



Earnestness is enthusiasm  
tempered by reason.

~ Blaise Pascal

## 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.

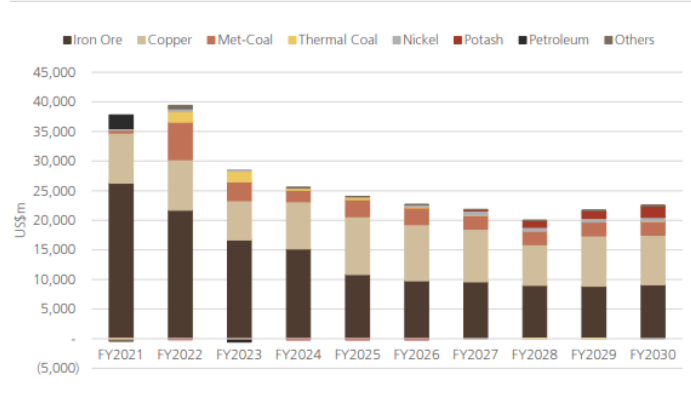
Below is a summary of some of the more topical results

## BHP

### FY23 KEY NUMBERS

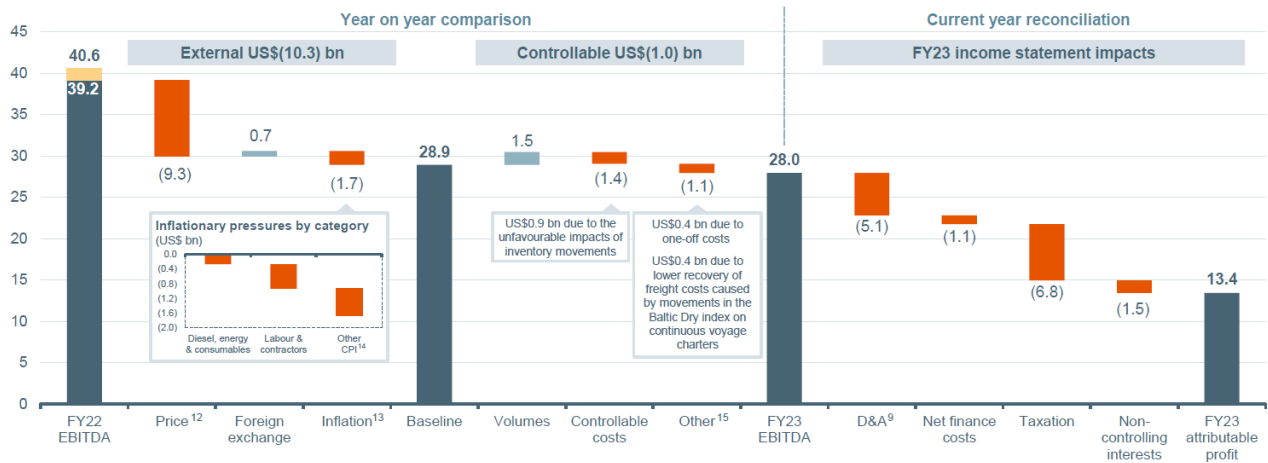
- Revenue down 17% to US\$53.8b
- Underlying EBITDA US\$28b, down 31% on FY22 (consensus was US\$28.7b)
- Underlying attributable profit down 37% to US\$13.4b
- Net debt of US\$11.2b, up from US\$0.3b at FY22 – mainly a result of the Oz Minerals (OZL) acquisition
- Operating cashflow down 36% to US\$18.7b
- 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: UBS

**Underlying earnings variance and drivers**  
(US\$ bn)

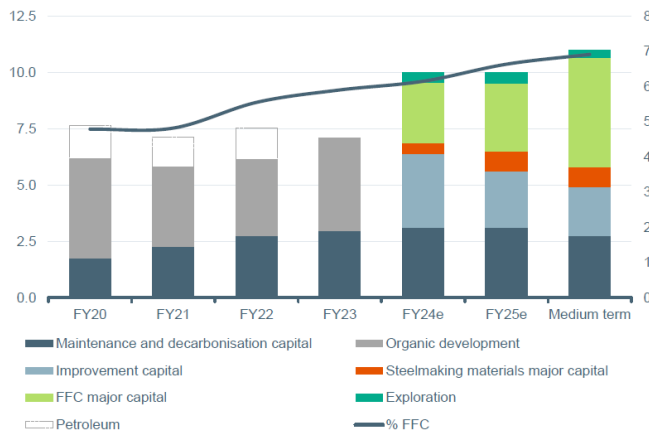


Note: US\$1.4 bn ceased and sold operations impact<sup>11</sup>, predominantly the contribution of BHP Mitsui Coal (BMC) prior to divestment of our 80% interest on 3 May 2022.

- 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).

**Increasing spend on future-facing commodities to ~70%<sup>21</sup>**

(US\$ bn, nominal) (capital in future-facing commodities, %)



Major capital in **future-facing commodities** includes:

- **In execution:** Jansen Stage 1 and West Musgrave
- **Projects under study:** Jansen Stage 2, options at Copper South Australia and in Chilean copper

**Steelmaking materials** major capital includes WAIO growth to >305 Mtpa, and in medium term initial spend on 330 Mtpa

**Exploration** capital focused on copper and nickel

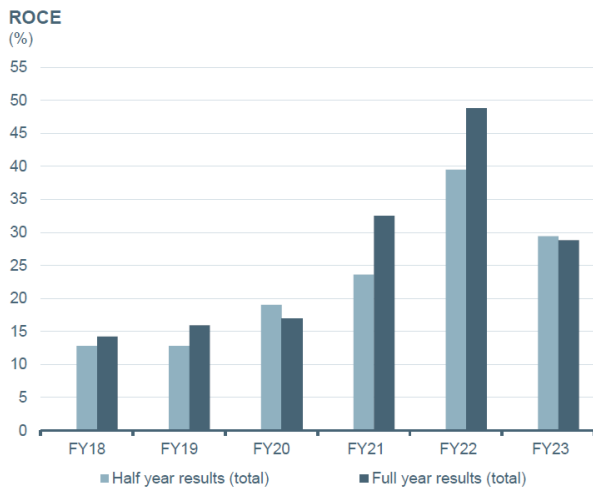
**Improvement capital** includes projects that enable improved productivity, quality, facilities and organisational culture

**Maintenance and decarbonisation capital** includes decarbonisation spend of ~US\$4 bn through to FY30

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.

## Return on Capital Employed

ROCE of 28.8% for FY23



- 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

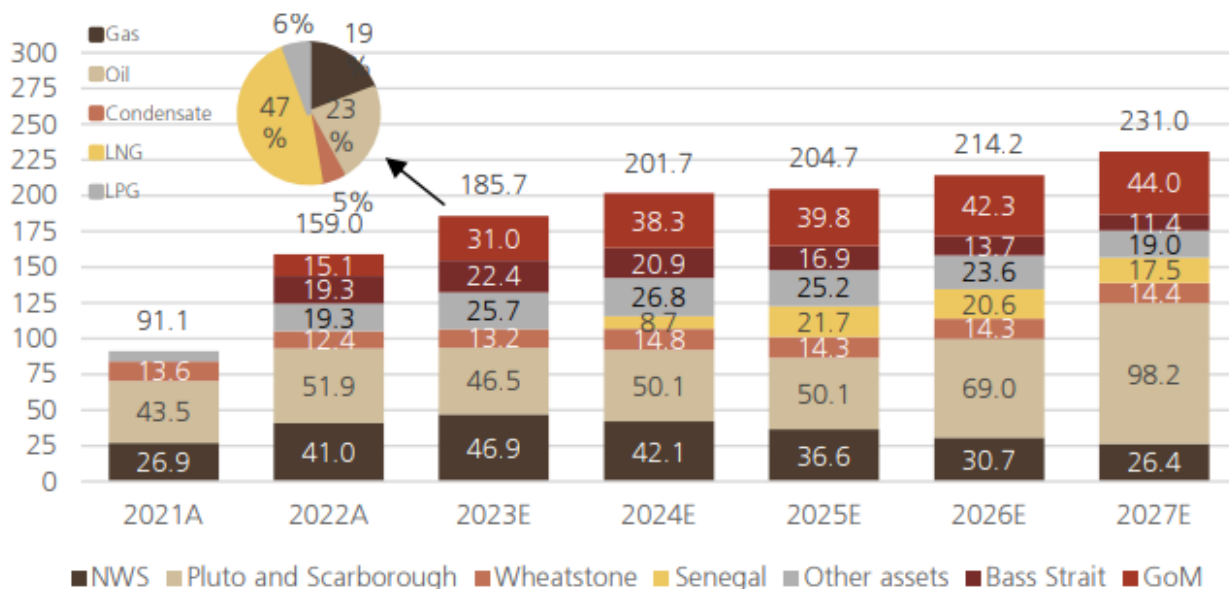
Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of AS 43.21 on 23-Aug-2023 04:11:50 AEST

## 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)**

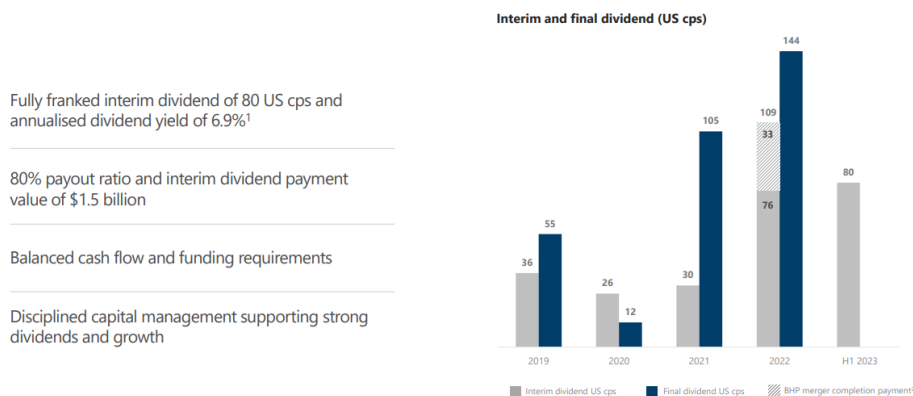


Source: UBSe

- Despite being at ‘peak’ capex spend, the dividend looks to be declining going forward. The CEO, Meg O’Neill stated they will pay between 50 and 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

Returning value to shareholders through a period of high investment



1. Annualised yield based on interim dividend only. Woodside's closing share price on 30 June 2023 was A\$34.44 and the AUD/USD exchange rate was 0.67.

2. Interim 2022 fully franked dividend of 109 US cps consisted of an ordinary dividend component of 76 US cps and an additional dividend component relating to the BHP merger completion payment of 33 US cps.



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 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.

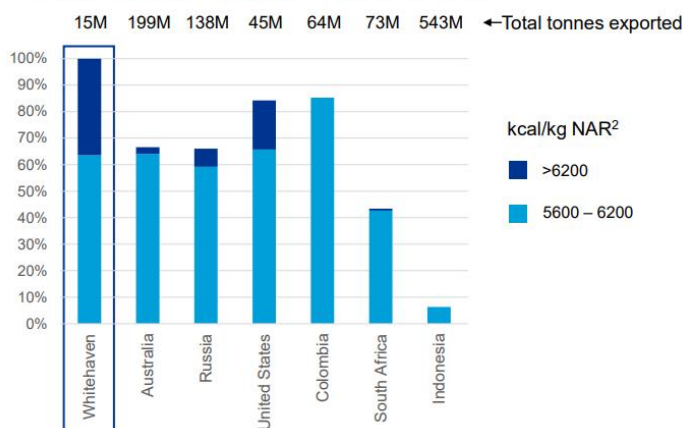
How will they spend \$2.65bn given the buyback cancellation? M&A most likely and increasing production capability from current operations.

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.

## Producing the highest quality seaborne thermal coal

Whitehaven's average delivered NCV of ~6100<sup>1</sup> kcal & 10% Ash for total thermal coal exports in FY23

Percentage of thermal coal exports by quality – FY23



**FY23 quality outcomes<sup>1</sup>**

- In FY23, 80% of Whitehaven's total exports were high-CV (HCV) (>5850 kcal) and 14% were mid-CV (MCV) (5600 – 5850 kcal) thermal coal
- This is a result of our ability to wash hard and switch SSCC products into the thermal market when price realisations are more compelling
- The remaining 6% of FY23 sales were metallurgical coal sales

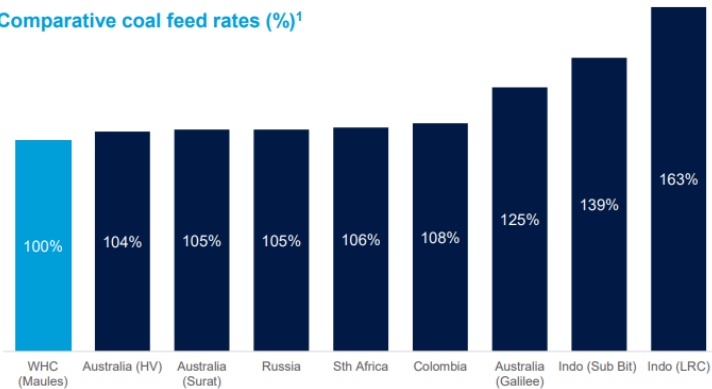
6 Source: McCloskey Global Thermal Coal Imports & Exports & Whitehaven Coal production data for FY2023.  
 1. Managed sales including third party purchases and excluding coal reservation sales.  
 2. NAR equals energy on a Net As Received basis.

## Our coal is efficient when combusted

Relative to other coals, less Whitehaven coal is required to produce the same amount of energy

- The required feed rate for all reference coals to deliver the same power output is higher than that of Whitehaven coal
- Higher feed rates are required for other coals because of their lower calorific value as well as higher moisture contents (in the case of Indo sub-bituminous coals) resulting in reduced boiler efficiencies
- The low impurities in Whitehaven coal reduces parasitic loads on air quality systems at power stations

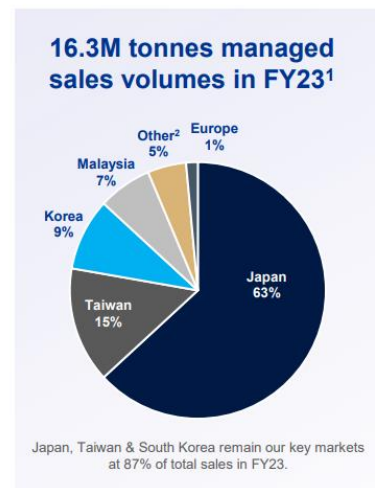
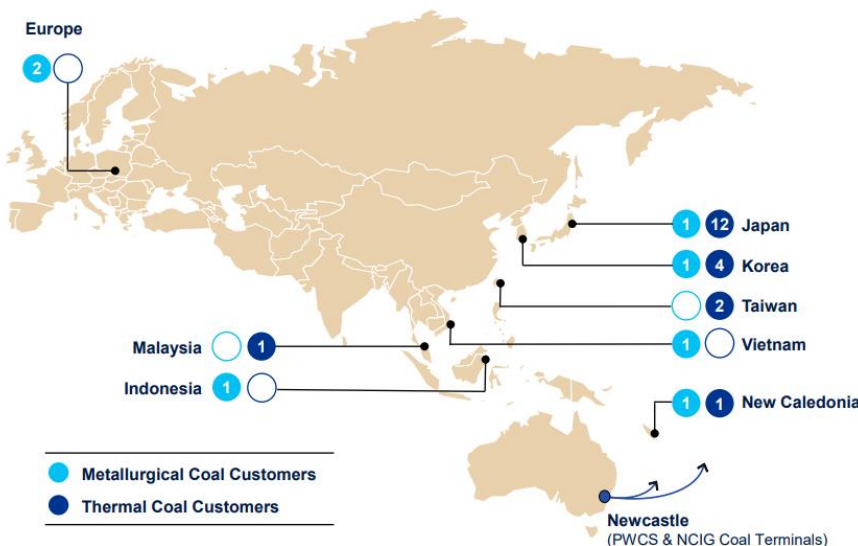
Comparative coal feed rates (%)<sup>1</sup>



7 1. Coal feed rates compare typical specifications from multiple origins with Whitehaven's Maules Creek thermal coal. Source: Commodity Insights.

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

## Premium products delivered into premium markets



5 1. Managed sales including third party purchases and excluding coal reservation sales.  
2. Other coal sales destinations include Indonesia, New Caledonia, Vietnam and Chile.

## REIT's versus Credit Income Funds

On the 27<sup>th</sup> 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.

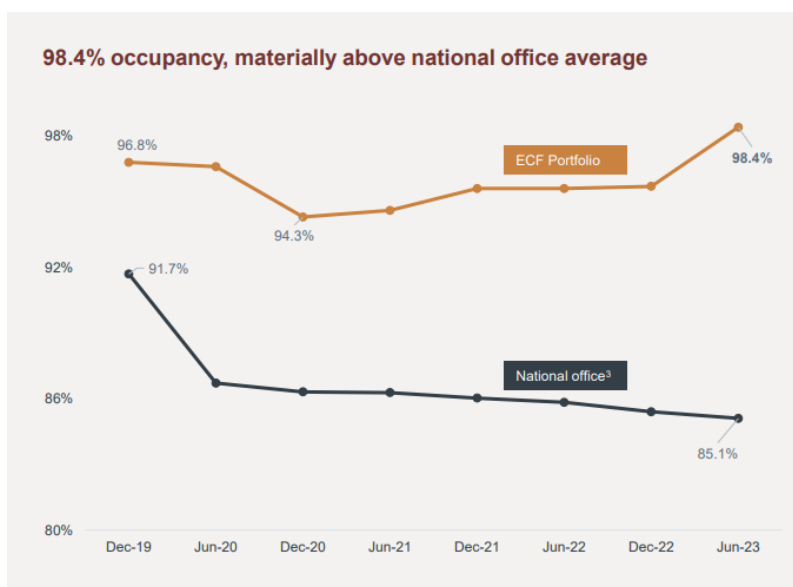
Where I have been wrong is the reduction in price of the office REITs who have not been impacted by the global working from home (WFH) scam yet have been the proverbial ‘babies thrown out with the bathwater’.

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)

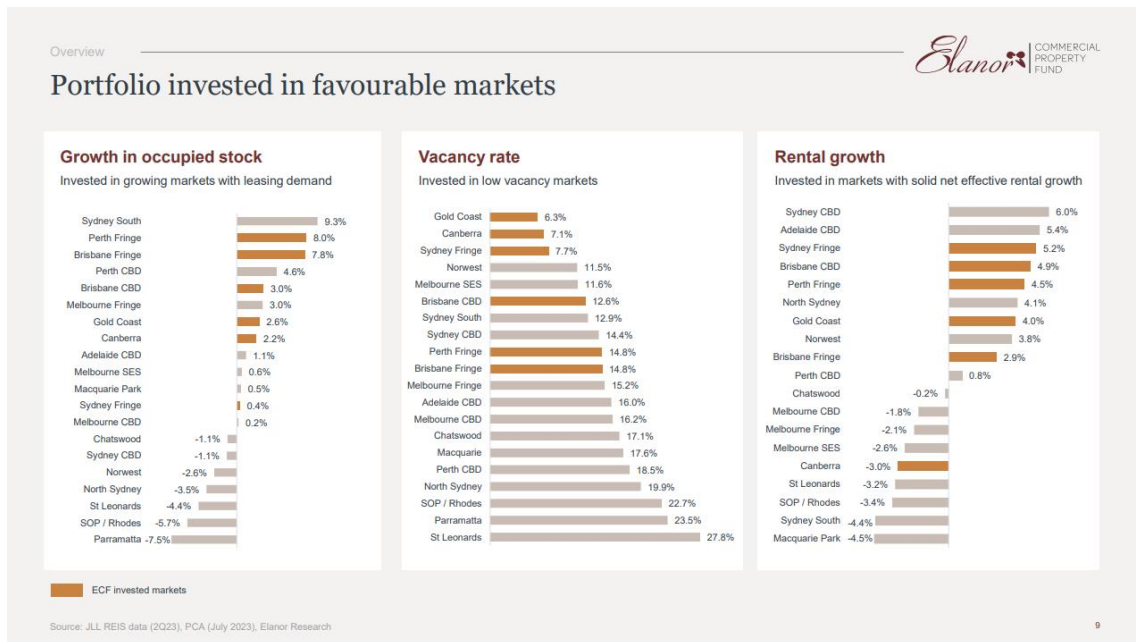
### FY23 KEY NUMBERS

- 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%.

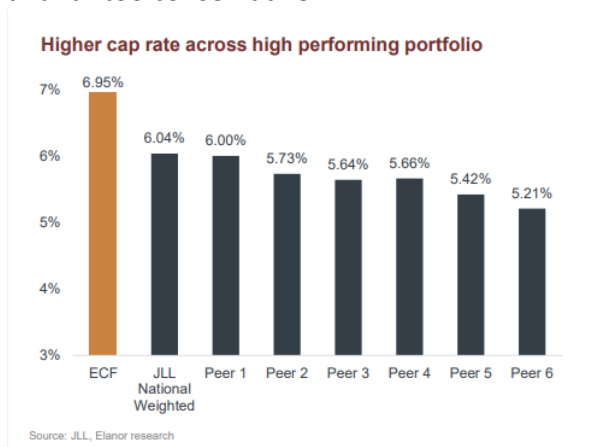


- This is unsurprising given ECF targets suburban and fringe CBD assets (except for Brisbane), where the rent is considerably cheaper. There is still more pain to be felt in these core CBD assets held by the larger REIT’s.

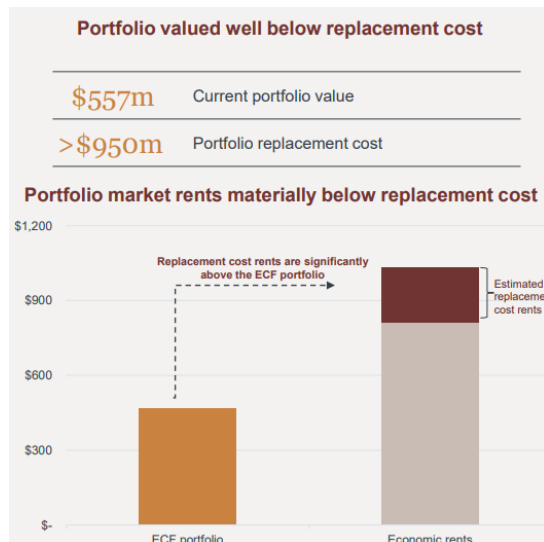




- Weighted average Lease Expiry (WALE) sits at 3.1 years, with only 6% of income expiring in FY24.
- Like for like rental income growth of 6.8%. Average incentive in place is 12.8%. Not too bad.
- Significant uplift in average capitalisation rate, from 6.09% to 6.95%. This was a curious move, and far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

### Perth market overview

Gross State Product Growth



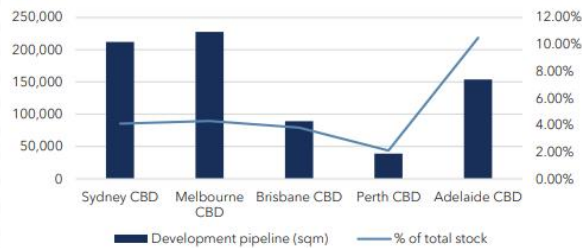
Source: CBRE Research

Capital City Net Absorption Q3 2022 - Q2 2023



Source: JLL Research

CBD Office Markets Development Pipeline<sup>1</sup>



1. Only includes projects under construction with forecast completion dates between 2023 and 2025. Source: JLL Research

Transactional evidence

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

# 04

The Perth market  
PERTH MARKET OVERVIEW



23<sup>rd</sup> August 2023

Financial Planning Weekly

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Have a good weekend,  
Ben and the team.

**This report has been prepared by Ben Morrissey**

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