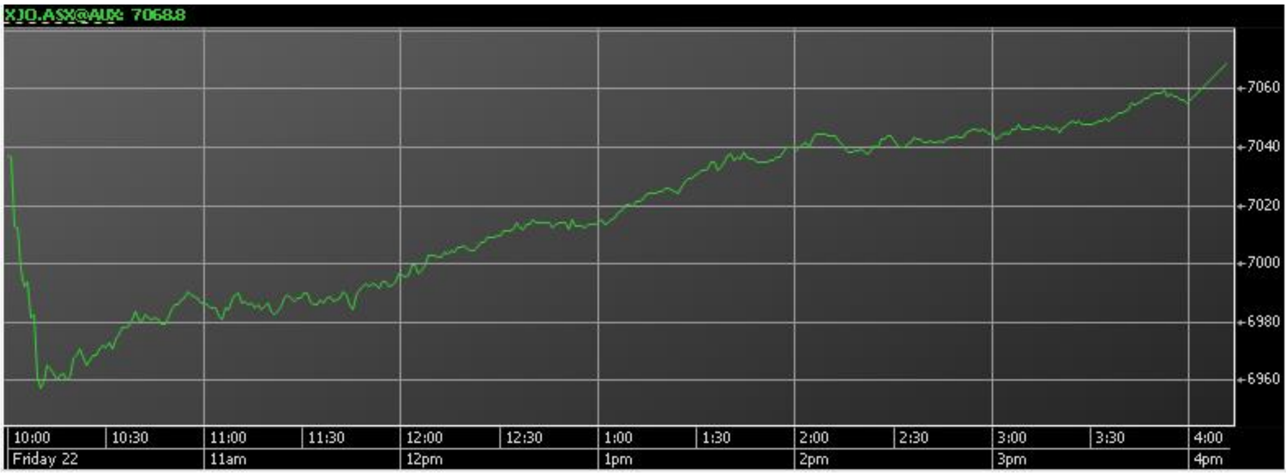
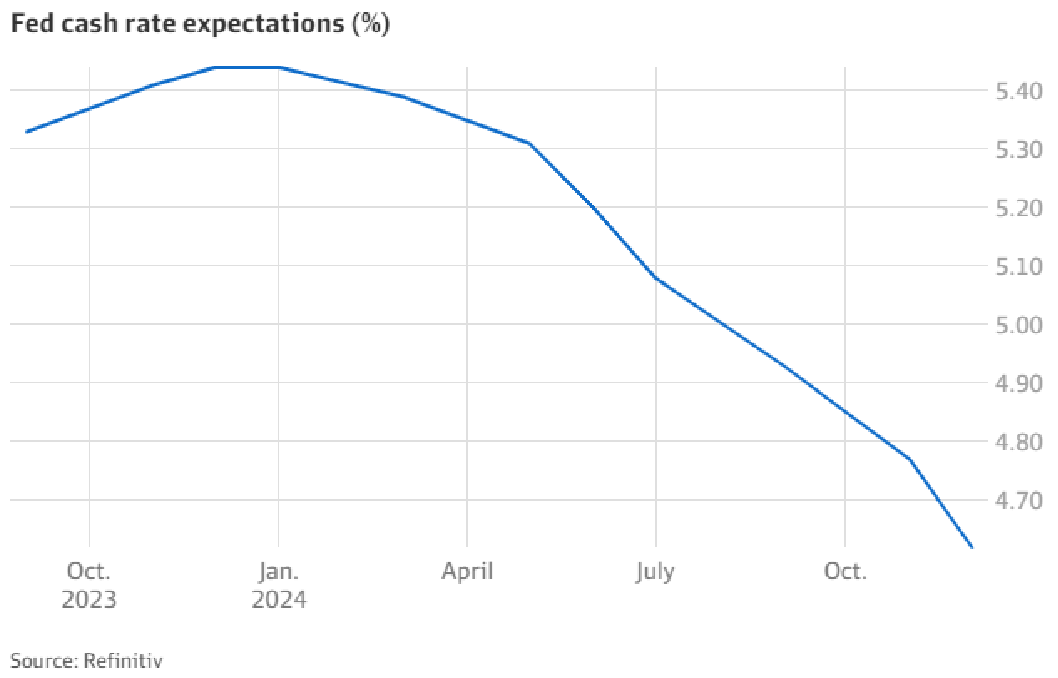
22nd September



Nice Turnaround

This week, the ASX200 fell Monday, Tuesday, Wednesday, Thursday and was down over 100 points today only to mount a massive revival and close up 3.6 points. The excuse for the selloff through the week seems to be the strengthening US bond yields, rising energy prices and an uptick in Canadian inflation. Even with the Friday turnaround, it was still the biggest weekly fall on the ASX200 for over a year.

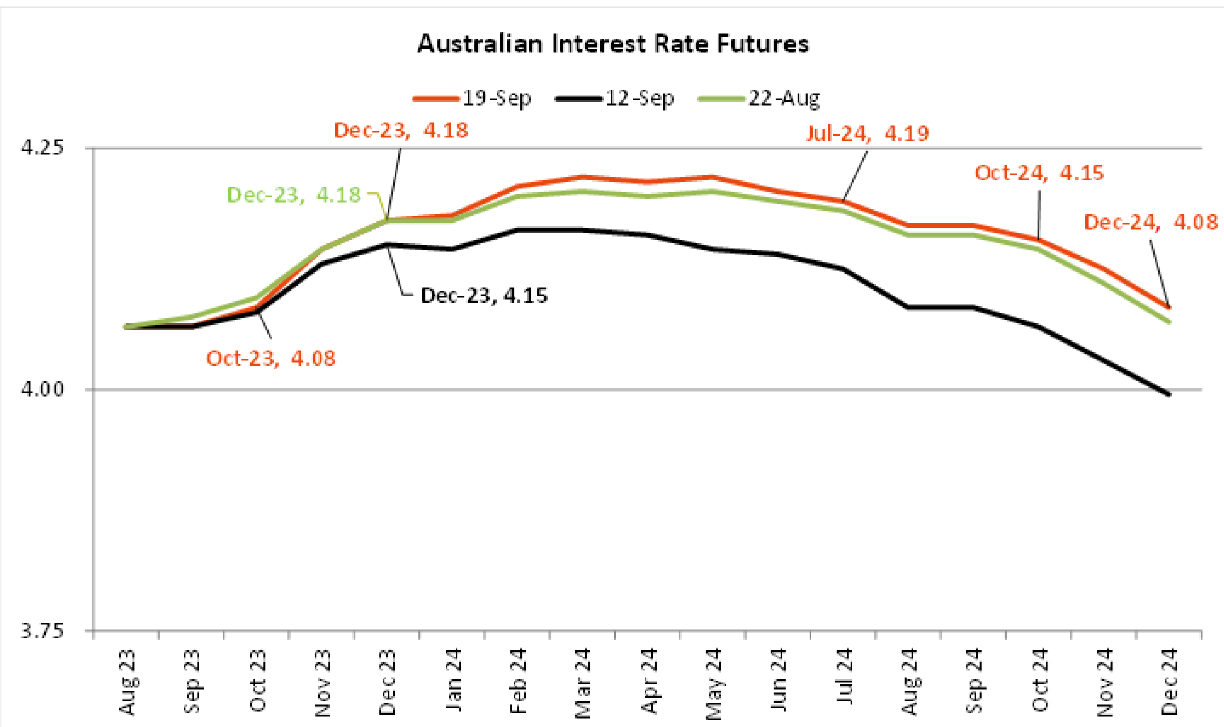
As reported in this missive 2 weeks ago, when the RBA met on the first Tuesday in September, the comment was that “Some further tightening of monetary policy may be required”. In the US on Wednesday night our time, the Federal Reserve Chairman, Jerome Powell, suggested there might be another rise around the corner, yet the futures market is still pricing in 80 basis points of cuts next year.



Not so here in Oz.

According to the RBA:

- The labour market is tight but easing. There is less labour demand and higher supply.
- They are still conscious of the risk that the economy slows more than expected.
- And despite this have maintained that some further tightening may be required.
- Data is trending in the right direction. RBA are happy to wait and see the lagged impacts of its monetary policy.



Regardless, we're almost there, assuming the cost of energy doesn't blow the soft landing apart. With oil hovering around US$95/barrel, this is eminently possible, and you can bet wage inflation will follow suit.

Either way, markets are now expecting a normalisation of rates, which looks justifiable, whether up a bit or down a bit, but the hard work's been done.

Transurban (TCL)

The ACCC this week opposed TCL's acquisition of a majority stake in the EastLink toll road here in Melbourne, citing that it would be 'likely to substantially lessen competition for future toll road concessions in Victoria.'

Curiously the ACCC is not concerned with combining EastLink and Transurban's existing toll roads but the incumbent advantage it would provide in winning future concessions.

According to UBS, if Transurban decides to challenge the decision in court, the ACCC's conclusion may not pass the burden of proof that the acquisition would lessen competition.

Regardless, the decision certainly puts TCL on notice for their Victorian domination and they may have to continue their hunt for consumer fleecing assets elsewhere around the world.

TCL looks expensive anyway you twist it for me; growth is minimal, debt is high, yield is marginally above term deposits, and the PE is astronomical.

Highlights (A$m)	06/21	06/22	06/23	06/24E	06/25E	06/26E	06/27E	06/28E
Revenues	2,886	3,406	4,157	3,136	3,331	3,717	3,744	3,750
EBIT (UBS)	551	574	997	1,197	1,375	1,379	1,541	1,682
Net earnings (UBS)	(287)	16	51	536	675	678	920	1,169
EPS (UBS, diluted) (A$)	(0.10)	0.01	0.02	0.17	0.22	0.22	0.30	0.38
DPS (net) (A$)	0.37	0.41	0.58	0.64	0.66	0.68	0.72	0.75
Net (debt) / cash	(13,546)	(15,623)	(16,477)	(16,717)	(17,134)	(17,454)	(17,289)	(17,105)
Profitability/valuation	**06/21**	**06/22**	**06/23**	**06/24E**	**06/25E**	**06/26E**	**06/27E**	**06/28E**
EBIT (UBS) margin %	19.1	16.9	24.0	38.2	41.3	37.1	41.1	44.9
ROIC (EBIT) %	2.9	3.1	5.3	6.4	7.3	7.3	9.7	11.3
EV/EBITDA (UBS core) x	26.9	27.3	23.1	20.9	19.8	17.8	17.8	17.9
P/E (UBS, diluted) x	NM	NM	NM	75.6	60.1	60.0	44.4	35.0
Equity FCF (UBS) yield %	(1.3)	(11.5)	(0.4)	1.9	1.8	3.5	4.6	4.5
Dividend yield (net) %	2.6	3.0	4.1	4.8	5.0	5.2	5.4	5.7

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$ 13.13 on 20-Sep-2023

20th September

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Have a good weekend,
Ben and the team.

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