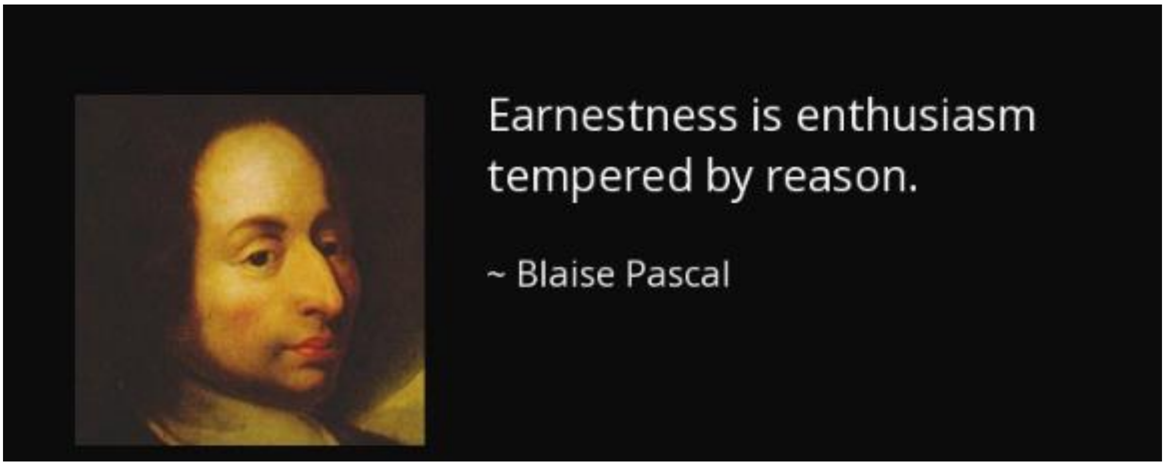


Tempering enthusiasm

As the FY23 results roll through, most are largely in line with expectations, however, most companies are also reluctant to express too much excitement or confidence about FY24. Blind Freddy can see that the consumer is tightening the belt, costs are becoming prohibitively high in certain industries, and somehow a simple basket of groceries can be upwards of 50% higher than what it was 12 months ago.

Ultimately the market looks 12-18 months hence, but we do also experience short term panic and disappointment upon the release of negative unpopular news.

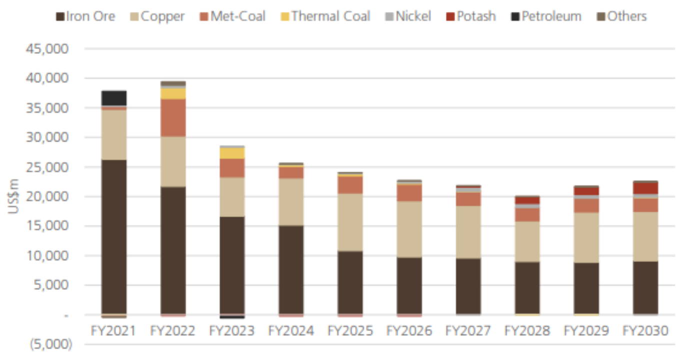
Below is a summary of some of the more topical results

BHP

FY23 KEY NUMBERS

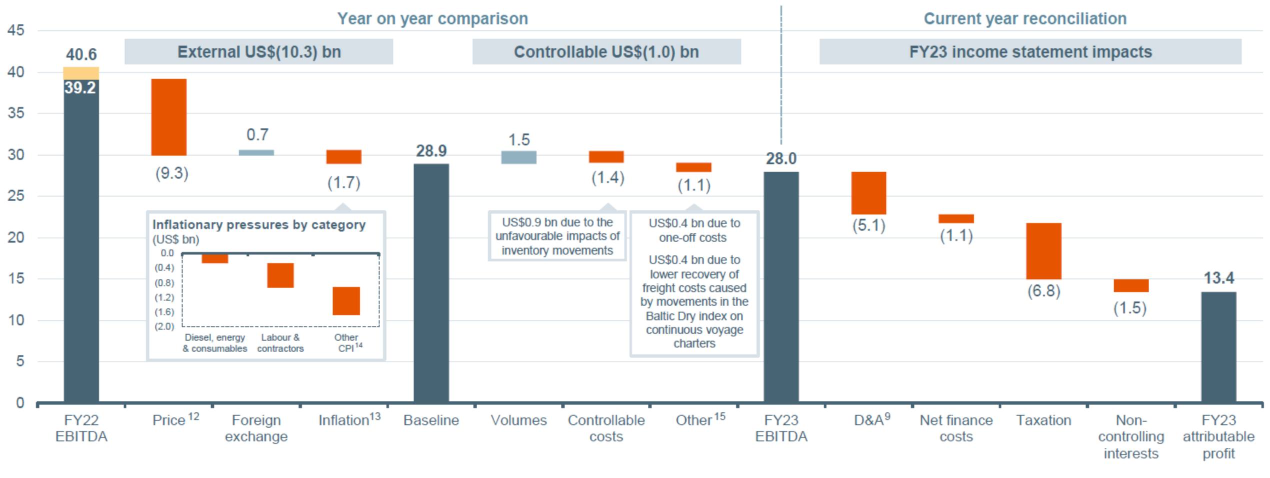
- Revenue down 17% to US$53.8b
- Underlying EBITDA US$28b, down 31% on FY22 (consensus was US$28.7b)
- Underlying attributable profit down 37% to US$13.4b
- Net debt of US$11.2b, up from US$0.3b at FY22 – mainly a result of the Oz Minerals (OZL) acquisition
- Operating cashflow down 36% to US$18.7b
- Despite BHP's push to be a green commodities business, iron ore and coal still contribute the majority of earnings; copper is large and growing.

Figure 5: EBITDA by segment



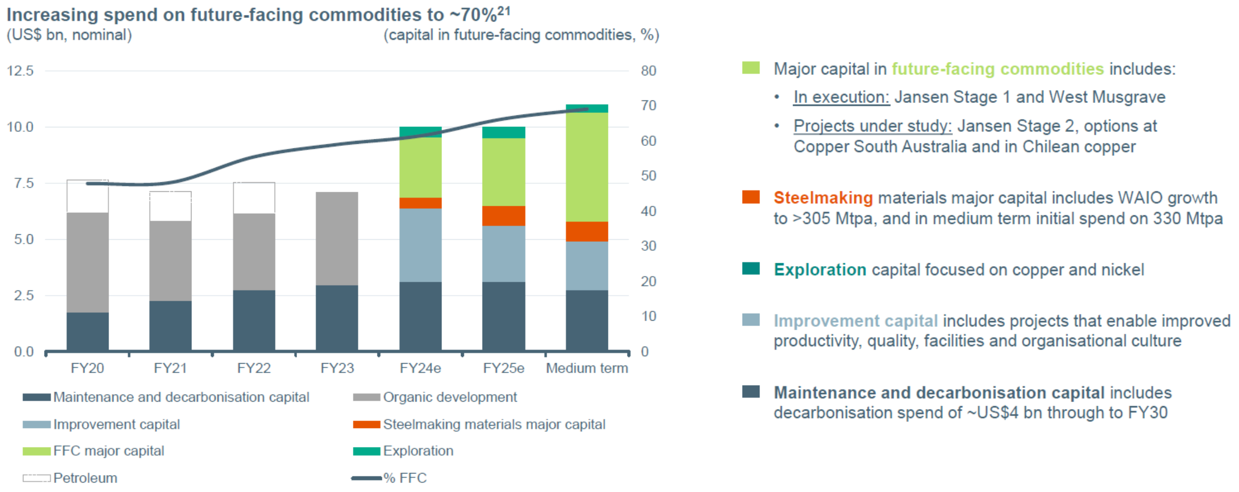
Source: UBSe

Underlying earnings variance and drivers
(US$ bn)

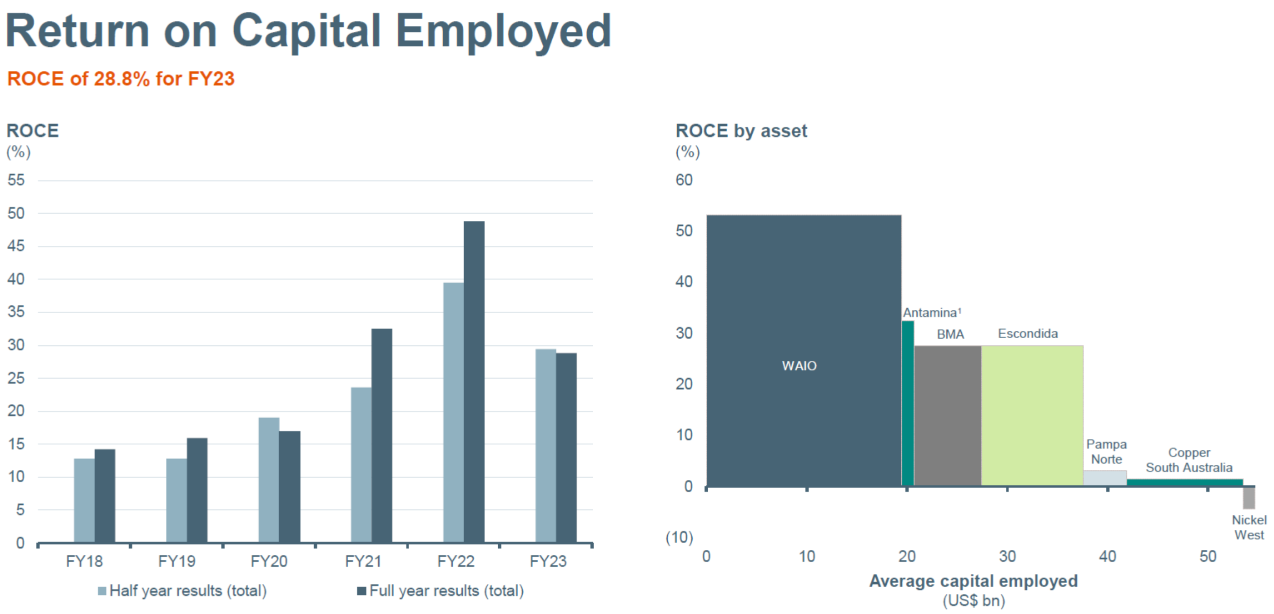


Note: US$1.4 bn ceased and sold operations impact[11], predominantly the contribution of BHP Mitsui Coal (BMC) prior to divestment of our 80% interest on 3 May 2022.

- Capex is increasing – that's good and bad. The investment is required but it will mean less available for shareholders. Expect lower dividends in future years.
- Final dividend of US80cps, bringing FY23 total to US$1.70ps – a 64% payout ratio (consensus was US$1.80ps).



Return on Capital Employed (ROCE) is falling after two years of exceptional returns. ROCE above 15% for a commodity producer does not seem sustainable over the long term.



- Looks neither cheap nor expensive

Highlights (US$m)	06/21	06/22	06/23	06/24E	06/25E	06/26E	06/27E	06/28E
Revenues	60,817	65,099	53,818	51,906	50,625	50,206	50,532	49,325
EBIT (UBS)	30,014	33,681	22,932	19,378	17,474	15,934	15,141	13,481
Net earnings (UBS)	17,077	19,549	12,921	10,574	9,538	8,682	8,460	7,704
EPS (UBS, diluted) (US$)	3.37	3.85	2.55	2.08	1.88	1.71	1.67	1.52
DPS (net) (US$)	3.01	3.25	1.70	1.25	1.13	1.03	1.00	0.91
Net (debt) / cash	(5,737)	808	(9,917)	(12,806)	(12,622)	(11,912)	(11,534)	(11,740)
Profitability/valuation	**06/21**	**06/22**	**06/23**	**06/24E**	**06/25E**	**06/26E**	**06/27E**	**06/28E**
EBIT (UBS) margin %	49.4	51.7	42.6	37.3	34.5	31.7	30.0	27.3
ROIC (EBIT) %	48.8	63.0	43.9	32.0	26.8	23.4	21.4	18.2
EV/EBITDA (UBS core) x	5.1	4.6	6.0	6.7	7.1	7.5	7.7	8.5
P/E (UBS, diluted) x	8.4	7.6	11.4	13.4	14.8	16.3	16.7	18.3
Equity FCF (UBS) yield %	11.2	14.3	7.1	3.9	4.4	4.1	3.6	3.1
Dividend yield (net) %	10.6	11.7	5.9	4.5	4.1	3.7	3.6	3.3

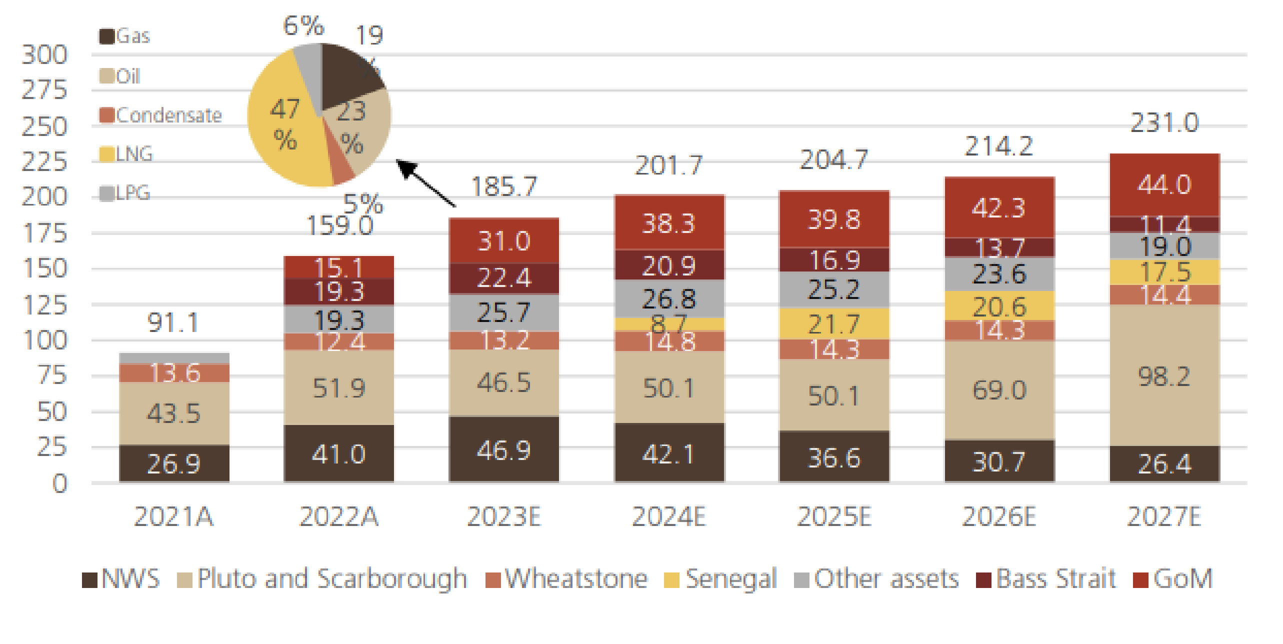
Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A$ 43.21 on 23-Aug-2023 04:11:50 AEST

Woodside Energy (WDS)

HY23 KEY NUMBERS

- 1H23 EBITDA $4,990m in line with expectations.
- WDS still requires regulatory approval to lay the subsea pipeline and infrastructure for Scarborough. In coming years, Pluto and Scarborough will account for a good proportion of earnings.
- UBS produced the table below which provides excellent insight into where the future earnings of WDS will come from

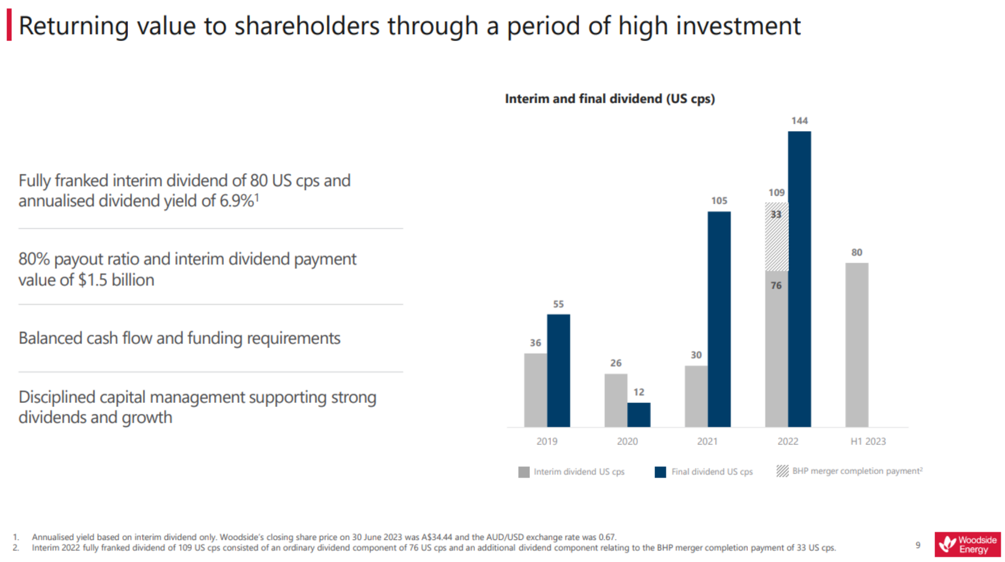
Figure 1: Production by asset outlook (mmboe)



Source: UBSe

- Despite being at ‘peak’ capex spend, the dividend looks to be declining going forward. The CEO, Meg O’Neill stated they will pay between 50and 80% of earnings out as a dividend. It is currently sitting at 80%.
- Gearing an extremely modest 8.2%

- Based on WDS' projected US$77/bbl oil price, it is trading on a PE of 15x. We believe energy prices across the board are set to rise.
- As this next slide shows, although the US$0.80 dividend is lower than for the PCP of US$1.09, it excludes the US$0.33 BHP merger completion payment. So its actually up US$0.03



Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	3,451	6,778	16,615	13,897	13,864	13,969	13,355	14,186
EBIT (UBS)	526	2,654	7,659	5,389	5,145	5,349	5,053	6,425
Net earnings (UBS)	447	1,620	5,241	3,159	2,739	2,644	2,488	3,460
EPS (UBS, diluted) (US$)	0.47	1.68	3.44	1.66	1.44	1.39	1.31	1.82
DPS (net) (US$)	0.38	1.35	2.53	1.33	1.16	1.11	1.05	1.46
Net (debt) / cash	(2,610)	(3,772)	1,063	(2,991)	(2,647)	(1,957)	268	3,617
Profitability/valuation	**12/20**	**12/21**	**12/22**	**12/23E**	**12/24E**	**12/25E**	**12/26E**	**12/27E**
EBIT (UBS) margin %	15.2	39.2	46.1	38.8	37.1	38.3	37.8	45.3
ROIC (EBIT) %	3.1	16.1	28.9	14.5	13.2	13.7	13.2	17.7
EV/EBITDA (UBS core) x	7.5	4.7	3.2	5.0	5.1	5.0	5.2	4.7
P/E (UBS, diluted) x	33.4	10.4	6.5	15.1	16.9	17.5	18.6	13.4
Equity FCF (UBS) yield %	2.9	8.3	17.5	1.5	5.6	6.2	(2.1)	4.1
Dividend yield (net) %	2.2	8.0	11.6	5.5	4.8	4.6	4.3	6.0

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$ 38.06 on 22-Aug-2023

Whitehaven Coal (WHC)

The market doesn't like WHC today (down 85 cents since Wednesday's close) because it wants the cash returns, but that is typical equity market short-termism. There is a big opportunity for well-run groups like Whitehaven to take market share in both metallurgical and thermal coal as the bigger players pull back. Coal markets are not shrinking – they are growing. Supply constraints are likely to see prices remain elevated – analysts are going to have rethink long term coal price assumptions – higher.

KEY NUMBERS

1. Underlying revenue A$6,065m vs consensus A$6,137m

2. Underlying EBITDA of A$3,986m vs consensus A$3,999m

3. Underlying NPAT of A$2,668m vs consensus A$2,677m

4. Basic EPS of 308Acps s vs consensus 299Acps

5. Dividend of 74Acps vs consensus 60Acps

HIGHLIGHTS

1. Buy-back temporarily suspended while WHC considers capital allocation framework in light of growth options

2. Record NPAT A$2.7bn achieved on average coal price of A$445/t (vs A$325/t in FY22)

3. Net cash A$2.65bn at Jun-23. WHC bought 119.7m shares at A$949m in FY23

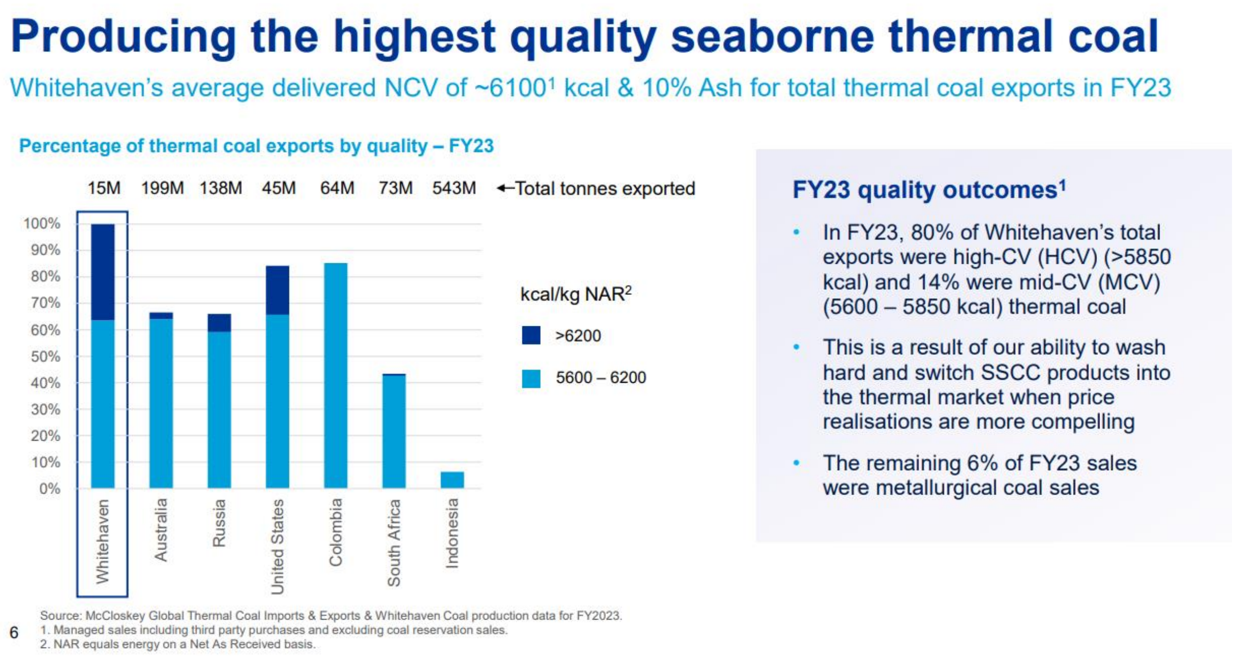
GUIDANCE

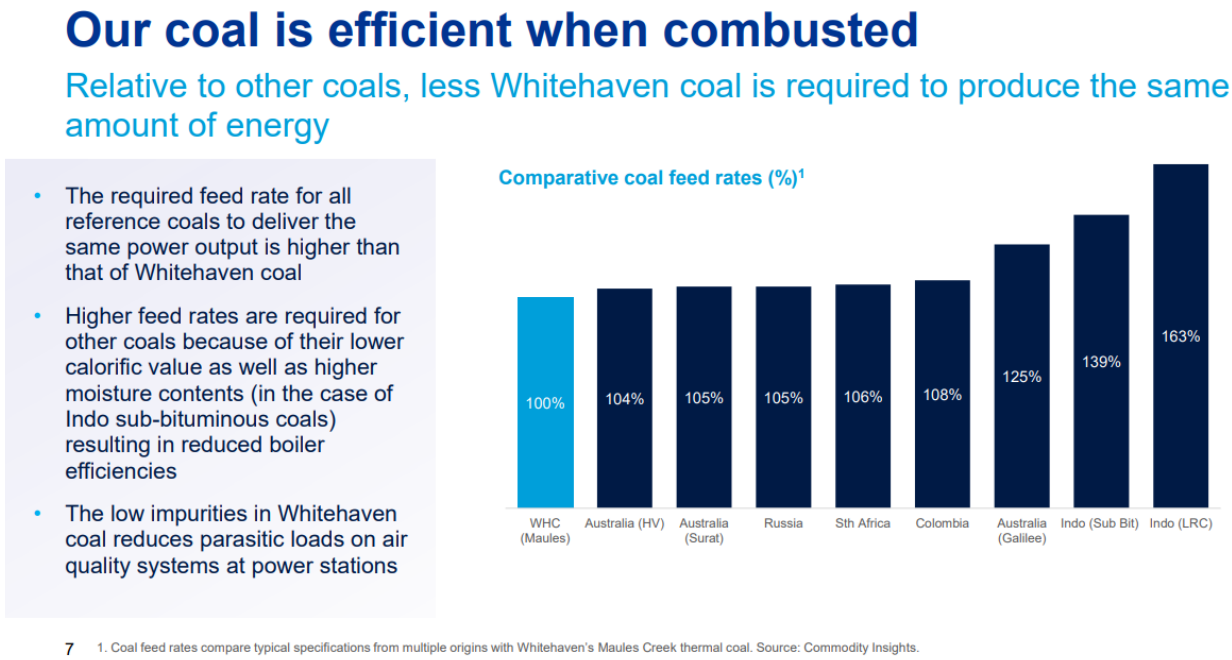
FY24 managed ROM production 18.7-20.7Mt and equity sales 12.7-13.9Mt.

Unit cost of coal US$103-113/t. Total capex A$460-570m.

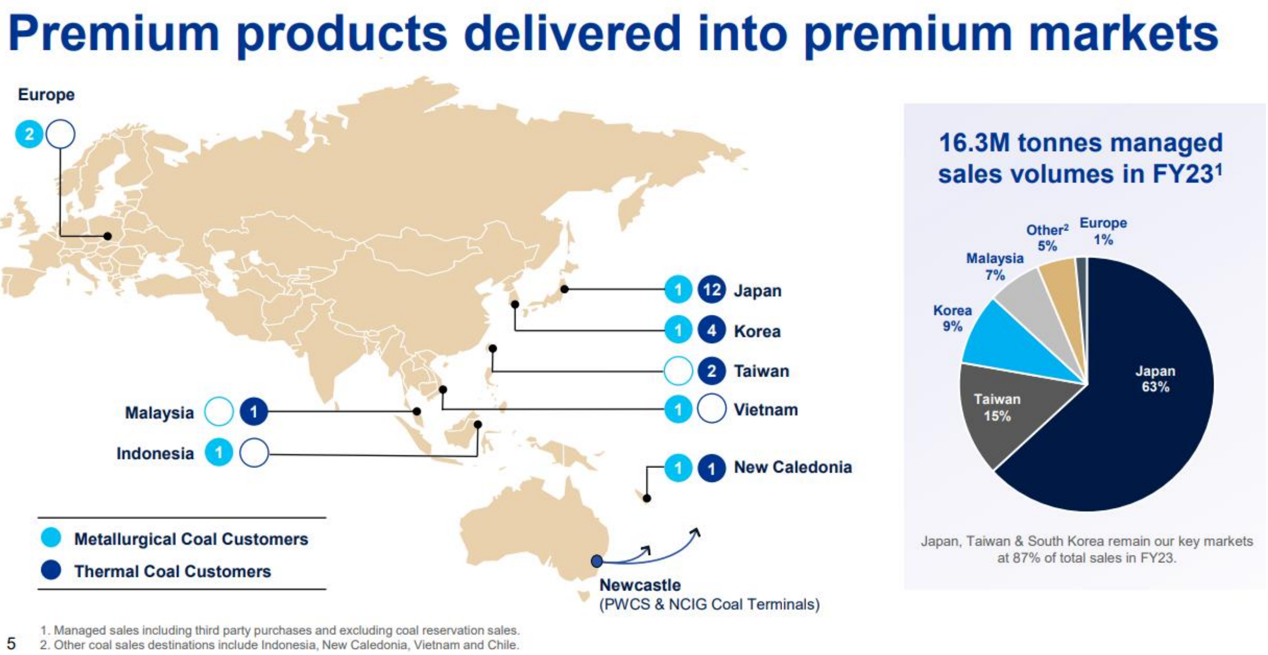
How will they spend $2.65bn given the buyback cancellation? M&A most likely and increasing production capability from current operations.

It should also be mentioned that 'coals ain't coals'. Yes, coal is dirty, but they all have different calorific values and emissions. WHC coal, is cleaner than most, higher calorific value than most and as such demands a premium price.





WHC coal does not export to the high consuming, unpredictable Chinese market.



REIT's versus Credit Income Funds

On the 27th June this year, the KKR Credit Income Fund (KKC) announced it would increase its monthly distribution from $0.011 to $0.0167, or $0.132p.a. to $0.20p.a., and cancel its on market share buyback (which has already resulted in the buyback and cancellation of $100m worth of stock).

KKC expect to benefit from increased yields and credit spreads in global credit markets.

Metrics Master Income Trust (MXT), another credit market fund, pay a targeted return of the RBA Cash rate + 3.25%, also on a monthly basis. This has resulted in strong support for both of these securities on the market. KKC is currently trading on a yield of 9.7% and MXT 9.5%.

Elsewhere REITs are announcing their results with most reducing asset backing along with the lower rents collected and higher capitalisation rates being used to value the properties. No surprises so far.

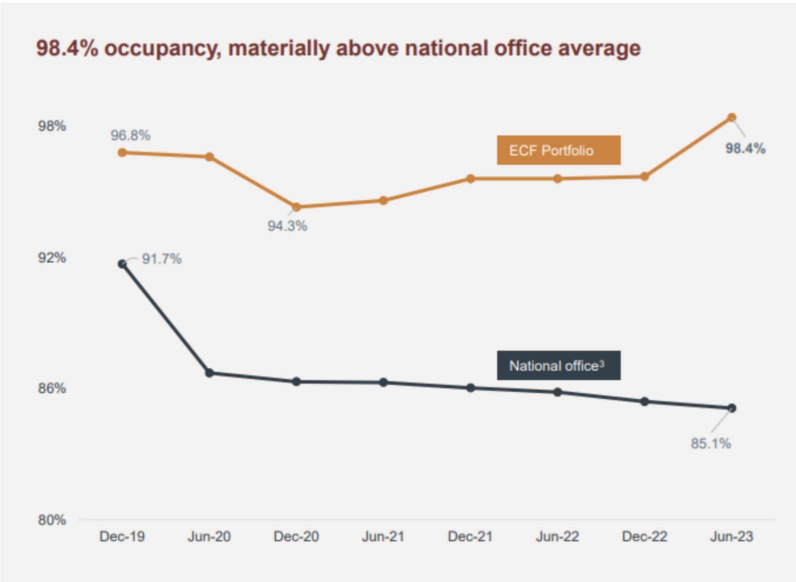
Where I have been wrong is the reduction in price of the office REITs who have not been impacted by the global working from home (WFH) scam yet have been the proverbial 'babies thrown out with the bathwater'.

My expectation was the share prices of those office REITs whose assets were not in the premium buildings in the CBD, showed tenancy growth or at the very least, steady high occupancy, would be spared the market's wrath; not so. The sell off has been global and unforgiving, and in many cases the sell down has been more dramatic in the smaller REIT's compared with their larger brethren, despite the relative strength of many of the portfolios.

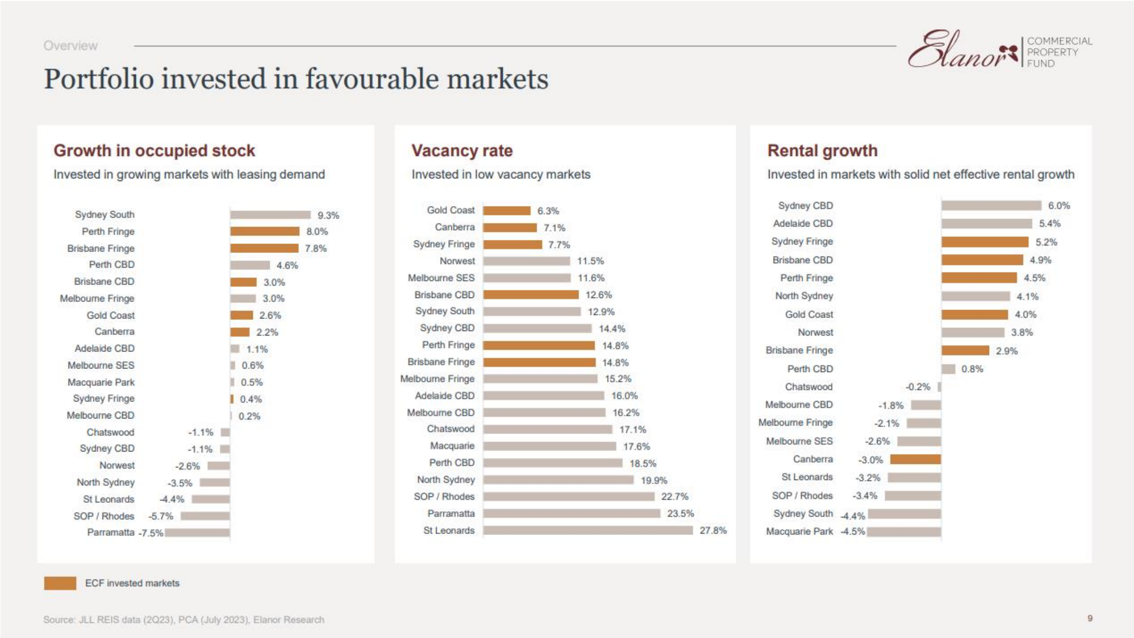
Elanor Commercial Property Fund (ECF)

FY23 KEY NUMBERS

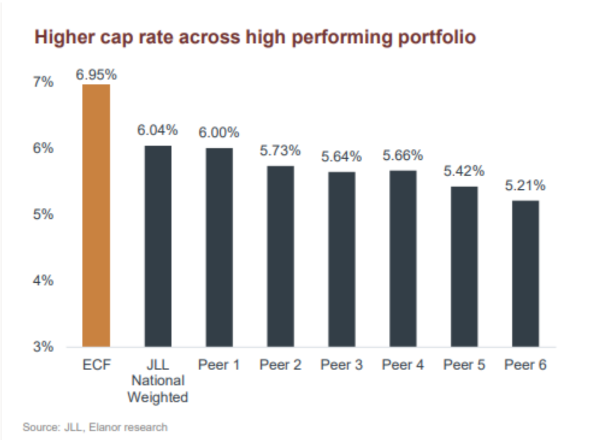
- Delivered on key targets of distributions and free cashflow for FY23, however, there's still a few surprises for mine in this result; some positive some negative.
- Occupancy strong at 98.4%, well above national CBD occupancy of 85%.



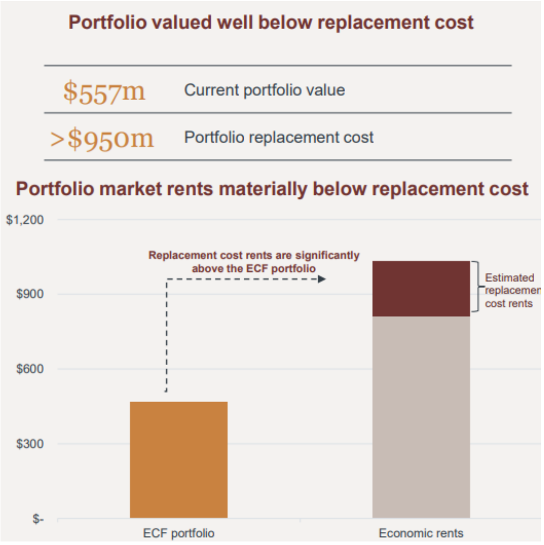
- This is unsurprising given ECF targets suburban and fringe CBD assets (except for Brisbane), where the rent is considerably cheaper. There is still more pain to be felt in these core CBD assets held by the larger REIT's.



- Weighted average Lease Expiry (WALE) sits at 3.1 years, with only 6% of income expiring in FY24.
- Like for like rental income growth of 6.8%. Average incentive in place is 12.8%. Not too bad.
- Significant uplift in average capitalisation rate, from 6.09% to 6.95%. This was a curious move, and far too conservative.



- Balance sheet is sound, geared to 35.1% and interest rate hedging of 78.9%, at an average of 4.42%.
- Portfolio value has declined by 8.5% to $557.5m since June 22. Not unexpected given the interest rate rises. NTA declined from $1.20 to $1.00. As a result, the portfolio valuation is now deeply beneath replacement value.



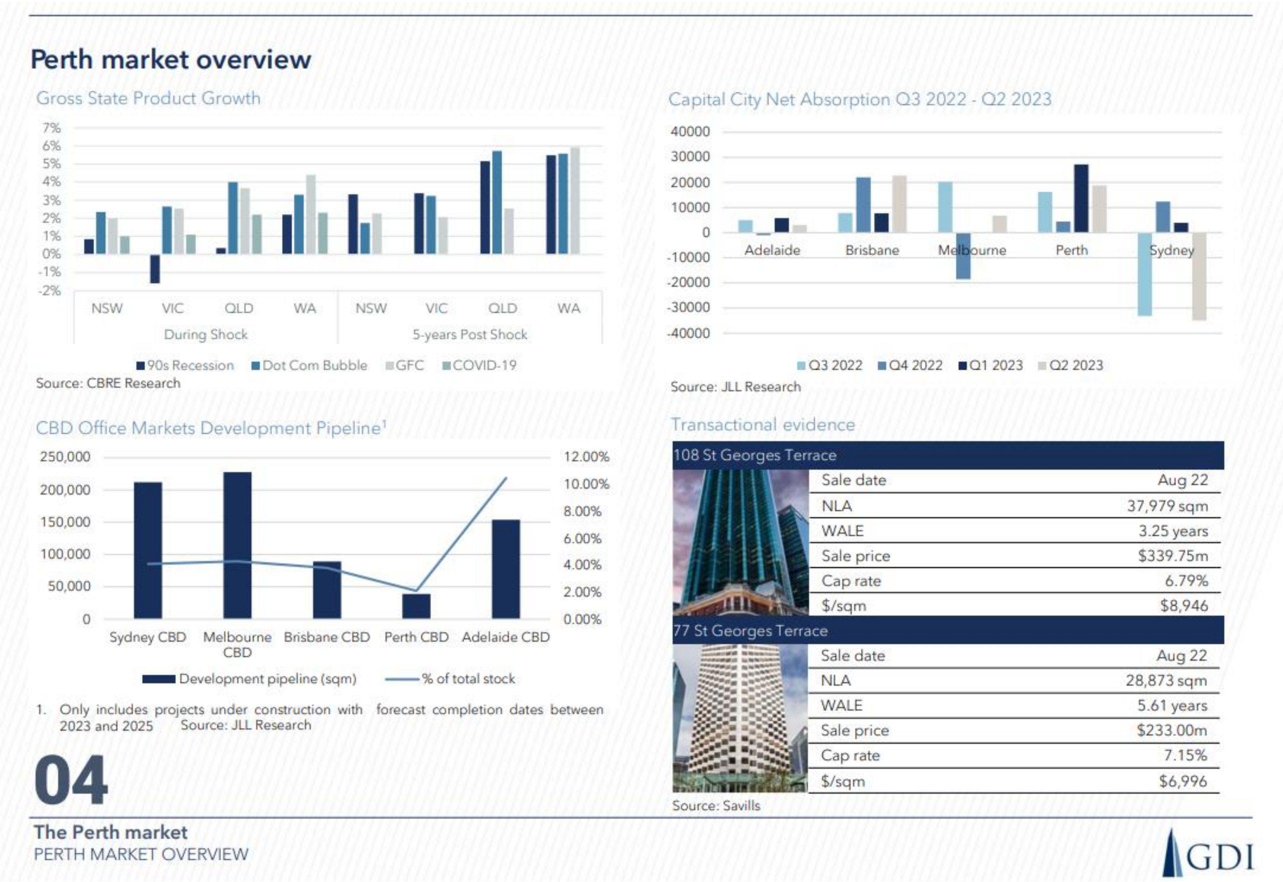
- Distribution forecast for FY24 is $0.085, down from $0.094. This is despite sitting with management last year and being advised the distribution was sound at the $0.094 level for at least two years.
- Shares have been belted alongside all other office REIT's and it looks like management have taken the weak price as an opportunity to justify a bit of tightening in the financials.
- Stock is down from $1.00 12 months ago to $0.77 today, and trading on an 11% yield.

GDI

Perth based property investor GDI released their FY23 results.

FY23 KEY NUMBERS

- Free cashflow steady on previous year $0.0528 - noting increased revenues offset against higher interest rates
- FY23 distribution of $0.05 maintained, FY24 forecast is $0.05
- Gearing: 31%, mostly hedged
- NTA $1.25, down $0.02 from June 23
- Weighted average capitalisation rate of 6.55%
- Perth market has performed well due to the strong commodities focused economy. Should result in a continued improvement in property income.
- Perth has shown seven quarters of positive absorption (i.e less and less available rental space)
- As the charts below illustrate, both Perth (GDI) and Brisbane (ECF) performing well with minimal in the development pipeline



108 St Georges Terrace	
Sale date	Aug 22
NLA	37,979 sqm
WALE	3.25 years
Sale price	$339.75m
Cap rate	6.79%
$/sqm	$8,946

77 St Georges Terrace	
Sale date	Aug 22
NLA	28,873 sqm
WALE	5.61 years
Sale price	$233.00m
Cap rate	7.15%
$/sqm	$6,996

Source: Savills

23rd August 2023

Financial Planning Weekly

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Choosing a path: Invest in Stocks or Property?

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Have a good weekend,
Ben and the team.

This report has been prepared by Ben Morrissey
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