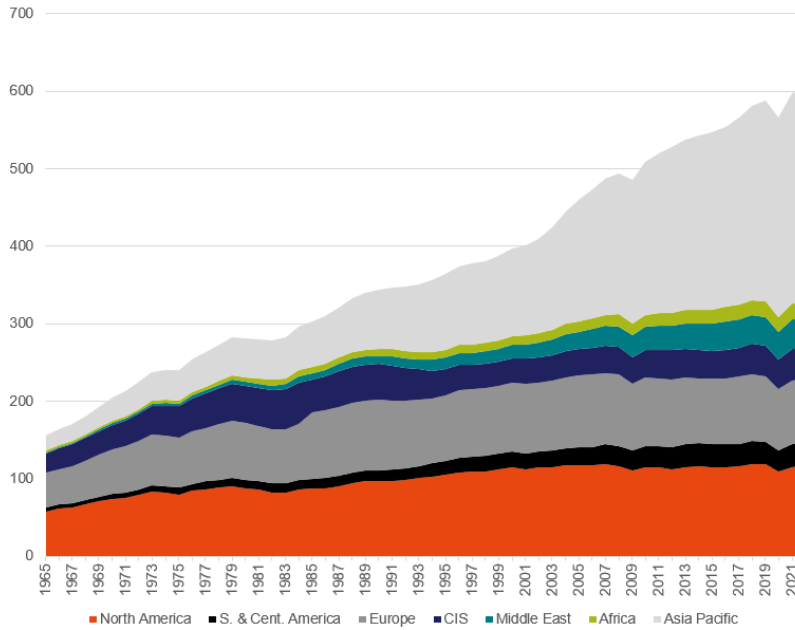




Net zero is going to be a long road

- Global energy consumption rises at 2%pa – that doesn't look like changing anytime soon

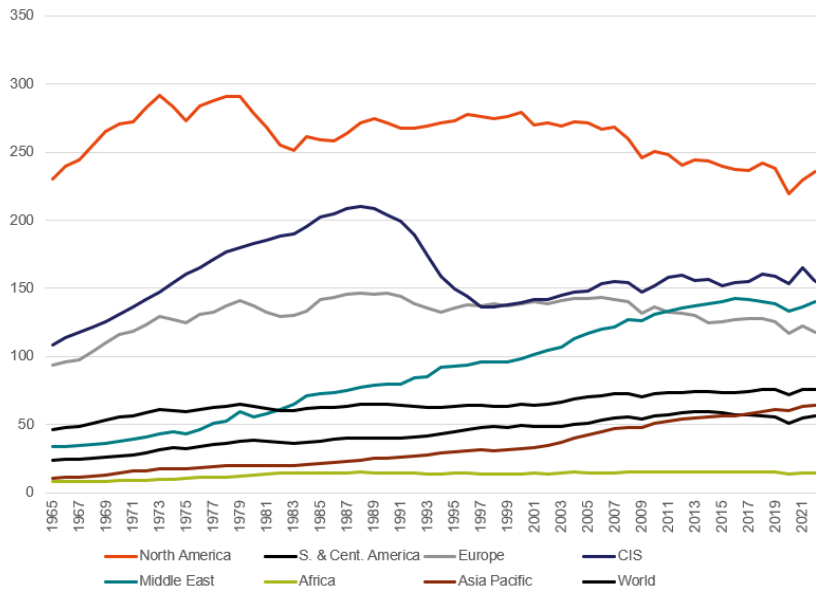
Global Energy Consumption - EJ



- Global energy consumption has increased from 225EJ to 605EJ in the past 50 years, CAGR of 2% per annum
- The growth has been relative consistent and steady – you can note the dips for the GFC in 2008/09 and Covid in 2020
- Optimistic forecasts on carbon emissions have energy consumption peaking today
- Why wouldn't energy consumption continue to grow? Driven by population growth and rising living standards in the developing world.

- Growth is being driven by emerging Asia – China, India, Indonesia
- Australia's impact is ludicrously insignificant, we're just fiddling at the edges
-

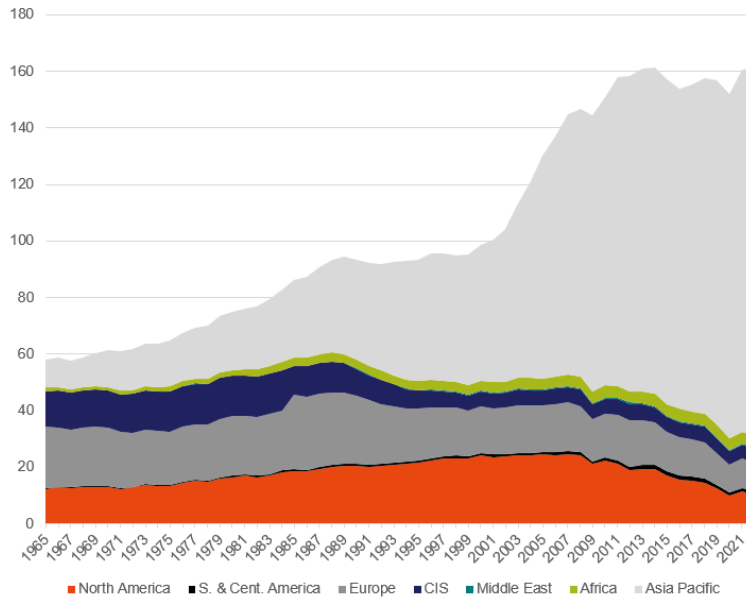
Energy Consumption per capita (GJ)



- OECD energy consumption per capita is trending down
- Overall World consumption per capita is slowly rising
- Asia Pacific is increasing off a low base. China now at 112GJ but India only at 26GJ and Indonesia at 36GJ per capita
- Africa remains the laggard – only 14GJ per capita and no signs of increasing in past 50 years

- Look at Africa; Per capita energy consumption has flat-lined for 50 years
- Coal consumption continues to grow – driven by China. India is about to take up the growth mantle.

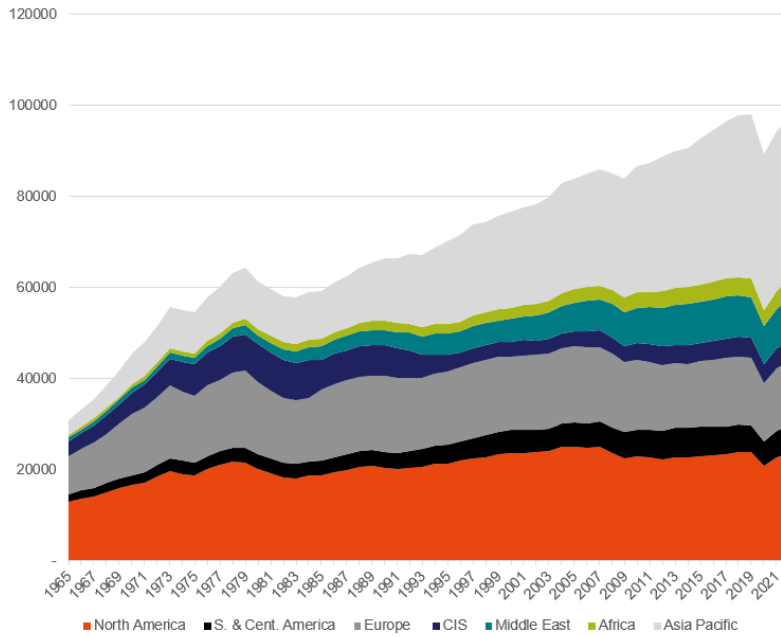
Coal Consumption (Exajoules)



- Coal consumption took off in 2001 – it was all about China
- China now produces and consumes over half the world’s coal – 88EJ
- Consumption in India and Indonesia is also rising. India now at 20EJ and Indonesia at 5EJ.
- For comparison, Australia is very dependent on coal but we only consume 1.5EJ of coal per annum
- Coal consumption has fallen in virtually every other jurisdiction

- Oil consumption is continuing to grow – EV’s not yet having a noticeable impact

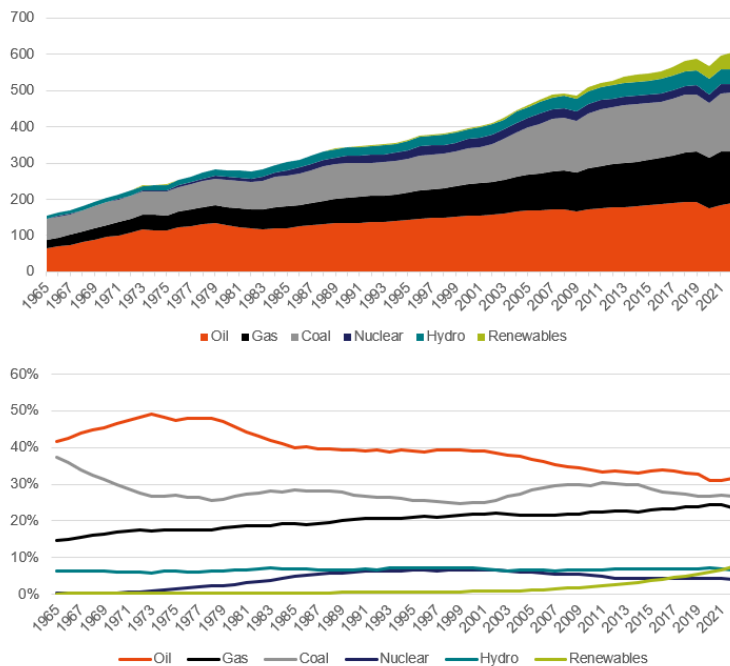
Oil Consumption (kbbls)



- Apart from the oil shock in the 1970s, the GFC and Covid – oil consumption has consistently increased
- We are hitting record levels of demand in 2023. The IEA recently reported we’ve now exceeded 100m bbl/d of demand.
- The growth is almost entirely in developing Asia – China, India, Indonesia
- Are we now at peak oil? Or is that wishful thinking?
- We might be close to peak, but it doesn’t look like demand is going to fall even with the rise of EVs

- Renewable energy is growing fast. Very Fast. But it will still take decades to replace fossil fuels which represent over 80% of global energy consumption.

Global Energy Mix – total consumption by fuel (EJ) and share (%)



- Fossil fuel usage has been growing steadily for the past 50 years. Fossil fuel share of global consumption has only reduced from 86% in 2000 to 82% today.
- Renewable penetration is growing extraordinarily fast. Renewable share has gone from 1% in 2000 to 7% today
- Wind and solar have now overtaken nuclear and hydro
- Despite the fast growth in renewables, it is going to take decades to replace fossil fuels with wind and solar.

Shaw and Partners
an EFG company

- Global CO2 emissions continue to rise. We are NOT on a pathway to net-zero.
- The best way of reducing CO2 emissions is to turn off coal and turn on gas – the North Americans are doing it.

Oil

The IEA released its latest Oil Market Report last week and has highlighted that oil demand has reached a record high.

With demand strong and supply constrained, it is no surprise that oil prices are rising. That trend is likely to continue and it is possible that prices head through US\$100/bbl again.

<https://www.iea.org/reports/oil-market-report-august-2023>

Key points from the report include:

- World oil demand is scaling record highs, boosted by strong summer air travel, increased oil use in power generation and surging Chinese petrochemical activity. Global oil demand is set to expand by 2.2 mb/d to 102.2 mb/d in 2023, with China accounting for more than 70% of growth.

- Global oil supply plunged by 910 kb/d to 100.9 mb/d in July. A sharp reduction in Saudi production in July saw output from the OPEC+ bloc fall 1.2 mb/d to 50.7 mb/d, while non-OPEC+ volumes rose 310 kb/d to 50.2 mb/d. Global oil output is projected to expand by 1.5 mb/d to a record 101.5 mb/d in 2023, with the US driving non-OPEC+ gains of 1.9 mb/d. Next year, non-OPEC+ supply is also set to dominate world supply growth, up 1.3 mb/d while OPEC+ could add just 160 kb/d.
- Global observed oil inventories declined by 17.3 mb in June, led by the OECD. Non-OECD stocks and oil on water were largely unchanged. OECD industry stocks fell by 14.7 mb, in line with the seasonal trend, to 2 787 mb. Industry stocks were 115.4 mb below the five-year average, with product inventories particularly tight. Preliminary data suggest global inventories drew further in July and August.

Coal

China has been taking advantage of the weaker international coal prices to import coal from Indonesia, South Africa and Australia with imports surging 89% year-to-date. The resumption of imports from Australia has seen 5.45mt imported from Australia in July, up from zero in December 2022. Demand in China is being driven by relatively low hydro-power output.

The IEA recently released its latest [Coal Market Update](#). Key points and charts from the update include:

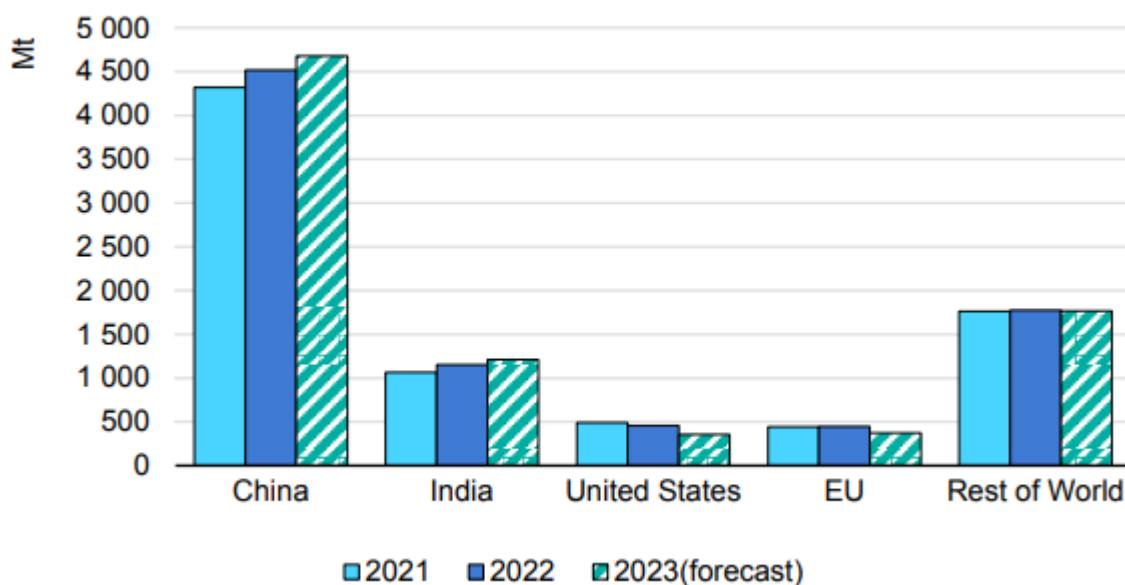
- **Global coal demand reached a new all-time high in 2022**, rising above 8.3bt. Coal fired electrical power reached a new record global high of 10,440 TWh, representing 36% of the world's electricity generation, up one percentage point compared to 2021. In addition, final 2021 demand numbers for coal were revised upward, particularly in China, meaning that 2022's increased demand was coming off an even higher base.
 - In China, coal demand grew by 4.6% in 2022 to a new all-time high of 4,519 Mt.
 - India's coal demand increased by more than 8% to a total 1,155 Mt, becoming the second country after China to cross the 1.1bt mark.
 - US demand fell 7% to 457Mt as the US continued to switch to gas fired power, renewed its nuclear industry and invested in renewables.
 - EU demand increased 0.9% to 448Mt as coal-fired power replaced Russian gas.
 - Indonesia demand soared 36% to 201Mt surpassing 200Mt for the first time – Indonesia is now the 5th largest coal consumer behind China, India, the US and Russia.
 - For comparison, Australia's coal consumption for electricity generation was about 53Mt in 2022.
- Global coal demand continues to grow and is up 1.5% in the first half of 2023 to 4,655Mt with 1% growth in power generation and 2% in non-power. Growth in China, India and Indonesia is more than offsetting declines in the US, EU and Japan.

- China’s coal demand increased by about 5.5% in the first half of 2023. In total, China’s coal demand in 2023 is expected to grow by about 3.5% to 4,679 Mt, with demand from the power sector up 4.5% and demand from non-power uses growing by 2%.
- India’s coal demand grew by about 5.5% in the first half of 2023. The IEA expect a total increase of 5% for the year, totalling 1,212Mt.
- Global coal supply is also hitting record highs, which is what is keeping prices subdued. Supply was up 8% in 2022 to a record 8,634Mt with the world’s three largest producers – China, India and Indonesia – all reaching all-time highs in 2022. Australian production was down 3% in 2022 to 451Mt (about what China produces in one month).

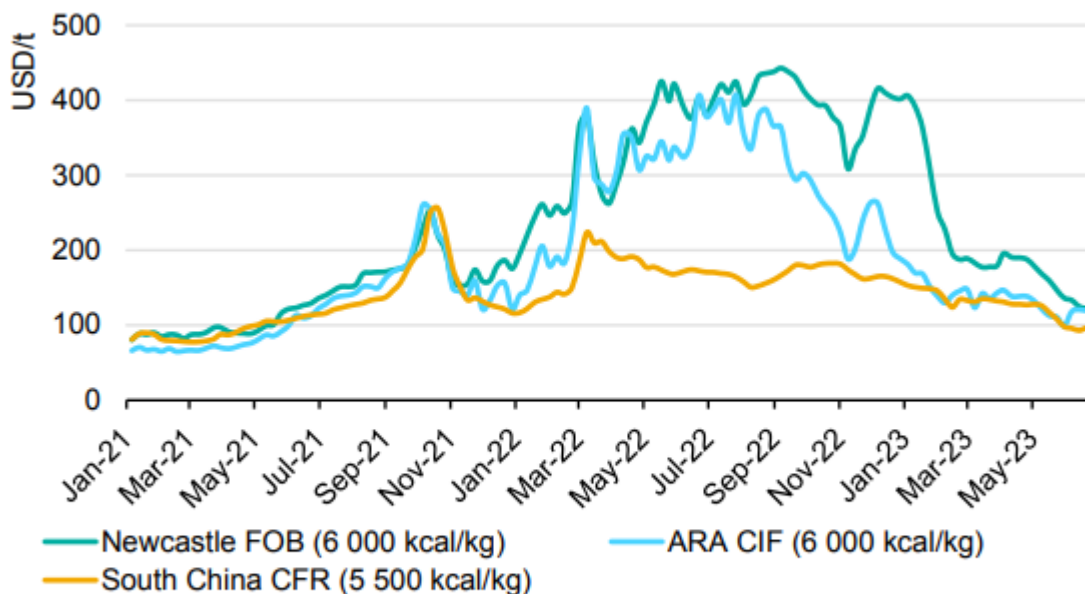
Coal prices (both thermal and coking) appear to have found a floor in June this year with thermal bottoming at US\$124/t (Newcastle 6,000 kcal/kg) and now at US\$144/t, and coking bottoming at US\$229/t (premium HCC) and now at US\$253/t. We recommend staying long the energy stocks and expect coal prices to rise through 2H23 as we approach the northern hemisphere winter.

The other obvious point to make from the above is that the globe is NOT on a pathway to net-zero carbon emissions. Energy and climate policy settings in Australia need to carefully balance our obligations to show leadership on reducing emissions, without hurting our economy and driving power prices up. It is unlikely that we can achieve these objectives purely with renewables. The pathway to lower emissions is going to need replacement of coal with gas (as the US is doing) and with nuclear as a key baseload power source.

Global coal consumption, 2021-2023



Thermal coal price markers, 2021-2023



IEA. CC BY 4.0.

Note: ARA = Amsterdam Rotterdam Antwerp. FOB = free on board. CIF = cost, insurance and freight. CFR = cost and freight.

Source: Argus Media group. All rights reserved.

CSL

- CSL issued an above-consensus revenue growth guide a small beat for Ig sales and provided greater detail on the Behring business which concerned the market when FY24 profit guidance was issued in July – i.e. the cause of the fall from \$310.
- Behring: underpinned by continued robust underlying demand and diagnosis rates returning towards pre-Covid levels and a variety of other factors that were laid out in greater detail than previously.
- Vifor; management commentary that several initiatives are under way including preparing for tendering activity and the likely initiation of a "real-world" study.
- Aside from the entry of generics for Ferinject in Europe, the next major discrete catalyst for the shares will be the top-line result in early 2024 from the AEGIS-II trial for CSL112, a new plasma fraction which could potentially be used for secondary risk reduction in post heart attack patients.
- UBS have CSL's EPS rising from US\$5.39 in FY 23 to US\$12.19 in FY28. Given the revenues aren't forecast to rise at the same clip and the cash balance of US\$10.7b declines to US\$1.7 by then, one can assume they're projecting a strong buyback to reduce the number of shares on issue as well.
- Looks quite impressive for Australia's third largest company. Actual growth in a large Australian listed business

Highlights (US\$m)	06/21	06/22	06/23	06/24E	06/25E	06/26E	06/27E	06/28E
Revenues	10,310	10,562	13,310	14,990	16,515	18,400	20,460	22,083
EBIT (UBS)	3,130	2,927	3,657	4,368	5,063	6,012	7,137	7,825
Net earnings (UBS)	2,375	2,255	2,610	3,080	3,628	4,399	5,324	5,899
EPS (UBS, diluted) (US\$)	5.21	4.80	5.39	6.37	7.50	9.09	11.01	12.19
DPS (net) (US\$)	2.22	2.22	2.36	2.60	2.86	3.14	3.46	3.80
Net (debt) / cash	(3,998)	779	(10,679)	(9,503)	(8,024)	(6,214)	(4,046)	(1,647)
Profitability/valuation	06/21	06/22	06/23	06/24E	06/25E	06/26E	06/27E	06/28E
EBIT (UBS) margin %	30.4	27.7	27.5	29.1	30.7	32.7	34.9	35.4
ROIC (EBIT) %	25.8	22.3	17.4	15.2	17.2	19.9	22.7	23.7
EV/EBITDA (UBS core) x	27.8	27.6	25.4	19.4	16.7	13.9	11.6	10.3
P/E (UBS, diluted) x	40.6	42.8	36.5	27.9	23.6	19.4	16.0	14.5
Equity FCF (UBS) yield %	2.0	1.4	1.0	2.9	3.4	3.9	4.5	5.0
Dividend yield (net) %	1.0	1.1	1.2	1.5	1.6	1.8	2.0	2.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$ 272.80 on 15-Aug-2023 19:42:22 AEST

Telstra (TLS)

- TLS 2H23's result showed resiliency in Mobiles with Postpaid average revenue per user (ARPU) coming in slightly better than expected and EBITDA margins lifting 3.9ppts to 46.5% vs pcp
- FY24e DPS 18c-4.4% FF yield- (assuming 97% payout ratio) and slowly growing.
- UBS have lifted FY24e postpaid ARPU, from \$52.93/mth to \$53.14/mth.
- \$500m net cost out target by FY25e likely still achievable.
- TLS did highlight that cost inflation has been stickier. Key targets will be: i) announcement in late July ~472 headcount reduction in Corporate and Enterprise division (UBS est. could save ~\$70-90m); ii) decommissioning legacy infrastructure; and, iii) targeting use of AI in key processes by FY25e.
- FY24 guidance in line.

Highlights (A\$m)	06/20	06/21	06/22	06/23E	06/24E	06/25E	06/26E	06/27E
Revenues	23,710	21,558	21,277	23,210	23,904	24,291	24,760	25,196
EBIT (UBS)	3,872	3,016	2,929	3,268	3,945	4,350	4,677	5,164
Net earnings (UBS)	1,819	1,857	1,688	1,767	2,210	2,487	2,712	3,057
EPS (UBS, diluted) (A\$)	0.15	0.16	0.14	0.15	0.19	0.22	0.23	0.26
DPS (net) (A\$)	0.16	0.16	0.17	0.17	0.19	0.22	0.23	0.26
Net (debt) / cash	(15,330)	(13,011)	(9,942)	(10,155)	(10,694)	(10,269)	(9,746)	(9,222)
Profitability/valuation	06/20	06/21	06/22	06/23E	06/24E	06/25E	06/26E	06/27E
EBIT (UBS) margin %	16.3	14.0	13.8	14.1	16.5	17.9	18.9	20.5
ROIC (EBIT) %	12.3	9.5	9.8	11.2	13.4	14.6	15.9	17.8
EV/EBITDA (UBS core) x	6.4	6.7	7.7	7.5	7.0	6.6	6.3	6.2
P/E (UBS, diluted) x	23.1	20.3	27.4	27.8	22.2	19.7	18.1	16.1
Equity FCF (UBS) yield %	6.0	8.3	6.2	5.3	4.8	7.3	8.0	8.6
Dividend yield (net) %	4.5	5.0	4.2	4.0	4.5	5.1	5.5	6.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$ 4.25 on 16-Aug-2023

Aurizon (AZJ)

FY23 results

- Underlying EBITDA \$1,428m (in line with consensus, comprising Coal \$455m, Bulk \$214m Network \$813m and Corporate/Other -\$54m)
- Normalised NPAT \$367m, below consensus \$397m4
- EPS 19.9cps
- DPS 15.0cps, payout ratio 75%

- **GUIDANCE** FY24 EBITDA \$1,590-1,680m, Network, Coal, and Bulk segments all to grow FY24 EBITDA with Containerised Freight (included in Other) to be 'EBITDA neutral'

Highlights (A\$m)	06/20	06/21	06/22	06/23E	06/24E	06/25E	06/26E	06/27E
Revenues	3,065	3,019	3,004	3,360	3,677	3,871	4,005	4,090
EBIT (UBS)	909	903	875	754	996	1,093	1,127	1,115
Net earnings (UBS)	531	533	525	386	516	584	608	601
EPS (UBS, diluted) (A\$)	0.27	0.29	0.29	0.21	0.28	0.32	0.33	0.33
DPS (net) (A\$)	0.27	0.29	0.21	0.16	0.21	0.24	0.26	0.28
Net (debt) / cash	(3,578)	(3,589)	(3,049)	(4,823)	(4,707)	(4,684)	(4,581)	(4,491)
Profitability/valuation	06/20	06/21	06/22	06/23E	06/24E	06/25E	06/26E	06/27E
EBIT (UBS) margin %	29.7	29.9	29.1	22.4	27.1	28.2	28.1	27.2
ROIC (EBIT) %	11.4	11.5	11.5	9.1	10.9	11.9	12.1	11.9
EV/EBITDA (UBS core) x	9.7	7.7	6.9	8.3	7.0	6.6	6.5	6.5
P/E (UBS, diluted) x	19.5	14.2	13.1	17.6	13.2	11.7	11.2	11.3
Equity FCF (UBS) yield %	5.6	8.0	10.0	2.5	5.1	6.4	8.3	8.6
Dividend yield (net) %	5.2	7.1	5.7	4.3	5.7	6.4	7.1	7.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$ 3.70 on 11-Aug-2023

Centuria Industrial Property (CIP)

- FY23 in line, FY24 guidance ahead of market
- Free cashflow (FFO) \$108.1m
- FFO per share 17.0c
- DPS 16.0c
- Net property income in line 2.
- Net Tangible assets (NTA) \$3.96 (\$4.08 Dec-22).
- Capitalisation rate of 5.26%, +60bps from Dec-22 (4.66%)
- Occupancy 98.0% (98.7% Dec-22) and Weighted Average Lease Expiry (WALE) of 7.7yrs (8.1yrs Dec-22).
- Gearing 33.1% (31.6% Dec-22), cost of debt 3.2% (3.3% Dec-22), hedge maturity 2.7y (2.0y Dec-22).
- Re-leasing spreads (margin) lift materially (+30% FY23 vs. +19% 1H23) reflecting +37% in 2H23 although near-term expiry is minimal. Interest cover continues to decline (now 3.3x, 3.8x 1H23)
- Overall, pretty sound

16th August 2023

Financial Planning Weekly

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Have a good weekend,
Ben and the team.

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