STATE ONE
STOCKBROKING LTD
ABN 95 092 989 083 | AFSL 247 100
Participant of ASX, Chi-X, Sydney Stock Exchange

Level 14
172 St Georges Terrace
PERTH WA 6000
PO Box 7625
CLOISTERS SQUARE WA 6850
P: +61 8 9288 3388

Suite 606, Level 6
83 York Street
SYDNEY NSW 2000
PO Box R1931
ROYAL EXCHANGE NSW 1225
P: +61 2 9024 9100

Market Watch
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marketwatch@amscot.com.au

Editor's Note

*In mid-September, **Commonwealth Bank of Australia (ASX: CBA) announced that it no longer intended to be in every sector of the financial services sector** after selling its insurance business for A$3.8bn to pan-Asian insurer AIA Group. The bank is also looking to spin off (via a trade sale or more likely an IPO) its global asset management business Colonial First State Asset Management (CFSGAM). Based on a rule of thumb that asset management business is valued at 3-5 per cent of assets under management, CFSGAM could be worth A$6.5 to A$10bn. While these divestments are essentially a strategic repositioning back to the group's traditional core banking roots - and perhaps a tacit admission that it got "too big to manage" - the proceeds will provide significant capital to shore up the balance sheet. How much CBA gets to keep however, will depend on the way the bank resolves the AUSTRAC case into allegations of 54,000 breaches of anti-money laundering and terror financing laws.*

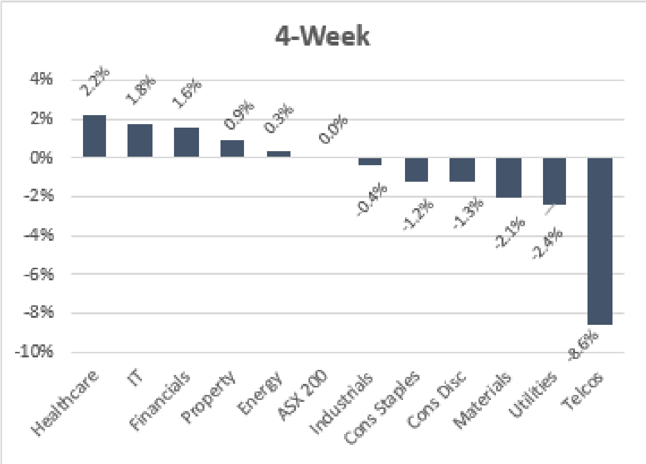
***At first sight, it looks like the broader banking sector is starting to feel the pressure of negative public opinion.** In a surprise move, CBA announced that it would drop ATM fees for customers from other banks using its ATMs. This forced other banks to follow suit, with Westpac, ANZ, and NAB announcing quickly that they would also drop fees. While the move should be welcomed as a small, but important win for customers, it will not have a material impact on bank profitability; in CBA's case the estimated cost of the initiative at A$50m is immaterial relative to last year's cash profit of A$9.88bn. With Australian society becoming increasingly cashless as direct transfer and "tapping" payments rise, ATM fees are becoming less costly to customers over time; since 2011, ATM withdrawals have dropped by 22%. As a result, we see the move as a shrewd and well-timed piece of positive PR following a string of rough headlines for the major banks, rather than evidence of a fundamental change in how banks view customer relations. The real costs to customers lies in the billions of dollars in credit card fees, home loan fees, and transaction account fees. Looking at the major financial stocks, we calculate that AMP Limited (ASX: AMP) offers the largest upside potential with ~18% total return, with Bank of Queensland (ASX: BOQ) offering the least upside with a forecast total return of 0.0%. See table below.*

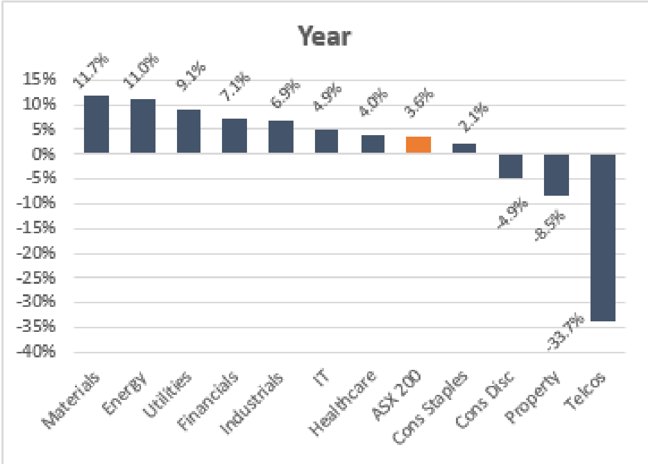
Forecast total return for major ASX-listed financial stocks

Security	Name	Share Price (A$)	Target Price (A$)	Capital upside / (downside) (%)	FY18E Dividend (A$)	FY18E DY (%)	Total Return (%)	Franking (%)
AMP	AMP Limited	4.8	5.36	11.7%	0.30	6.3%	**17.9%**	90%
WBC	Westpac	32.13	34.28	6.7%	1.89	5.9%	**12.6%**	100%
SUN	Suncorp	13.09	13.94	6.5%	0.76	5.8%	**12.3%**	100%
CBA	Commonwealth Bank	75.12	79.46	5.8%	4.37	5.8%	**11.6%**	100%
ANZ	ANZ Banking	29.75	31.37	5.4%	1.63	5.5%	**10.9%**	100%
NAB	National Aust. Bank	31.47	32.72	4.0%	1.96	6.2%	**10.2%**	100%
MQG	Macquarie Bank	90.95	94.13	3.5%	4.83	5.3%	**8.8%**	45%
BEN	Bendigo & Adelaide	11.7	11.78	0.7%	0.69	5.9%	**6.6%**	100%
BOQ	Bank of Queensland	12.96	12.19	-5.9%	0.77	5.9%	**0.0%**	100%

Source: IRESS, compiled by State One Stockbroking
Note: Share price and Target prices as at 20 September 2017

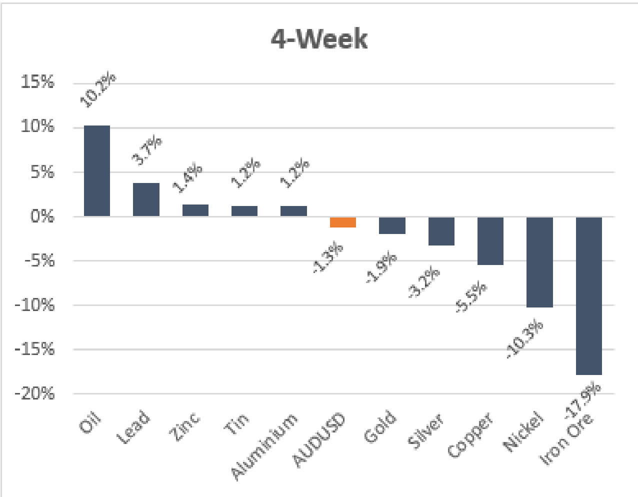
ASX 200: sector performance over past four weeks and year

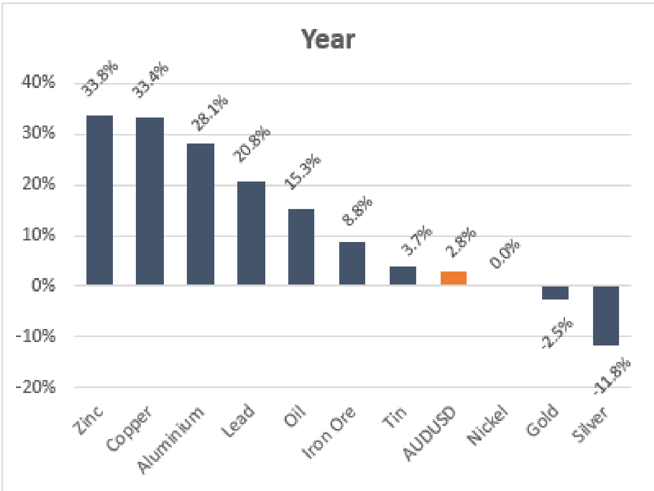




Source: IRESS, compiled by State One Stockbroking

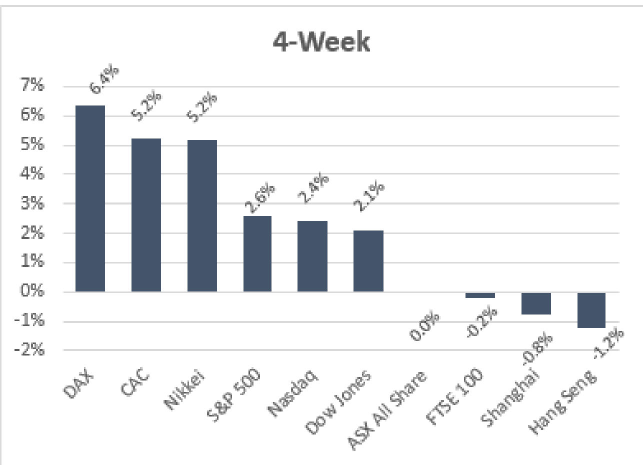
Commodities and AUDUSD: performance over past four weeks and year

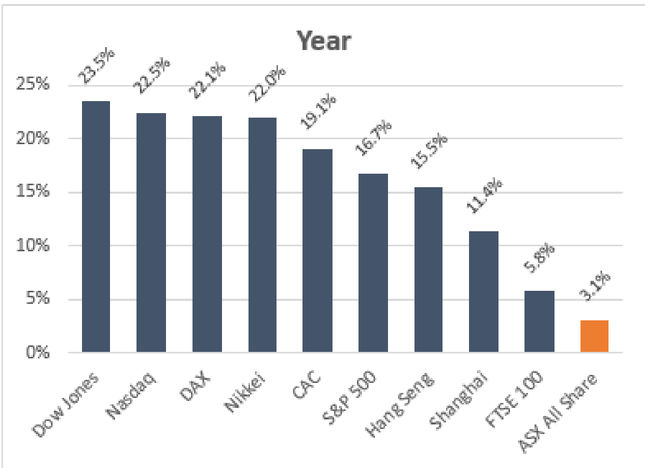




Source: IRESS, compiled by State One Stockbroking

World Indices: performance over past four weeks and year (local currency)



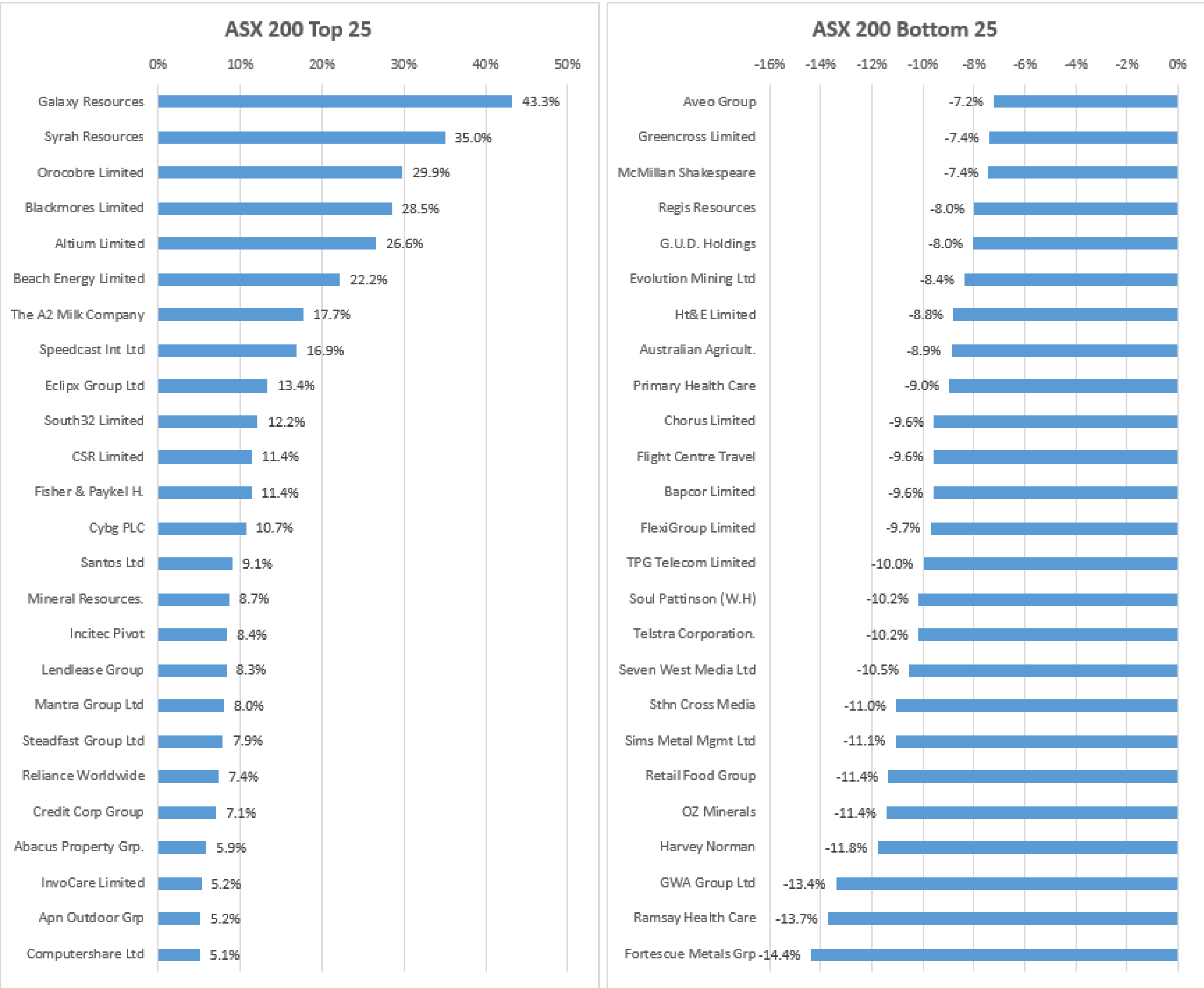


Source: IRESS, compiled by State One Stockbroking

Commentary

- The FTSE/ASX 200 Index traded flat in September; +ve gains in the Healthcare, Financials, and IT sectors, were neutralized by ongoing weakness in Telcos, and a retracement in the Materials and Utilities sectors.
- After gaining 12.9% in August, the long-suffering nickel price gave up most of those gains in September and closed the month 10.3% down. The iron ore price gave up some ground losing 18%; iron ore prices are still, however, some 9% up over the past year.

ASX 200: top 25 and bottom 25 performing stocks over the past four weeks (% gain/loss)



Source: IRESS, compiled by State One Stockbroking

- **Top performer**: Galaxy Resources (ASX: GXY) +43% as a renewed surge in investor interest in the lithium space benefited a broad-base of lithium-exposed stocks.
- **Worst performer**: Fortescue Metals (ASX: FMG) a 14% fall in the share price on the back of a significant retracement (-18%) in the steel making raw material.

Month in review - *events that caught our eye in September*

Gold industry workers protest WA government's plan to increase royalty rate from 2.5% to 3.75% when the gold price is above A$1,200/oz.

Hurricane Irma cut a path of destruction through the Caribbean and the Florida Keys. Hurricane Maria following on, devastates Puerto Rico.

North Korea threatens to test a hydrogen bomb in the Pacific in response to new US sanctions.

Angela Merkel, the longest-serving leader in the EU, won a fourth term as German chancellor although her CDU/CSU alliance lost 8.5% to gain a lower than expected 33% of the vote.

AGL Energy (ASX: AGL) under pressure from state government to keep coal-fired Liddell power station in NSW up and running beyond slated 2022 closure date.

Chinese financial regulators including the PBOC criticised crypto token sales, leading to speculation that China will formally ban trading in crypto currencies and Initial Coin Offerings (ICOs).

Australian federal government secures commitment from LNG exporters to guarantee domestic supply for the next two years at least. Victoria and NSW state governments under pressure to lift bans on gas development.

King Salman of Saudi Arabia announced by royal decree that women will be officially allowed to obtain driving licences from June 2018. Move seen as a small step towards improving rights for women.….but also, reassuring investors that the country can diversify its economy.

US President Trump unveils expansive tax cut plan to boost America's competiveness including slashing corporate tax to 20% and eliminating the taxation of foreign profits.

Warnings and Disclosures

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Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au