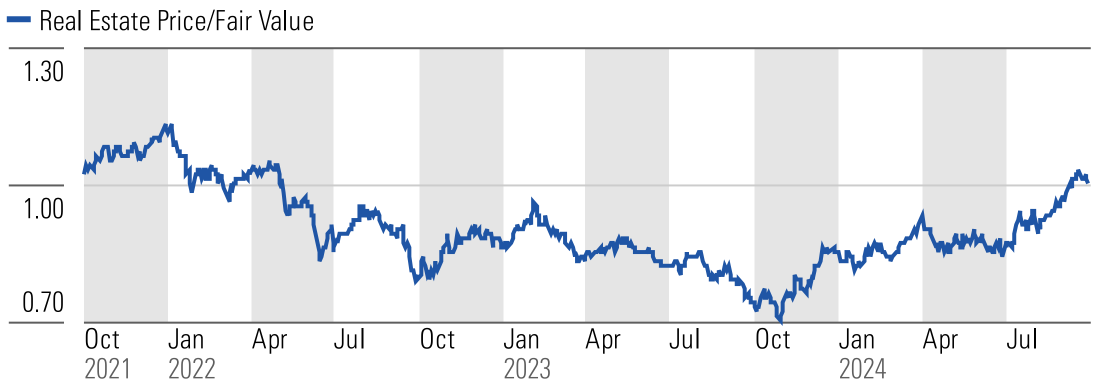
Occupancy for secondary-grade offices is at a decade low, but premium and A-grade buildings are resilient. This bifurcation is driven by hybrid working, which reduces demand for office space per employee and allows more tenants to relocate to higher-grade, better-located offices with superior amenities. High-quality office portfolios, such as those owned by GPT and Dexus, are well-prepared to weather the cyclical downturn.

Industrial properties still benefit from long-term tailwinds like population growth and e-commerce growth. Despite increasing speculative development, tenant demand remains robust, and vacancies are still low. We expect strong rent growth for industrial REITs in the next 12 months.

Australian REITs Outperformed so far in 2024



Our REIT Coverage Is Close to Fairly Valued After Strong Recovery



Source: Morningstar. Data as of Sept. 30, 2024.

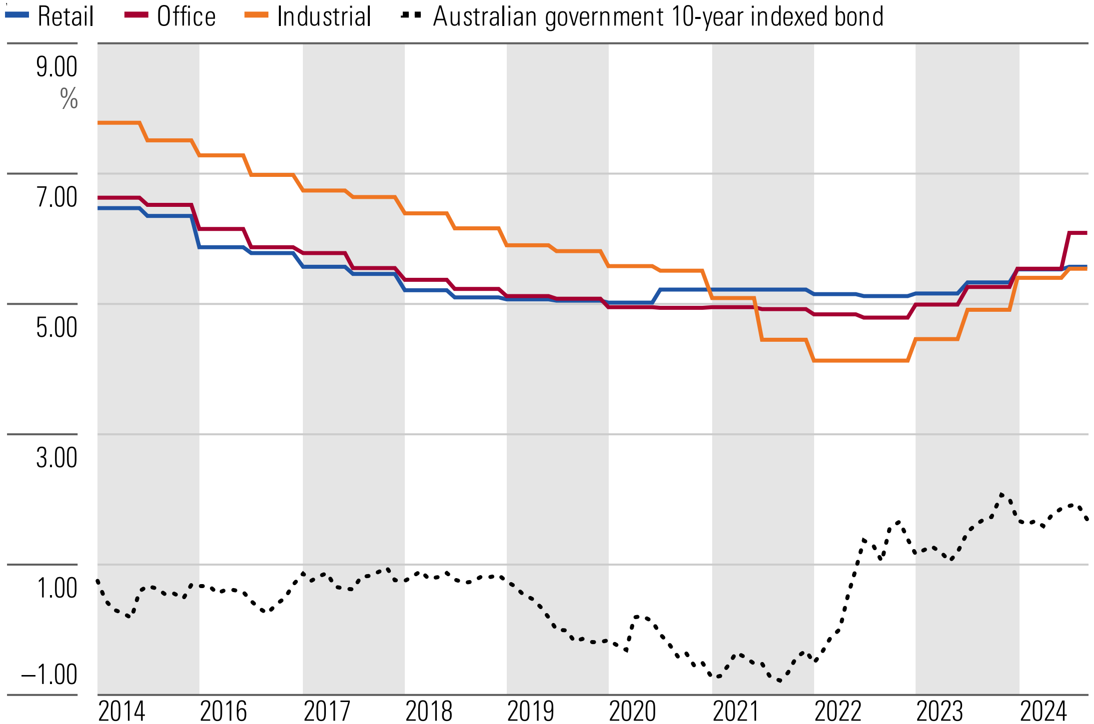
Inflection Point Nearly in Sight

The spread between capitalization rates and bond yields is nearly back to 10-year averages. In the next 12 months, we expect relatively stable values for retail and industrial properties as modestly higher cap rates are offset by rent growth.

Listed REITs have traded below their net tangible assets for some time as investors worried about rising interest rates. REITs with substantial intangible businesses, not captured in the NTA, look relatively cheap including Dexus, GPT, Mirvac, and Scentre Group.

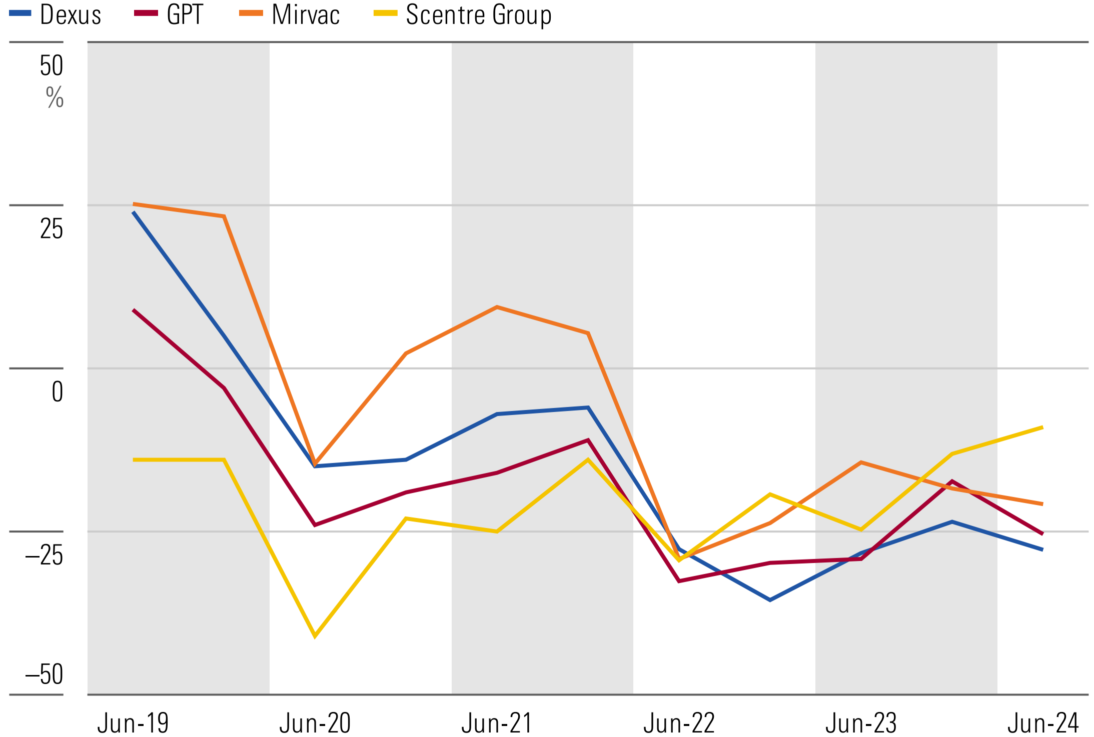
Retail and Industrial Property Values Stabilizing

Capitalization rates compared with Australian 10-year government CPI-indexed bond.



Closing the Gap to Net Tangible Assets

Premium/discount to NTA.



Source: RBA, Company filings, Morningstar. Data as of June 30, 2024.

* Retail – Scentre Group (or Westfield Retail Trust before June 2014), Vicinity (or Federation Centres prior to October 2015). Office – GPT, Dexus. Industrial – Goodman, Centuria Industrial REIT.

Real Estate

Company (Ticker) Dexus (DXS)		**Rating** ★★★★	Dexus trades at a material discount to net tangible assets, which doesn't include the intangible value of the group's fund management business. Management operations contributed 28% of adjusted funds from operations in fiscal 2024, up from 14% in fiscal 2022. Dexus missed out on acquiring some AMP mandates, but we see this as a short-term setback and expect fund management contributions to grow. Meanwhile, Dexus' office portfolio looks to be stabilizing with lockdowns in the past and tighter financial conditions curtailing future office supply. We expect higher interest rates to weigh on office valuations, but not as much as implied by Dexus' security price. The group's industrial properties, about 20% of its portfolio, are performing well and are likely underappreciated by a market that views Dexus as purely an office play.
Price AUD 7.59	**Fair Value** AUD 10.60	**Uncertainty** Medium	
Market Cap (bil) AUD 8.15	**Economic Moat** Narrow	**Capital Allocation** Standard	
Company (Ticker) The GPT Group (GPT)		**Rating** ★★★★	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, but GPT's office occupancy was 92.4% at the end of June 2024, including nonbinding tenant agreements, up from 88.5% in June 2023. Its retail and industrial portfolios are nearly 100% occupied, with first-half rental growth strong. We believe GPT Group's industrial rents are below market, and in retail, GPT Group's centers achieved strong first-half sales growth, implying scope for more rent in both segments. GPT trades at about a 25% discount to net tangible assets of AUD 5.36 per security, which ignores the value of the fund management business. GPT increased funds under management to AUD 22 billion in June 2024, up from 13 billion in 2019.
Price AUD 5.05	**Fair Value** AUD 5.55	**Uncertainty** Medium	
Market Cap (bil) AUD 9.54	**Economic Moat** None	**Capital Allocation** Standard	
Company (Ticker) Charter Hall Group (CHC)		**Rating** ★★★	About half of Charter Hall's EBITDA is from funds management. Higher interest rates hurt performance and transaction fees, which more than halved in fiscal 2024, while base management revenue fell slightly on negative revaluations. However, we expect Charter Hall to reap longer-term inflows given its focus on long-lease assets, strong track record, and as international investors seek local expertise. Its property funds under management grew 20% annually between fiscal 2019 and fiscal 2024, and the development pipeline will likely add more growth. Charter Hall has minimal debt on its own balance sheet. Look-though gearing—net debt/assets including debt in its funds—is higher at 38%, and while near-term conditions look tough, we think Charter Hall is well-prepared.
Price AUD 16.12	**Fair Value** AUD 16.60	**Uncertainty** Medium	
Market Cap (bil) AUD 7.55	**Economic Moat** Narrow	**Capital Allocation** Exemplary	

Source: Morningstar. Data as of Sept. 30, 2024.

Technology

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

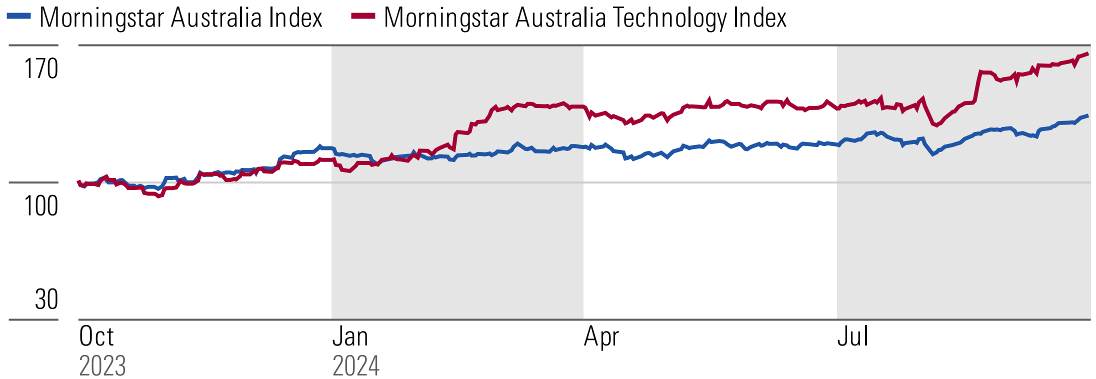
Australian Software Companies Resilient to Competition From Artificial Intelligence

The technology sector has performed well in the past couple of years and now appears fairly valued. ASX-listed software firms held up well after full-year results and fiscal 2025 guidance. In contrast, US software stocks have sold off on fears that artificial intelligence investment is crowding out software. This narrative has been strengthened by anecdotes from leading technology firms, such as Klarna, which have used generative AI to develop in-house software to replace their key software providers, such as Salesforce and Workday.

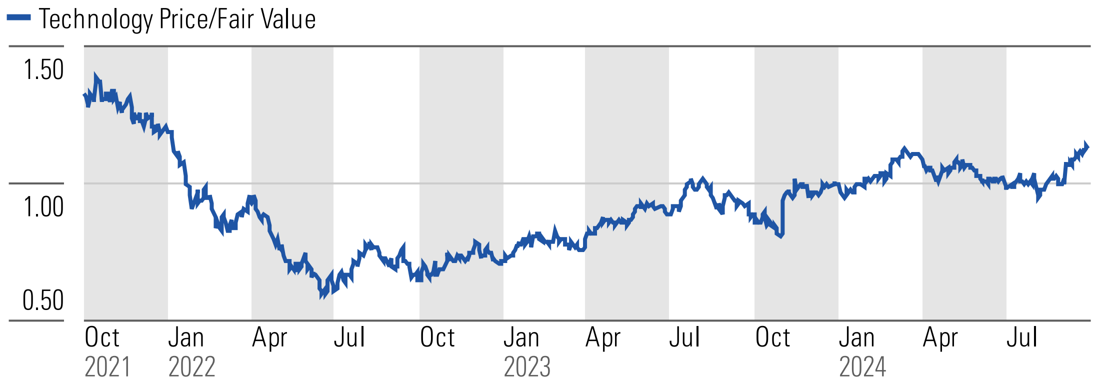
But major ASX-listed software companies report stable demand and have not sold off. We expect stable medium-term demand given most are vertical software companies focused on specific industries, whereas the US companies mentioned are more generic.

The products of the companies under our Australian coverage are typically more complex and mission-critical to driving customer outperformance. Demand here is less discretionary and thus less susceptible to competition for budgets from AI investment. Instead, the companies under our coverage, such as WiseTech, typically generate their own demand. This takes the shape of investment cycles into new features and products being rapidly adopted by customers, as it helps them boost productivity in their core operations. Our covered companies also typically have a niche in specific industries, such as TechnologyOne for local government and education providers and Fineos for insurance carriers. This suggests any new technological innovations will, more likely than not, come from these companies themselves.

Technology Sector Outperforming



Sector Screens as Fairly Valued Overall



Source: Morningstar. Data as of Sept. 30, 2024.

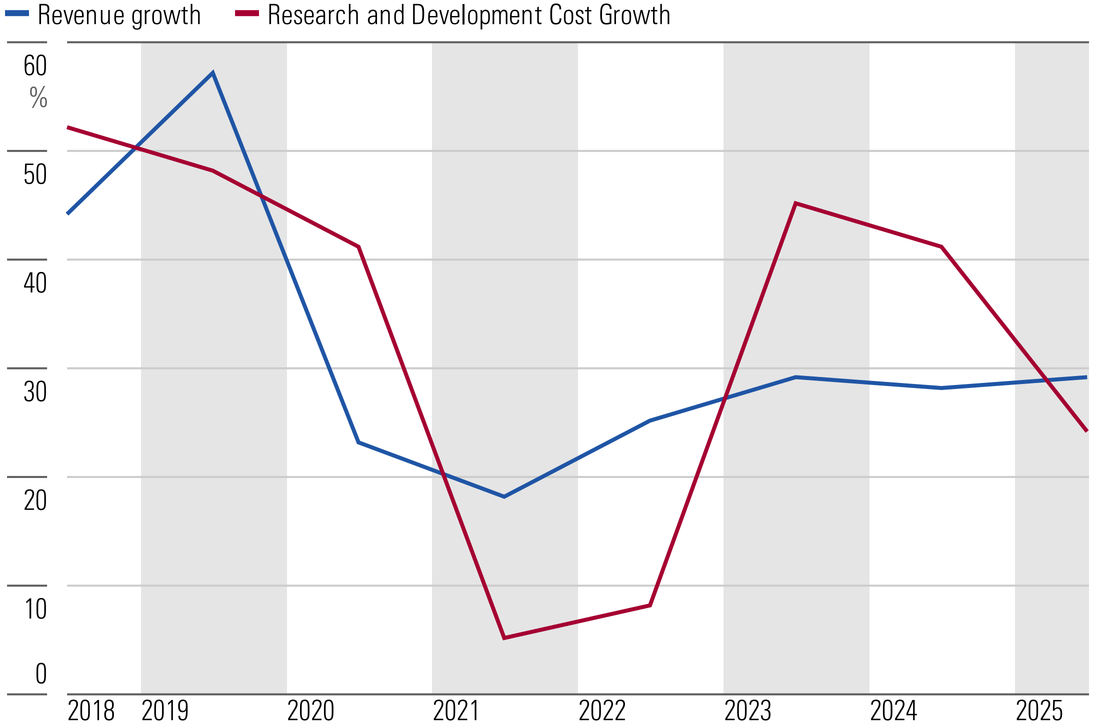
Australian Software Companies Resilient to Competition From Artificial Intelligence

As the dominant productivity software for the logistics sector, WiseTech's revenue growth is an output of investment in research and development. Investment slowed in 2021-2022 due to inflated wages and reaccelerated in 2023-24 as wages subsided.

Growth in Fineos' product development spend is slowing as implementation work with some large clients is complete. We believe it's better positioned to increase margins as capabilities can be deployed across multiple clients without substantial costs.

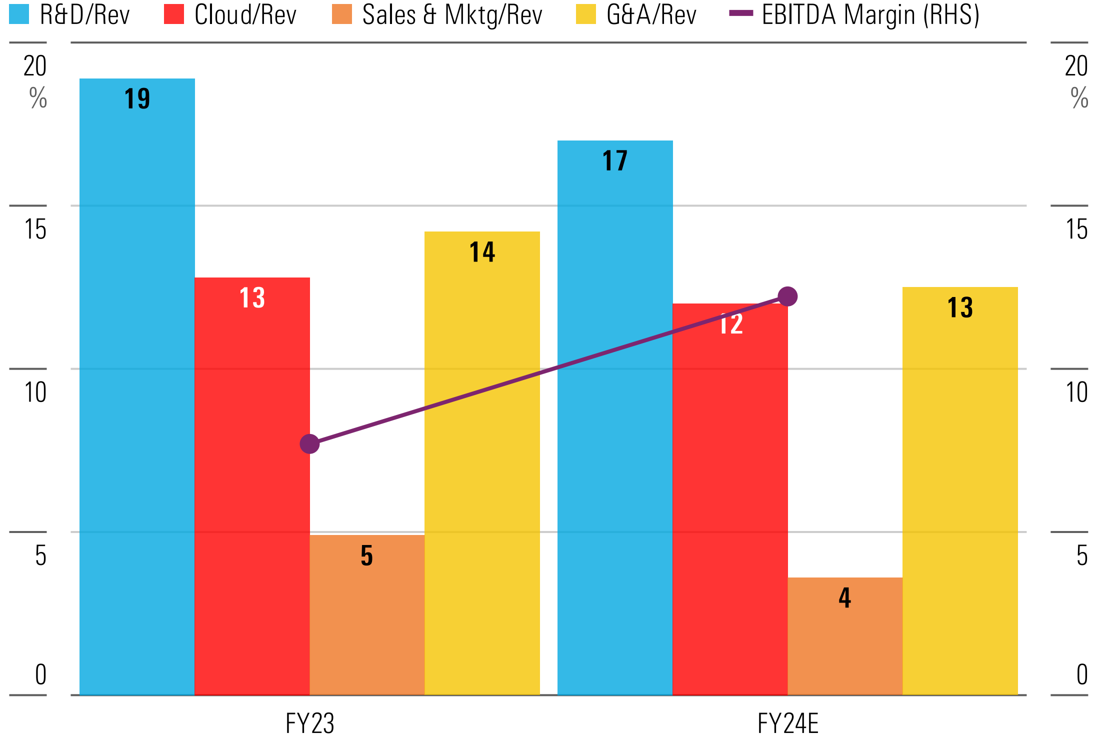
WiseTech's Revenue Growth Follows its Investment Cycles into Product

Annual growth rates in revenue and product design for WiseTech.



Fineos Expected to Improve Margins; AI a Larger Threat to Generic Providers

Fineos' expenses as a proportion of revenue and profit margins.



Sources: Morningstar; company filings.

Technology

Company (Ticker)		Rating	
Fineos (FCL)		★★★★★	Wide-moat Fineos offers compelling investment merits that distinguish it from many profitless technology companies. The company's path to profitability was reaffirmed by recent results, with EBITDA turning positive, revenue growth picking up pace, and positive free cash flow generation. Fineos is well-positioned to capitalize on the growing adoption of cloud software by insurers, supported by long-standing customer relationships and increasing client stickiness. The firm's reinvestments solidify switching costs, help win new business, and maintain its lead over competitors. Fineos' shift to a cloud-based model is driving margin expansion, with subscription revenue now comprising more than half of total revenue. We expect ongoing earnings growth, supported by increased adoption of its cloud-based products, new client acquisitions, and cost efficiencies, all of which underpin our view that the shares are materially undervalued.
Price	**Fair Value**	**Uncertainty**	
AUD 1.35	AUD 3.10	Very High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 0.47	Wide	Standard	
Company (Ticker)		**Rating**	
SiteMinder (SDR)		★★★★	We believe Siteminder is a well-positioned industry-leader, likely to win its large market opportunity. We expect the channel manager industry to consolidate around scaled providers, like Siteminder, who 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 6.20	AUD 10.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 1.76	Narrow	Exemplary	
Company (Ticker)		**Rating**	
Pexa Group (PXA)		★★★★	We believe the market is overly focused on wide-moat Pexa's costly expansion into the UK and overlooks the strength of Pexa's Australian exchange business. Pexa's Australian exchange business 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 14.90	AUD 17.25	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 2.63	Wide	Exemplary	

Source: Morningstar. Data as of Sept. 30, 2024.

Utilities

Adrian Atkins | adrian.atkins@morningstar.com

Solid Electricity Prices Support the Outlook for Most Utilities

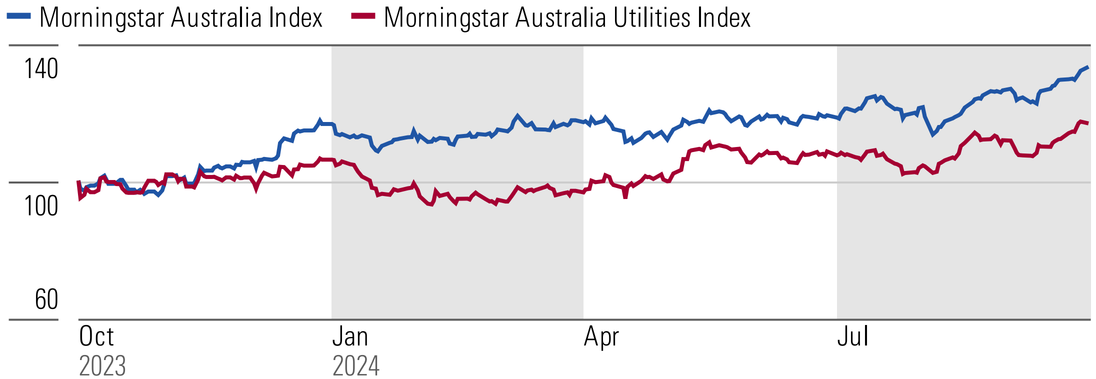
Utilities underperformed the broader market in the quarter and are slightly undervalued on average. Our top picks are APA Group, NZ-listed Manawa Energy, and AGL Energy.

Fiscal 2024 results were strong. While earnings are likely to moderate in 2025, the medium-term outlook is solid as electricity futures prices remain relatively high, partly given fears of gas shortages in southern states. Additionally, high electricity prices are needed to incentivize massive investment in the renewable transition. We think AGL Energy should benefit from large, low-cost coal power stations and a cheap coal supply.

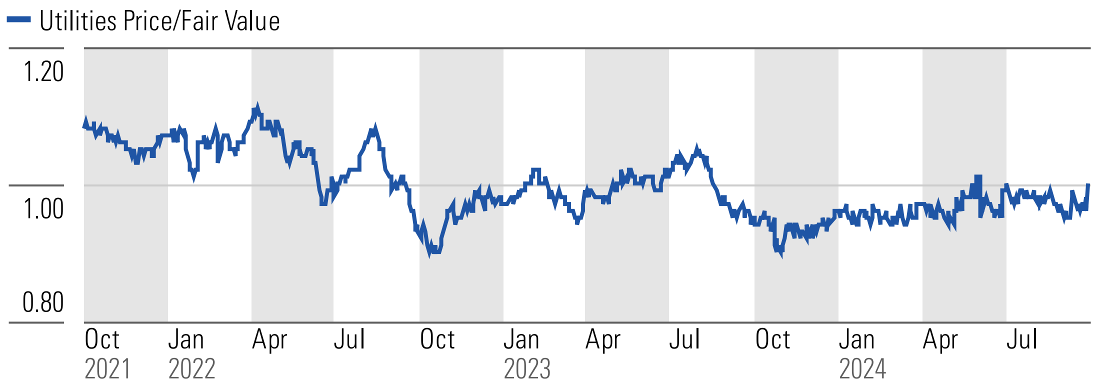
Wholesale electricity prices in New Zealand are worryingly high as dry weather and gas supply issues curtail hydroelectric and thermal generation. This could present opportunities for some, but those with insufficient generation will be forced to buy expensive backups to cover contracted sales. The biggest losers will likely be electricity users, who will also be stung by planned increases to distribution network tariffs. Our top pick in NZ, Manawa Energy, recently received a mostly scrip takeover offer from larger peer Contact Energy. We support the merger, but the competition regulator may be reluctant to even marginally lessen competition amid an energy crisis.

The share price of gas pipeline owner APA Group has been under pressure in recent years because of a dilutive acquisition, rampant operating cost inflation, and rising debt costs. We think operating and debt costs should soon stabilize, allowing earnings growth to improve. APA Group looks undervalued, offering a yield of over 7%.

Australian Utilities Lag the Benchmark



ANZ Utilities Are Fairly Valued on Average



Source: Morningstar. Data as of Sept. 30, 2024.

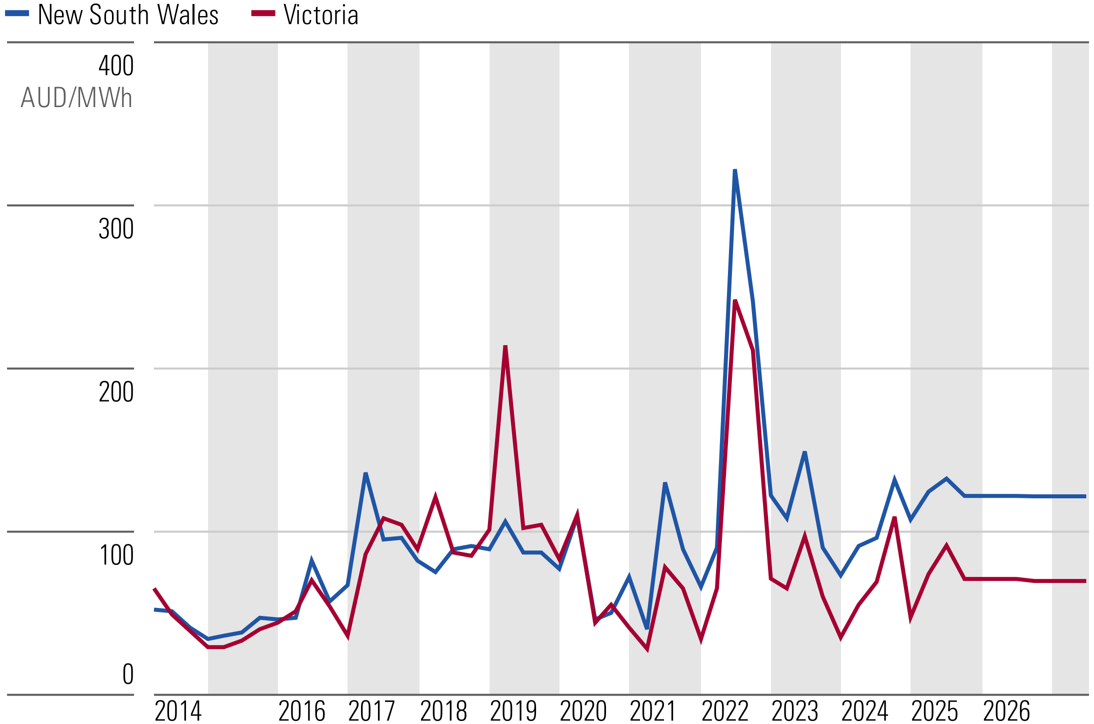
Solid Electricity Prices Support the Outlook for Most Utilities

Australian utilities have favorable medium-term outlooks, underpinned by relatively high electricity futures prices. AGL Energy's profit margins benefit more than competitors because it has cheap coal supply locked in.

Bond yields have eased lower during the past couple of years, suggesting the earnings headwind from rising debt costs is abating. This is good news for infrastructure stocks like APA, which carry heavy debt loads.

Solid Futures Prices Support Utility Earnings

Quarterly wholesale electricity prices (AUD per megawatt hour).



Headwind from Higher Bond Yields Easing

Yields on 5-Year BBB corporate bonds.

Source: ASX Energy. Futures as of Sept. 16, 2024 (left). Bloomberg, Reserve Bank of Australia. Data as of Aug. 31, 2024 (right).

SECTOR TOP PICKS

Utilities

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 CPI-linked contracts, with earnings benefiting from elevated inflation. We also expect earnings to benefit from diverting more sales to tight wholesale markets as lower-priced contracted volumes progressively reduce in the medium term. The stock offers a decent yield, fully imputed for New Zealand residents.
Price	**Fair Value**	**Uncertainty**	
NZD 4.95	NZD 6.10	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
NZD 1.56	Narrow	Standard	

Company (Ticker)		Rating	
APA Group (APA)		★★★★	Narrow-moat APA Group is a good-quality company with an attractive yield. We expect near-term revenue growth to pick up as elevated inflation boosts CPI-linked tariffs, and on completion of developments. APA Group should benefit from the transition to renewable energy. We expect ongoing investment in wind and solar farms while its core gas transmission networks benefit from growing gas use to back up intermittent renewable power supply. APA is also set to help remote mines in Western Australia replace diesel generators with a mix of solar panels, batteries, and gas turbines. This should reduce the mines' carbon emissions and operating costs.
Price	**Fair Value**	**Uncertainty**	
AUD 7.76	AUD 9.30	Medium	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 10.05	Narrow	Poor	

Company (Ticker)		Rating	
AGL Energy (AGL)		★★★	AGL Energy's recovery is gaining traction and the rebound in electricity prices of the past two years should underpin a strong fiscal 2024 earnings recovery. Also, the planned early closure of coal power stations alleviates ESG concerns and allows continued bank support. As one of Australia's largest generators and retailers of electricity, we see substantial long-term value. We expect slowing renewable energy supply additions, the closure of coal power stations, and high gas costs to support electricity prices, which benefits earnings. Caps on domestic gas and coal prices have reduced electricity futures prices, but they're still conducive to a strong earnings rebound.
Price	**Fair Value**	**Uncertainty**	
AUD 11.98	AUD 12.00	High	
Market Cap (bil)	**Economic Moat**	**Capital Allocation**	
AUD 7.96	None	Poor	

Source: Morningstar. Data as of Sept. 30, 2024.

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

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

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

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

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

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

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

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

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

Conflicts of Interest
- No interests are held by the analyst with respect to the securities subject of this investment research report.
- Morningstar, Inc., may hold a long position in the securities subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, 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.