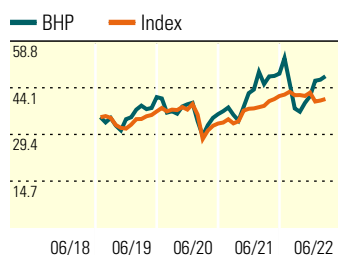


# BHP Group Limited BHP ★★ (11:53PM 10-Mar-2022)

## Snapshot

Fair Value Uncertainty	High
Moat Rating	None
Fair Value \$	39.00
Capital Allocation	Standard
Market Cap \$Mil	241,726
Morningstar Style Box	
Price \$ (4:00PM 10-Mar-2022)	47.75
52 Week High/Low \$	54.55/35.56
Shares Issued Mil	5,062
Morningstar Sector	Basic Materials
Morningstar Industry	Other Industrial
	Metals & Mining
GICS Sector	Materials

## Price vs. Market



	06/20	06/21	06/22e	06/23e
NPAT (\$Mil)	13,540.6	22,894.5	26,984.2	27,161.5
EPS ¢	267.1	451.7	532.4	535.9
EPS Chg %	8.6	69.1	17.9	0.7
DPS ¢	179.3	403.5	455.4	430.7
Franked %	100.0	100.0	100.0	100.0
Div Yld %	5.0	9.5	9.5	9.0
P/E x	13.5	9.4	9.0	8.9

Source: Morningstar estimates 14-Feb-2022.

## Profile

BHP Group Limited (BHP, Formerly BHP Billiton Limited) Is A Diversified Natural Resources Company Producing Commodities Along With Substantial Interests In Oil And Gas. BHP's Principal Business Lines Are Mineral Exploration And Production, As Well As Petroleum Exploration, Production And Refining. BHP's Assets, Operations And Interests Are Separated Into Petroleum And Potash, Copper, Iron Ore, Coal And Nickel.

## War in Ukraine Could Wreak Havoc on Mined Commodity Supplies, Particularly Coal

### Investment Perspective By Mathew Hodge (21-Jan-2022)

BHP has several of the world's largest mines. Key commodities are iron ore, coking coal, and copper. In addition, the company has oil exposure with conventional petroleum, and liquefied natural gas assets. The iron ore mines in particular are at the low end of the industry cash cost curve; however, overinvestment during the peaks of the China boom, when capital costs were very high relative to historical standards, diluted returns. After adding back the not-inconsiderable write-downs, BHP's invested capital base nearly quadrupled in the decade-ended 2015, substantially lowering returns such that we expect adjusted midcycle returns at close to the company's cost of capital. Excluding impairments, we forecast midcycle returns close to our estimated cost of capital.

### Analyst Note (11:53PM 10-Mar-2022)

The outbreak of war in Ukraine, and the subsequent sanctions levied on Russia, has sent shockwaves through commodity markets. As we saw with Vale's tailings dam failure in 2019, supply shocks can materially affect the outlook for prices and valuations. But the impact of supply shocks is not always intuitive. There's one major difference between the current largely sanctions-driven supply disruptions and Vale's tragedy. The supply capacity being disrupted is still intact in Russia. An outbreak of peace and a political agreement could see Russian commodity supplies return to the global market relatively quickly. Given that, there is considerable uncertainty as to how long any potential supply disruption will last.

When supply is scarce, the market rations demand with price. The changes in prices we've seen give a reasonable indication of the commodities most vulnerable to Russian supply disruption. Some of the moves are massive. As of March 8, according to Morningstar Direct and compared with average prices for 2021, thermal and metallurgical coal had roughly tripled, nickel was up 160%, aluminum 50%, uranium 39%, zinc 38%, palladium 24%, gold 14%, copper 10% and platinum 6%. Iron ore was basically trading in line with the 2021 average while crude steel is more than 30% below admittedly record levels in 2021.

We make no changes to any of our fair value estimates for the miners for now, but intend to factor in a potential supply shock to our valuations soon, where relevant. Of the mined commodities, thermal coal appears the one most likely significantly affected by supply disruption. This reflects both potential loss of Russia's thermal coal exports, about 15% of global trade, and supply tightness in energy markets generally. No-moat Whitehaven Coal and New Hope both have significant leverage to thermal coal. Current record prices above USD 400 per metric ton would not have to be sustained for long for our fair value estimates to be pushed higher.

The benchmark spot thermal coal price ex-Newcastle surpassed USD 420 per metric ton last week. In 2021, it averaged USD 137 per metric ton and in 2020 just USD 60 per metric ton. It is difficult to know just how long the elevated thermal coal prices will last, we are in uncharted territory. We have yet to incorporate the recent price action into our fair value estimates and still assume the thermal coal price averages USD 132 per metric ton to 2024 and about USD 80 per metric in the long term from 2025. But to show the leverage, we can assume the thermal coal price averages USD 400 per metric ton for just a single year in fiscal 2023, and that the metallurgical coal price similarly rises to around USD 500 per metric ton. Making no other changes to our price assumptions, our fair value estimates for Whitehaven Coal and New Hope would both nearly double to AUD 7.50 and AUD 5.90 per share versus our current fair value estimates of AUD 3.90 and AUD 3.00 respectively.

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No-moat Glencore also has exposure to mainly thermal coal. If we make the same assumptions, our fair value estimate for Glencore would rise by just over 20% to GBX 590 per share. The leverage for Glencore is diluted somewhat by exposure to other commodities and a more diversified portfolio.

Metallurgical coal has also been significantly affected, with Russian exports accounting for about 10% of globally traded supply. Spot is at a record above USD 600 per metric ton. Companies with major exposure to metallurgical coal include Teck Resources, Anglo American, BHP and South32--all no moat rated. Again, if we assume the metallurgical coal price averages USD 500 per metric ton, and thermal coal USD 400 per metric ton for just a single year in 2022, and leave all other assumptions unchanged, our fair value estimates would rise 12% for Teck Resources to USD 33.50 per share, 10% for Anglo American to GBX 2,800 per share, 6% to AUD 41.20 per share for BHP, and by 5% to AUD 4.50 per share for South32. Whitehaven Coal also has a smaller exposure to metallurgical coal, which we captured in the higher thermal coal price scenario above. For Whitehaven, approximately 80% of forecast revenue is accounted for by thermal coal, so the metallurgical coal exposure is relatively modest.

Iron ore is a commodity where our coverage has substantial leverage to price changes. Ukraine produces about 40 million metric tons a year and Russia around 25 million metric tons. Collectively this represents about 4% of supply out of a globally traded market of about 1.6 billion metric tons. For perspective, this is about 60% of the size of the supply hit that occurred with the Vale tailings dam failure in 2019. Spot iron ore sitting around USD 160 per metric ton is up about 35% since the start of 2022, but in line with the average price for 2021, which was extraordinarily favorable with the recovery from coronavirus. If we were to assume iron ore averages USD 160 per metric ton for 2022 and 2023--recognizing supply for iron ore has been slow to respond and that capacity in Ukraine could be slow to recover--our fair value estimates for Fortescue, Vale, Rio Tinto, BHP, Anglo American and Deterra Royalties would rise by 30% to AUD 15.25 per share, by 21% to USD 20 per share, by 14% to AUD 104, by 10% to AUD 43, by 8% to GBX 2,750 and by 7% to AUD 3.95 per share, respectively. All are no moat rated, with the exception of wide-moat Deterra.

Palladium and platinum also stand out as potentially impacted by supply disruptions. According to Johnson Matthey, Russia accounts for more than 40% of global palladium production and about 13% of platinum production. Here, the only company under our coverage that is potentially impacted is Anglo American, however the impact to valuation is diluted by Anglo's exposure to other commodities. Spot palladium is about 25% ahead of the 2021 average, while platinum is about 6% higher. Admittedly, given the current volatility in commodity markets, the prices could change quickly. However, if we assume a spot price of USD 3000 per ounce palladium and USD 1150 per ounce platinum for 2022, and make no changes to other commodity prices, our fair value estimate for Anglo would rise modestly to GBX 2,600 per share, versus our current estimate of GBX 2,550.

From a price perspective, nickel has also been significantly affected in the short term. This week, nickel spiked to an unprecedented price of over USD 20 per pound. At the start of January, the price was below USD 10 per pound. The action appears to be a short squeeze, and after some wild price swings at the beginning of the week, the London Metal Exchange suspended trade so that the various counterparties can sort out their obligations. So, it's not clear where the true market price sits right now, and USD 20 per pound seems an anomaly. But again, for the sake of illuminating the potential valuation sensitivities to nickel, we take the case of assuming a USD 20 per pound nickel price for a year, before reverting back to our prior assumption of about USD 11.60 per pound from 2023. In that scenario, our fair value estimates for Vale, South32, Anglo American, Glencore and BHP would increase by 3% to USD 17, 3% to AUD 4.30, 2% to GBX 2600, 2% to GBX 500 and 1% to AUD 39.50 per share, respectively.

We have seen less commodity price moves in aluminum, where Russia accounts for about 6% of global production, and zinc where it accounts for about 3%. Russia is a small player in the zinc market, and Teck Resources is the main company with exposure to that metal. South32 and BHP have very modest zinc

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exposures. Russia is also a modest producer of copper, accounting for about 3% of global production, so we expect the potential impact to be modest relative to other commodities. Aluminum is meaningful to earnings for Rio Tinto and South32, yet the leverage to a supply shock still appears relatively small. Spot aluminum of about USD 1.70 per pound is about 50% higher than last year's average. If we assume this price level persists for a year, it would raise our fair value estimates for Rio Tinto and South32 by less than 1%. Alumina Limited is entirely exposed to the aluminum value chain, however, it mainly produces alumina and bauxite and exposure to aluminum smelting is small.

The prospect of Russia buying local gold to diversify and get around any U.S. dollar-imposed trade frictions superficially appears positive for gold. However, trading directly in gold is impractical, so we think it's unlikely gold will get a boost from Russian central bank purchases. Any gold bought locally in Russia would still need to be sold globally to acquire the foreign currency required for Russia to sustain critical trade. In addition, a bipartisan group of U.S. senators is looking to legislate to close the gold loophole. The legislation would sanction any entities which intentionally transact with or transport gold from Russian central bank holdings. Americans would also be subject to sanctions if they knowingly transact in gold either physically or electronically with Russia. The gold price may be supported by a general increase in investor risk aversion as a result of the war, but we think a material Russian central bank-driven increase in demand is unlikely.

Overall, the key exposure from a potential Russian supply shock is energy. The European Union imports about 90% of its gas and Russian gas accounts for about 45% of this. Russia also accounts for about 25% of the EU's oil imports and 45% of coal imports. The Russian attack has reminded investors and the world of the importance of energy security and throws a slightly different lens on the concept of sustainability when it comes to energy supply and the transition away from fossil fuels. To an extent, the energy security part of the energy equation has been neglected in the transition from carbon. Consumers and investors became accustomed to oil and gas being available at a reasonable price and assumed it would be through the transition.

But what we have seen is a contraction in capital expenditure for energy in general. If new supply of oil, gas and energy coal is harder to bring on, it is possible we could have a scenario where fossil fuel supply lags demand. In that scenario, the energy producers could enjoy much higher prices than we currently factor in at the same time as one of their main expenses--development capital expenditure--is reduced. This scenario, exacerbated by any curbing of Russian supplies would likely be bad for inflation and economic growth globally. However, it has the potential to be a material tailwind for energy companies' earnings, asset prices, free cash flow and shareholder distributions. It is possible, however, there may be pressure from governments for oil companies to find more oil in the name of energy supply security, at least in the short term.

Japan, and to a lesser degree South Korea, have traditionally cared greatly about energy security. Partly, this reflects the lack of natural endowments in those countries, and the obvious reliance on imported energy. Investing in projects, dealing with high-quality counterparties, diversifying, and thinking long-term about supply are standard considerations and actions. At times the approach has seemed old fashioned. However, in the current environment, the approach seems eminently sensible and one that Europe could increasingly adopt.

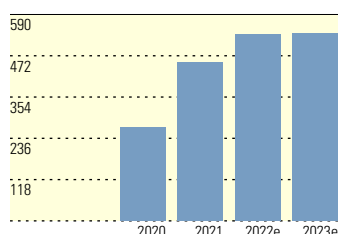
To this end, the European Commission released a plan this week to reduce Russian gas demand by two thirds by the end of 2022 and eliminating it by 2030. The goals will be pursued through a mixture of diversifying gas supply--including increased liquid natural gas, or LNG, imports and greater pipeline imports from non-Russian suppliers--increased use of biogases and renewable hydrogen, reducing fossil fuel usage, boosting energy efficiency, and greater use of renewables. The EU has substantial excess LNG import capacity. Financial Times reported that EU Green Deal commissioner Frans Timmermans "conceded that coal may be needed to be burned longer to avoid switching to gas." It's possible uranium could also see a benefit to demand with nuclear an option to diversify away from Russia-produced fossil fuels.

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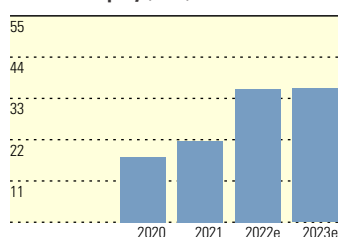
## Key Valuation Assumptions

Cost of Equity %	11.0
Weighted Avg Cost of Capital %	8.9
Long Run Tax Rate %	33.0
Stage II EBI Growth Rate %	3.5
Stage II Investment Rate %	23.3
Perpetuity Year	15.0

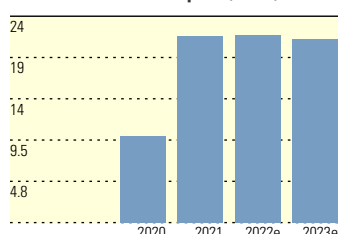
## EPS ¢



## Return on Equity (ROE) %



## Return on Invested Capital (ROIC) %



## BHP Now Reunified and Iron Ore Firing but Market Optimism on Prices Sees BHP Shares Overvalued

### Business Strategy and Outlook (20-Jan-2022)

BHP is the world's largest publicly traded mining conglomerate and positioned at the centre of the China boom. The company correctly values a strong balance sheet to provide some stability through the inevitable cycles and derives some modest benefit from commodity and geographic diversification, relative to its mining peers. Most revenue comes from assets in the relative safe havens of Australia, North America, and Europe.

BHP produces a range of commodities from oil and gas to nickel, and it is a major producer of iron ore, copper and metallurgical coal. Exposure to conventional oil and gas is likely to end with the proposed spin off and subsequent merger with Woodside. The onshore U.S. shale assets were divested in 2018. Much of the company's operations are in Australia, particularly the low cost iron ore business. Many of BHP's assets are located close to key Asian markets, particularly iron ore and metallurgical coal, which provides a modest freight cost advantage relative to peers.

Commodity demand is tied to global economic growth, China in particular. China is BHP's largest customer, accounting for more than 65% of total sales in fiscal 2021. With demand for most products likely to soften with the end of the China boom, and BHP's fiscal 2021-22 earnings back near the fiscal 2011-12 peak, we think the outlook is for earnings to materially decline, with iron ore the likely key driver.

The good times saw significant capital expenditure, notably on iron ore and onshore U.S. shale gas and oil. Overinvestment in the boom diluted returns to the point where we think long-term excess returns are unlikely. Structurally lower earnings with the demise of the China boom peaks means we expect midcycle returns on adjusted invested capital, after adding back the impairments and write-downs, to be close to the cost of capital. Ignoring the cumulative impairments and write-downs, we forecast returns to modestly exceed the cost of capital by midcycle.

### Economic Moat

BHP comprises four key divisions, namely iron ore,

petroleum, copper, and metallurgical coal. Iron ore and copper account for about 50% and 30% of forecast EBIT respectively, for the five years ended June 2026, with metallurgical coal and petroleum accounting for about 10% each. BHP has a small exposure to nickel and thermal coal, the latter of which it plans to dispose of. BHP also intends to dispose of its exposure to petroleum through a spin-off and merger with Woodside. In aggregate, we consider BHP to have no moat. We expect the low-cost iron ore division to generate excess returns on average through the cycle, a function of low costs and BHP's more modest expansions relative to peers Rio Tinto and Vale. Rio and Vale overinvested to a greater degree than BHP in the boom, more greatly diluting long-term returns. However, iron ore's influence on the whole group is insufficient to confer a moat. The remaining core divisions--petroleum, copper and coking coal, and noncore thermal coal and nickel--lack cost advantage and are unlikely to generate returns above the cost of capital through the cycle. After adding back the not-inconsiderable write-downs, BHP's invested capital base nearly quadrupled in the decade-ended fiscal 2015. This significant investment at boom-peak prices, well above long-term averages; and the subsequent dilution to returns is a key reason why we do not expect BHP to earn returns above the cost of capital. For example, in iron ore, the unit capital cost for capacity expansions in 2002 was about USD 40 per tonne; however, at the peak of the boom it hit in excess of USD 200 per tonne, largely coinciding with peak capital spending for BHP. In the more sedate demand environment, incremental capacity can be added for very low capital costs through incremental expansions and efficiencies, including innovative technology such as automated haulage. We consider BHP's iron ore business to be moatworthy. Cash costs are in the lowest quartile of the cost curve and in line with Rio Tinto's. Cost advantage is a function of the company's Pilbara iron ore assets being low on the cost curve. BHP benefits from having a sizable portion of its iron ore assets built prior to the boom at much lower unit rates. Port, rail, and mine assets are fully integrated, benefit from scale, and are favourably located to key Asian markets. Copper has suffered, with the expansion in the invested capital

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base yielding only limited growth in output. Despite the second-quartile cash cost position, we expect returns to be lower in future as China's capital investment wanes. BHP's petroleum returns were weighed down by the purchases of the poor returning onshore U.S. assets. Excluding the impairments and write-downs associated with the U.S. onshore assets, we expect conventional petroleum to generate low-double-digit midcycle returns. However, considering the requirement to continue to invest significantly to sustain production, we are not confident those excess returns can continue for the petroleum division for at least 10 years. Certainly not once the wealth destruction that accompanied shale investments is taken into account. BHP is the largest seaborne metallurgical coal, or met coal, producer in the world. Met coal is used for the production of steel. Divisional returns were an attractive 17% in fiscal 2012. However, with the likely peaking of China's steel consumption and increasing supply in response to higher prices, we think met coal is likely to be well supplied for the foreseeable future. We forecast mid-single-digit midcycle returns on invested capital. This reflects investments made during the boom, as well as structurally lower industry profits, owing to weak demand and a flattened cost curve. Overall, we think it's unlikely BHP will sustainably generate excess returns on aggregate from its portfolio, once past impairments and write-downs are added back to the invested capital base.

## Fair Value and Profit Drivers (20-Jan-2022)

Our fair value estimate for BHP is AUD 39 per share. We assume the iron ore price between 2022 and 2024 inclusive to an average of USD 110 per tonne. For copper, assume an average price of about USD 4.40 per pound from 2022 to 2024.

Our midcycle price forecasts remain USD 44 per tonne for iron ore from 2026, USD 96 per tonne for metallurgical coal from 2025, USD 60 per barrel Brent oil from 2024, USD 2.50 per pound of copper from 2025, and USD 79 per tonne thermal coal from 2025. We also assume prices of about USD 10.40 per pound nickel, USD 1.10 per pound lead and USD 1.70 per pound zinc from 2023 in line with spot. We still see meaningful downside for commodity prices from current levels, particularly for iron ore and copper,

but acknowledge that tighter markets will take time to normalise as the effects of China's fiscal and monetary stimulus wane.

We employ an 11% cost of equity, reflecting high cyclicity and operating leverage with moderate financial leverage. This drives a 8.9% weighted average cost of capital, assuming a long-run 30/70 debt/equity split, appropriate for a major mining company such as BHP. Our fair value estimate equates to an enterprise value/EBITDA exit multiple in 2026 of 7.5 times.

## Risk and Uncertainty

The key risk to BHP stems from commodity prices, particularly as China's fixed asset intensive economic growth is likely to wane. We do not believe that commodity diversification is a material benefit for BHP, given that the prices of its commodities tend to be correlated. Key commodities, namely, iron ore, copper, oil, and metallurgical coal were relatively correlated in the downturns in 2008-09 and 2015-16. The operating leverage and cyclicity inherent in BHP, as a result of exposure to fluctuating commodity prices, are the key earnings drivers. A focus on debt repayment post the 2015-16 downturn, and current stronger commodity prices and earnings, see BHP in strong financial shape.

Relative to these earnings drivers, the most significant ESG factors are relatively small. The ESG risks relate to carbon emissions, water resource dependency, land disturbance, labour strikes, and disputes, and community relations. Water scarcity and regulation can pose a threat to production in the sensitive areas that BHP operates in, requiring costly workarounds such as desalination plants for Escondida. Following the tailings dam failures at Samarco, a BHP/Vale joint venture, and Brumadinho, 100%-owned by Vale, BHP put more stringent construction and monitoring measures in place which we believe will mean recurrences are rather unlikely. BHP's carbon emissions could be the subject of future costs. Its largest emissions source is in the iron ore supply chain, particularly steel making. We think demand for steel is relatively price-inelastic so any carbon price in a decarbonised world should likely be passed onto steel consumers. In addition, BHP's ore could command a premium relative to others given the higher grade incurs lower emissions

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during the steel making process. Community opposition can challenge BHP's social licence to operate and future developments, although we think increased industry attention and regulation will likely support improved relations.

## Financial Strength

BHP is in a strong financial position. With ongoing debt repayment, modest near-term capital requirements and the fortuitous bounce in commodity prices since 2016, BHP's financial position is strong. For the five years ended fiscal 2026, we expect net debt/EBITDA remain below 0.5 and EBIT/net interest to average more than 30. Net debt at end-June 2021 was about USD 4 billion, below BHP's net debt target range of USD 12 billion to USD 17 billion.

Given the limited capital expenditure requirements, with only modest commitments to new expenditure in the lower demand growth environment, we expect BHP's balance sheet remain strong with excess cash flow to be returned to shareholders. Share buybacks and special dividends are possible, depending on the level of commodity prices, given the relatively modest outlook for capital expenditure. The likelihood of special dividends and buybacks would decline if BHP chose to pursue acquisitions.

## Capital Allocation (20-Jan-2022)

We assign a Standard capital allocation rating to BHP. After a series of expansionary, capital allocation missteps, BHP's focus is now cost reduction, increased productivity, and broader economies of scale. BHP will look within itself to support returns in the face of headwinds from lower commodity prices. We think this is appropriate and the company has delivered meaningful cost savings and productivity gains through the downturn. It has also undertaken some asset sales to improve the portfolio, notably the spinout of South32 and the sale of onshore U.S. shale oil and gas assets in 2018. The spinout of the remaining petroleum assets is likely in 2022. BHP has focused on strengthening its balance sheet and we think the company is appropriately well placed financially. We think the move in 2016 away from a progressive dividend to a payout ratio is a substantially better approach. It will see greater cash flows to shareholders through booms and reduce the

dividend payment burden when prices are less favourable. The strong balance sheet, reasonable dividend policy, greater recent and likely future capital discipline and productivity focus make the Standard capital allocation rating appropriate. For the longer term, we think capital allocation is the key driver of returns, and a return to loose expenditure in future, though we don't think this likely, could justify a poor rating. However, we do not have sufficient confidence the firm will be able to continually invest well longer-term--both to add value and to improve or sustain the competitive position--and as a result, we think a standard capital allocation rating is appropriate.

## Bulls Say

- BHP is a beneficiary of continued global economic growth and demand for the commodities it produces.
- The company's cash flow base is diversified and is less susceptible to the vagaries of the market than single-commodity producers.
- BHP's iron ore assets are industry-leading. The company remains well placed to continue low-cost production and increase output with minimal expenditure and an efficiency focus.

## Bears Say

- Capital allocation is difficult, given cyclical commodity prices and variable demand growth. Mining companies are likely to expand procyclically when cash flows are strongest, but investing when capital costs and asset prices are expensive is a recipe for value destruction.
- The China boom will never recur, and commodities are at the beginning of a long, slow secular decline.
- Resource companies could face growing sovereign risk as governments under fiscal pressure look to plug budgetary holes by taxing the industry.

# General Financials

	Historical					Forecast		
Per Share	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Sales ¢	970.4	1,116.1	1,204.4	1,288.7	1,622.3	1,853.0	1,882.5	1,849.6
Adjusted Earnings ¢	170.3	216.5	245.9	267.1	451.7	532.4	535.9	546.6
Free Cash Flow ¢	227.0	174.7	523.1	218.1	451.2	531.6	582.2	601.8
Net Tangible Assets ¢	1,461.2	1,451.7	1,378.7	1,522.0	1,432.9	1,542.2	1,641.1	1,757.0
Book Value ¢	1,423.9	1,347.5	1,273.4	1,413.3	1,356.1	1,463.1	1,561.5	1,677.4
Dividends ¢	110.1	152.7	186.2	179.3	403.5	455.4	430.7	430.7
Franking %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Growth %</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Sales Revenue	16.3	15.0	5.0	4.4	25.9	14.2	1.6	-1.7
EBITDA	38.5	17.2	3.9	-1.0	44.0	27.0	-0.2	-2.9
Pre-Tax Profit	159.8	33.7	16.3	-4.0	63.3	33.5	-0.9	-3.9
Adjusted EPS	442.0	27.2	13.6	8.6	69.1	17.9	0.7	2.0
DPS	166.8	38.6	22.0	-3.7	125.0	12.9	-5.4	0.0
Free Cash Flow per share	—	-23.1	191.4	-59.3	106.8	17.8	9.5	3.4
<b>Profit &amp; Loss (\$Mil)</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Sales Revenue	51,779.5	59,566.6	62,543.4	65,323.6	82,218.8	93,912.1	95,406.3	93,737.4
EBITDA	26,182.3	30,679.2	31,882.7	31,579.7	45,468.6	57,761.8	57,637.8	55,947.6
Depreciation	10,242.8	10,274.3	8,563.8	9,261.7	9,502.6	11,020.4	11,466.0	11,765.3
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	15,939.5	20,404.9	23,318.9	22,318.0	35,965.9	46,741.3	46,171.8	44,182.3
Interest Expense	2,088.6	2,055.6	2,113.7	1,886.1	1,847.4	1,378.9	1,249.2	1,110.2
Interest Income	189.8	416.6	624.3	524.6	97.9	327.8	368.3	435.0
Profit Before Tax	14,040.6	18,765.8	21,829.5	20,956.5	34,216.4	45,690.2	45,290.9	43,507.0
Tax	5,027.9	5,953.4	7,739.4	7,135.0	14,948.4	15,534.7	15,081.9	13,052.1
Reported NPAT	7,815.8	4,793.0	11,626.5	11,890.6	15,154.8	25,267.4	27,161.5	27,701.1
Non-Recurring Items After Tax	-1,269.9	-6,763.3	-1,145.0	-1,650.0	-7,739.6	-1,716.8	0.0	0.0
<b>Adjusted NPAT</b>	<b>9,085.7</b>	<b>11,556.3</b>	<b>12,771.6</b>	<b>13,540.6</b>	<b>22,894.5</b>	<b>26,984.2</b>	<b>27,161.5</b>	<b>27,701.1</b>
Free Cash Flow	12,114.6	9,322.2	27,162.3	11,057.9	22,866.2	26,943.5	29,507.9	30,498.2
Effective Tax Rate %	35.8	31.7	35.4	34.0	43.7	34.0	33.3	30.0
<b>Cash Flow (\$Mil)</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Receipts from Customers	—	—	—	—	—	94,555.1	95,334.9	93,874.6
Payments to Suppliers	—	—	—	—	—	-36,439.1	-36,892.7	-37,784.0
Other Operating Cashflow	—	—	—	—	—	-17,467.3	-16,208.0	-13,731.2
<b>Net Operating Cashflow</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>40,648.7</b>	<b>42,234.2</b>	<b>42,359.4</b>
Capex	-6,114.6	-7,856.4	-10,130.2	-10,312.4	-8,856.4	-11,227.6	-10,266.3	-9,580.1
Acquisitions & Investments	1,106.7	115.1	14,804.0	396.1	264.1	0.0	0.0	0.0
Sales of Investments & Subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	-513.5	81.5	-1,024.6	-1,466.1	-1,925.2	0.0	0.0	0.0
<b>Net Investing Cashflow</b>	<b>-5,521.5</b>	<b>-7,659.8</b>	<b>3,649.2</b>	<b>-11,382.5</b>	<b>-10,517.5</b>	<b>-11,227.6</b>	<b>-10,266.3</b>	<b>-9,580.1</b>
Proceeds from Issues	-143.3	-221.2	-7,570.0	-213.7	-313.7	0.0	0.0	0.0
Proceeds from Borrowings	-7,307.6	-5,016.8	-3,519.0	-2,525.8	-10,269.5	-2,760.1	-2,778.5	-2,778.5
Dividends Paid	-3,876.1	-6,752.9	-15,950.4	-10,276.5	-10,592.6	-21,863.9	-22,671.5	-21,826.6
Other Financing Cashflow	-792.2	-2,098.3	-1,695.1	-1,558.8	-2,851.6	-3,171.4	-3,047.5	-2,753.8
<b>Net Financing Cashflow</b>	<b>-12,119.2</b>	<b>-14,089.3</b>	<b>-28,734.6</b>	<b>-14,574.8</b>	<b>-24,027.3</b>	<b>-27,795.4</b>	<b>-28,497.6</b>	<b>-27,359.0</b>
Net Increase Cash	-17,213.4	-21,676.6	-25,376.5	-26,741.9	-34,071.6	1,625.7	3,470.3	5,420.3
Cash at Beginning	35,566.6	42,135.8	47,522.4	47,592.3	54,038.1	21,040.6	22,817.5	26,287.7
Exchange Rate Adjustment	427.3	72.4	-291.2	-784.6	473.3	0.0	0.0	0.0
Cash at End	18,780.5	20,531.7	21,854.7	20,065.8	20,439.7	22,666.3	26,287.7	31,708.1

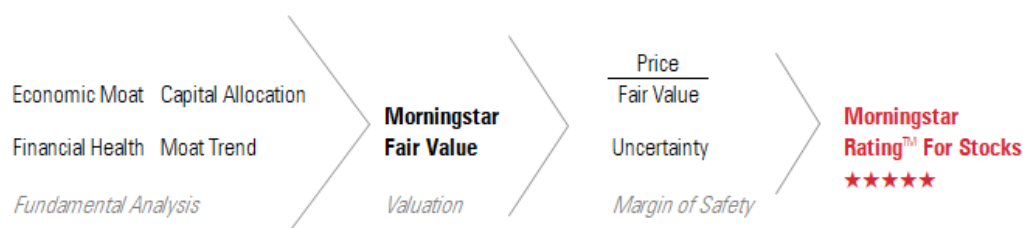
# General Financials

	Historical					Forecast		
Balance Sheet (\$Mil)	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Cash & Equivalents	18,780.5	20,531.7	21,854.7	20,065.8	20,439.7	22,666.3	26,287.7	31,708.1
Accounts Receivable	3,763.3	4,005.2	4,846.0	5,027.6	8,123.1	7,718.8	7,841.6	7,704.4
Inventory	4,873.9	4,869.3	5,375.1	6,129.1	5,933.8	6,437.7	6,725.9	6,729.7
Other Short-Term Operating Assets	522.8	16,040.1	641.1	866.8	1,289.7	1,327.6	1,336.5	1,336.5
Total Current Assets	27,940.6	45,446.3	32,717.0	32,089.4	35,786.3	38,150.5	42,191.7	47,478.7
Property Plant & Equipment, Net	106,816.6	86,910.7	95,242.2	108,148.3	98,958.3	102,074.4	101,555.4	99,370.3
Goodwill, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Intangibles	5,265.4	1,006.5	944.8	932.6	1,926.5	1,983.2	1,996.4	1,996.4
Other Long-Term Operating Assets	5,767.0	4,908.2	5,109.2	6,087.3	4,430.9	4,561.1	4,591.6	4,591.6
Deferred Tax Assets	7,680.5	5,227.7	5,268.8	5,511.9	2,563.3	2,638.7	2,656.3	2,656.3
Long-Term Non-Operating Assets	1,792.7	1,381.6	1,900.9	3,833.5	2,369.0	2,438.6	2,454.8	2,454.8
<b>Total Assets</b>	<b>155,262.7</b>	<b>144,881.0</b>	<b>141,182.8</b>	<b>156,602.9</b>	<b>146,034.3</b>	<b>151,846.4</b>	<b>155,446.2</b>	<b>158,548.0</b>
Accounts Payable	7,366.0	7,732.2	9,402.3	8,619.0	9,420.8	9,409.0	10,347.5	10,353.4
Short-Term Debt	1,646.8	3,539.5	2,502.8	7,490.7	3,523.3	3,626.8	3,651.0	3,651.0
Other Short-Term Operating Liabilities	6,069.5	6,825.4	5,366.7	6,045.4	9,046.8	8,760.7	8,819.1	8,819.1
Total Current Liabilities	15,082.3	18,097.0	17,271.8	22,155.1	21,990.9	21,796.5	22,817.7	22,823.5
Total Long-Term Debt	38,791.1	31,137.1	33,682.8	35,047.1	24,607.9	22,571.1	19,943.0	17,164.5
Long-Term Operating Liabilities	13,158.2	12,668.8	12,897.5	17,031.8	20,284.2	20,880.5	21,019.7	21,019.7
Deferred Tax Liabilities	4,996.0	4,491.6	4,526.9	4,122.0	4,443.0	4,573.6	4,604.1	4,604.1
Long-Term Non-Operating Liabilities	0.0	0.0	261.8	162.9	160.9	1,882.4	1,895.0	1,895.0
<b>Total Liabilities</b>	<b>72,027.6</b>	<b>66,394.6</b>	<b>68,640.8</b>	<b>78,518.9</b>	<b>71,486.8</b>	<b>71,704.0</b>	<b>70,279.5</b>	<b>67,506.8</b>
Preferred Stock	—	—	—	—	—	0.0	0.0	0.0
Minority Interest	7,255.8	6,569.2	6,416.6	6,441.5	5,819.8	5,990.9	6,030.8	6,030.8
<b>Total Equity</b>	<b>83,235.1</b>	<b>78,486.4</b>	<b>72,542.0</b>	<b>78,084.0</b>	<b>74,547.5</b>	<b>80,142.4</b>	<b>85,166.8</b>	<b>91,041.3</b>
<b>Profitability %</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
EBITDA Margin	50.6	51.5	51.0	48.3	55.3	61.5	60.4	59.7
EBIT Margin	30.8	34.3	37.3	34.2	43.7	49.8	48.4	47.1
Net Profit Margin	15.1	8.0	18.6	18.2	18.4	26.9	28.5	29.6
Free Cash Flow Margin	23.4	15.6	43.4	16.9	27.8	28.7	30.9	32.5
Return on Equity	10.4	6.5	16.8	17.3	21.6	35.4	35.4	33.8
Return on Assets	4.9	3.2	8.1	8.0	10.0	17.0	17.7	17.6
Return on Invested Capital(w/Goodwill)	8.2	10.4	11.6	10.0	21.6	21.7	21.2	20.6
ROIC (w/Goodwill) Less WACC	-0.7	1.6	2.8	1.2	12.7	12.8	12.4	11.7
<b>Leverage &amp; Liquidity</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Net Debt to Capital %	22.2	16.4	17.8	23.9	9.6	4.0	-4.1	-15.4
Net Debt/(Net Debt + Equity) %	22.2	16.4	17.8	23.9	9.6	4.0	-4.1	-15.4
Net Debt/Equity %	28.5	19.7	21.7	31.4	10.6	4.2	-4.0	-13.3
Net Debt/EBITDA x	0.8	0.5	0.4	0.7	0.2	0.1	-0.1	-0.2
EBIT/Net Interest Expense x	8.4	12.4	15.7	16.4	20.6	44.5	52.4	65.4
Current Ratio (Current Assets/Current Liabilities) x	1.9	2.5	1.9	1.4	1.6	1.8	1.8	2.1
Dividend Payout Ratio %	64.7	70.5	75.7	67.1	89.3	85.5	80.4	78.8
Net Cash Per Share ¢	-405.9	-265.0	-276.0	-443.3	-143.2	-60.9	62.0	223.8
<b>Valuation</b>	06/17	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Price/Earnings x	13.7	13.3	14.3	13.5	9.4	9.0	8.9	8.7
PEG Ratio x	0.0	0.5	1.0	1.6	0.1	0.5	13.6	4.4
EV/EBITDA x	5.6	5.5	6.2	6.5	4.9	4.3	4.3	4.5
EV/EBIT x	9.2	8.2	8.4	9.2	6.2	5.3	5.4	5.6
Free Cash Flow Yield %	9.7	6.1	14.9	6.0	10.6	11.1	12.2	12.6
Dividend Yield %	4.7	5.3	5.3	5.0	9.5	9.5	9.0	9.0
Price/(OCF per share) x	—	—	—	—	—	6.0	5.7	5.7
Price/(FCF per share) x	10.3	16.5	6.7	16.6	9.4	9.0	8.2	7.9
Price/Sales x	2.4	2.6	2.9	2.8	2.6	2.6	2.5	2.6
Price/NTA x	1.6	2.0	2.5	2.4	3.0	3.1	2.9	2.7
Price/Book x	1.6	2.1	2.8	2.6	3.1	3.3	3.1	2.8

# Equities Research Methodology

We believe that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star, or Buy-rated, stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star, or Sell-rated, stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts. In this document, we provide a detailed overview of how the Morningstar Rating for stocks is derived, and also outline the analytical work that feeds into our coverage of stocks.

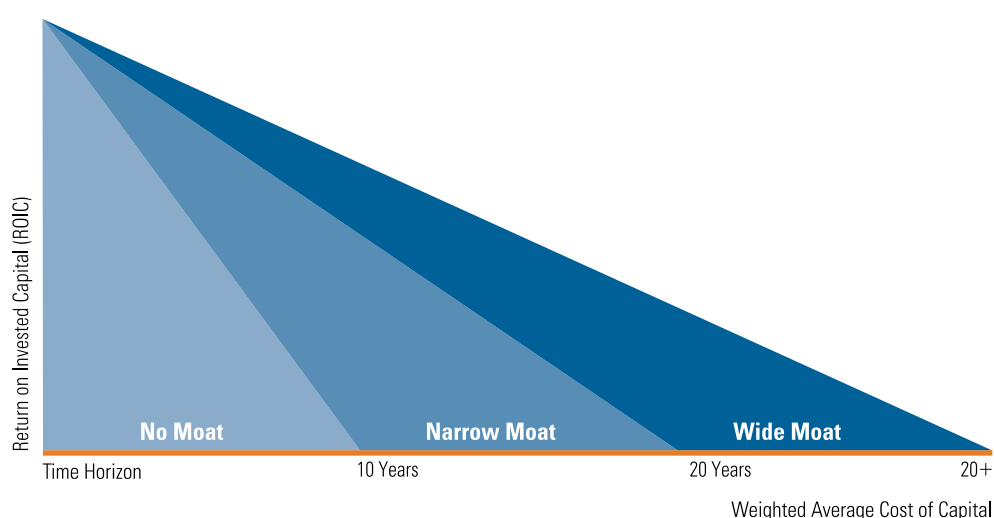
## Morningstar Research Methodology



## Morningstar's Economic Moat™ Rating

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess profits as returns on invested capital, or ROICs, above our estimate of a firm's cost of capital, or WACC (weighted average cost of capital). Without a moat, profits are more susceptible to competition. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

## Measuring a Moat



## Determining Fair Value

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts'

# Equities Research Methodology

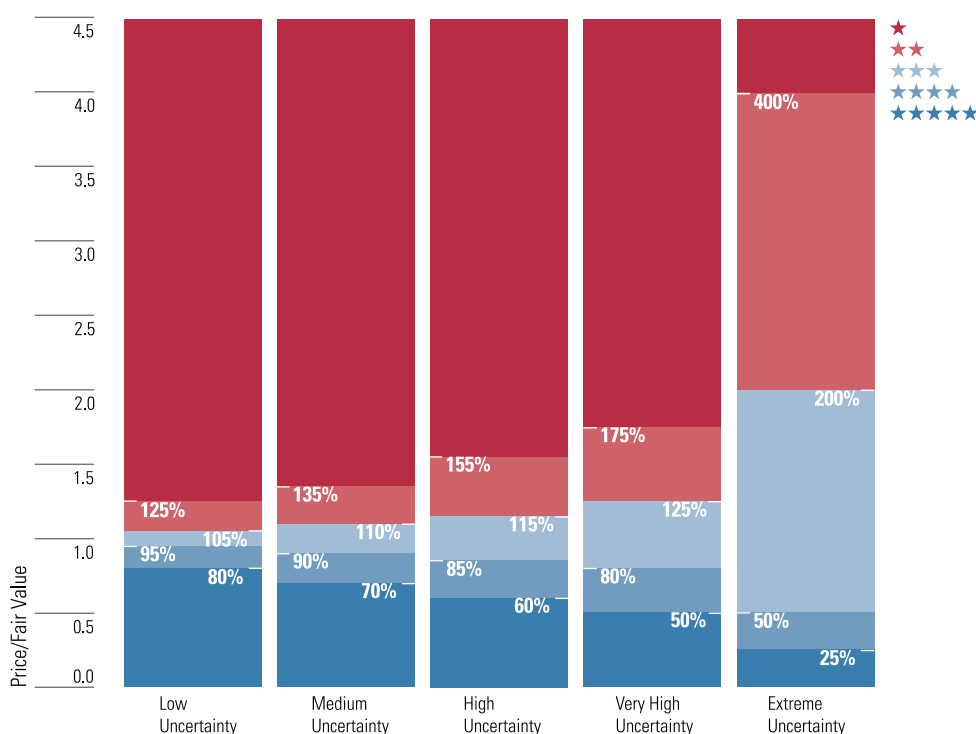
independent primary research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process.

## The Uncertainty Rating

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our recommendation system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that we use to assign star ratings, as shown in the graph.

Morningstar Equity Research Star Rating Methodology



# Equities Research Methodology

## Generating the Morningstar Star Rating

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the recommendation, or star rating, is automatically re-calculated at the market close on every day the market is open.

Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted. Furthermore, we would expect our fair value estimates to generally rise over time, due to the time value of money. Specifically, over the course of a year, barring major changes to analyst assumptions, we would expect our fair value estimates to increase at the level of our estimate of a firm's cost of equity (net of shareholder returns attributed to dividends). So, for a stock that pays no dividends with a \$100 fair value estimate today and an estimated 10% cost of equity, we would expect our fair value estimate to rise to \$110 in 12 months, all else equal.

It is also worth noting that there is no predefined distribution of our recommendations. That is, the percentage of stocks that earn a Buy rating can fluctuate daily, so the recommendations, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many Buy-rated stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

Our recommendations /star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential. This rating encourages investors to consider an overweight position in the security relative to the appropriate benchmark.

★★★★ Appreciation beyond a fair risk-adjusted return is likely, in our opinion. This rating encourages investors to own the firm's shares, possibly overweight relative to the appropriate benchmark after fully considering more attractively priced alternatives, such as our Buy recommendations.

★★★ Indicates that we believe investors are likely to receive a fair risk-adjusted return (approximately cost of equity). Concentrated portfolios might consider exiting these positions if more attractively priced alternatives are available.

★★ We believe investors are likely to receive a less than fair risk-adjusted return and should consider directing their capital elsewhere. Securities with this recommendation should generally be underweight, assuming less expensive alternatives are available for the portfolio strategy being employed.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss. This rating encourages investors to strongly consider exiting portfolio positions in the security in nearly all strategies.

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Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

# Research Report Disclosure Document (Australia and New Zealand)

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