Construction Advisor

The Quarterly

by *Wolf & Bear Services*

SEPTEMBER 2018

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Highlights

- Engineering Construction continues to show signs of rebounding – up 18% YoY. This further supports the belief that the pivot has occurred from the West Coast mining boom to the East Coast Infrastructure Boom.

- Despite significant head-winds in the form of government and financial institution intervention, Residential Construction continues to power upwards in terms of work done. The challenge is that this work was committed some time ago and the risk of deferment and abandonment of short-medium term projects yet to start is very real. Even with an apparent downturn in house prices, development pockets will continue to be developed – most notably in Western Sydney and South West of Melbourne.

- Non-residential construction is still sluggish but quietly building towards a surge as office buildings, commercial, retail, warehousing and tourism spend all respond to the lower AUD/USD exchange rate in anticipation of improved trading conditions.

- Whilst VIC/NSW power ahead in construction, WA and QLD are stuck in troughs as they hope for a turn-around in resources investment. NT is clinging on to the Ichthys project as delays (bad for the project but great for the local economy) continue.

- After years in decline, pricing in rental & hiring is starting to slowly show signs of recovery. Whilst the construction industry in general has steadily increased pricing over the past ten years in line with the market, the equipment rental industry has suffered through relentless pressure on pricing pushing many participants to the edge. Whilst only one notable player 'hit-the-wall' in Force Access, many more pushed the boundaries of their financial capacity falling into debt-for-equity swaps and onerous capital targets.

- Despite the ongoing tit-for-tat exchanges between Canberra and the unions, broad-scale industrial action has so far been averted. The only current action relates to the AWU in WA over the Alcoa plants.

- The AUD/USD exchange is flirting with the 'goldilocks zone' of between 65c-70c where Australian manufacturing and services are globally competitive. It has been 10 years since we have participated in the global economy at these levels and this should offer many opportunities for Australian industry. Watch this space in terms of the short/medium term impacts of macro-economic factors such as the US/China trade war.

- Coates Hire may have announced $180m in asset investment but the reality is that the rental industry has spent 3+ years in asset spend contraction. With some notable exceptions, the industries fleet is looking old, tired and will fall out of specification without significant reinvestment in FY19/10.

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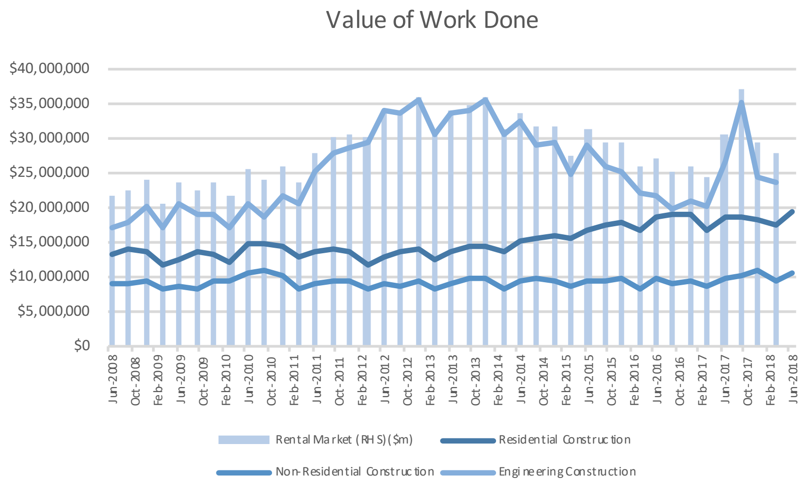


Source: Based on ABS Data 1, Wolf & Bear Services

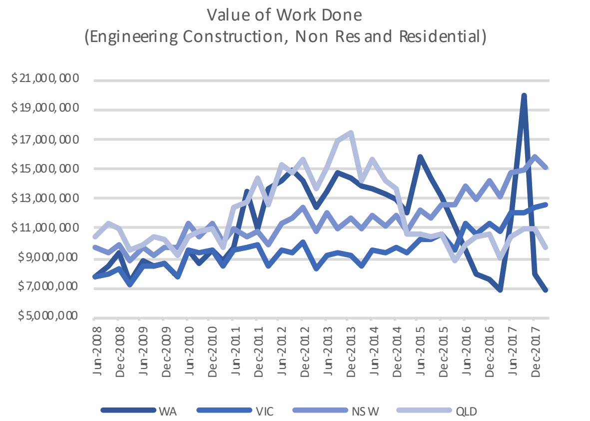
Nationally, we continue to witness the transition from the 'mining' economy back to the more traditional eastern-states driven economy. The lower Australian dollar has helped in driving new investment in tourism, casinos, hotels and other non-residential developments offsetting a structural decline in manufacturing, commercial and industrial works. This has equally offset the cyclical low in healthcare and education. Residential work continues to grow satisfying a seemingly insatiable demand for housing despite many government interventions (in foreign ownership) and increasing financial constraints imposed by the banking industry. However, residential construction is turning as investment in apartments and unit (medium-high density) development eases.

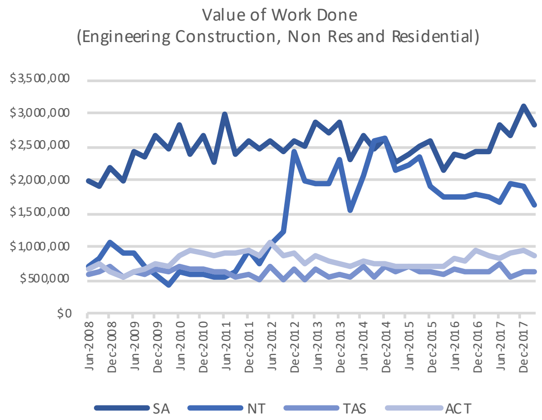
Engineering Construction recorded a 3.4% decrease in work done QoQ and 22.7% YoY (+3.3% & 17.7% seasonally adjusted). This result reinforces the belief that the pivot point between the end of the mining boom and the rise of the infrastructure boom converged at the start of calendar 2017. Despite signs of the housing market cooling, the latest Residential Construction results were 12.6% QoQ and 5.7% YoY whilst Non-Residential rose 12.7% QoQ and 8.0% YoY.

Overall, the three sectors are on the rise with a strong pipeline underpinning the recovery in Engineering Construction out to 2021/22 (refer to state-based analysis). Key Government backed National long-term projects such as; the 'second Sydney Airport' at Badgery's creek, the Melbourne Metro Rail project, Melbourne North-East Link (freeway) and new works in QLD all suggest that this pipeline is reliable and unlikely to be significantly impacted by external economic uncertainty. Non-Residential Construction has a strong pipeline in the medium term with a number of projects committed but continued increase in investment will be largely reliant on broader macro-economic performance and particularly the trend in the Australian dollar vs the US dollar.

By-far the greatest sector contribution risk remains Residential Construction. Ongoing interventions from political sources, banks and financial regulators, not to mention foreign macro-economic factors all pose significant challenges to this market. However, it is worth remembering that this is a market that has reached unprecedented highs both in prices and activity. Any 'turn' or softness should be viewed in perspective i.e. a 5% fall on 600% growth is not significant in the long run.

Worth highlighting is that the East coast of Australia is entering into the largest boom in tunnelling construction in Australia's history. Concurrent and sequential projects such as; Metro Rail (VIC), North-East Link Fwy (VIC), Western Distributor (VIC), Sydney Metro – City & SW (NSW), the Snowy Hydro upgrade and Western Harbour Tunnel (NSW) plus more, will stretch the countries resources of labour and equipment in this specialised field.

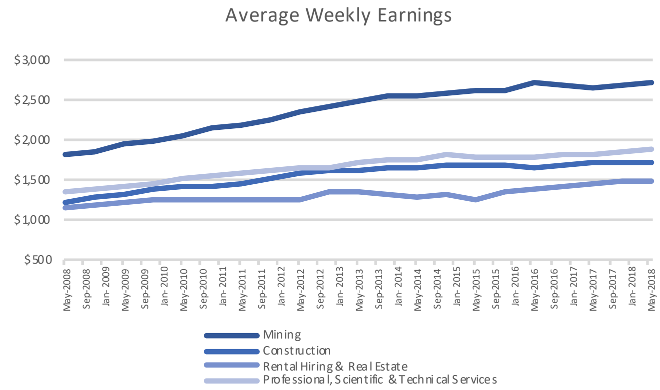




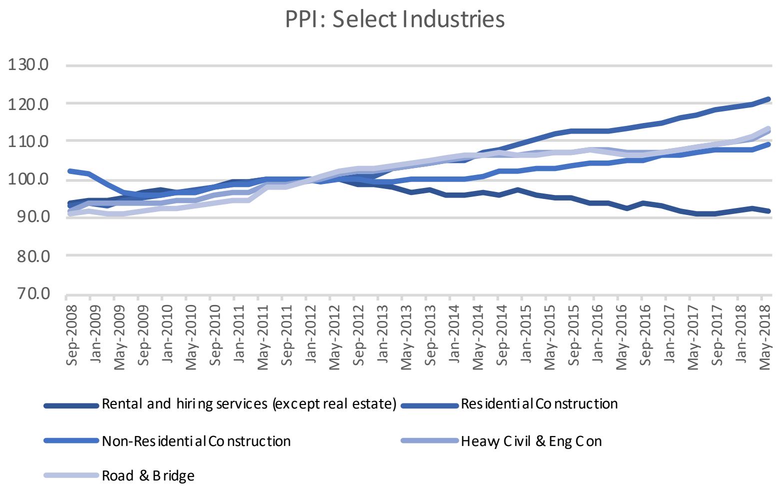
Source: Based on ABS Data 2, Wolf & Bear Services

Regionally WA continues to fall despite the abnormal spike in the September 2017 Quarter. Queensland has rallied after coming off the LNG boom of 2010-2015 and looks to have reached a point of stability if not hints of growth. The 'engine rooms' of Victoria and New South Wales are gathering steam and driving upwards on the back of the infrastructure spends in those states. South Australia continues to build after a trough in late 2015 however a lack of major infrastructure in the pipeline suggests that this growth may stall at some point. The Northern Territory has enjoyed a huge boost in activity on the back of the Ichtchys LNG project however with major construction at an end, without an unforeseen injection, this should return to its long-term trend. Tasmania and the ACT have their ups-and-downs but ultimately in the scheme of things, they remain stable and do not indicate any significant shift in the medium term.

It has been much publicised in the media that wages have been largely stagnant in Australia for some time, but this is equally a reflection of the 'transition' economy. Mining wages vastly exceeded other industries over the past 10 years and as these workers migrated back to the Eastern States, their wage expectations were, in some cases, unrealistic. Clearly underperforming in this data are the employees in Rental, Hiring & Real Estate – whilst we acknowledge the dilution of the sector grouping, the Equipment Rental sector certainly appears to have failed to share the early benefits of the market growth with their employees. However, we equally acknowledge that many of the roles in this industry are not 'skilled' in the way that many in construction and mining roles are with many roles based in customer service and sales.



Source: Based on ABS Data 3, Wolf & Bear Services



Source: Based on ABS Data 4, Wolf & Bear Services

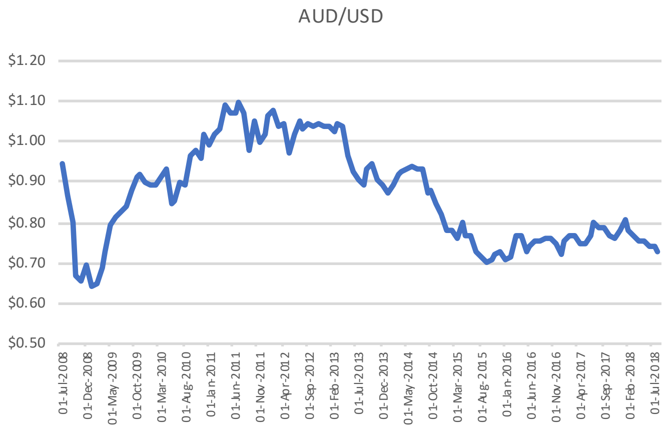
The Producer Price Indexes published by the ABS give us a certain view of pricing indicators that must be interpreted with caution when applied to real industry pricing trends. However, there are some very real and apparent divergences in PPI results. The obvious divergence is the outperformance of Residential Construction over the past 6 years as increasing housing prices were captured by Residential Construction Companies (assuming you lifted rates/prices) in line with growing capital gains. But Rental & Hiring PPI is the next most obvious divergence… this industry/market has suffered significant decline since the reference period in 2012 – coinciding with the peak of the mining construction boom.

Anecdotal evidence found in public results and industry sources indicate that equipment rental pricing in the Pilbara particularly fell in excess of 30% across the board – an indictment on the industry in not fencing certain products and markets during this period.

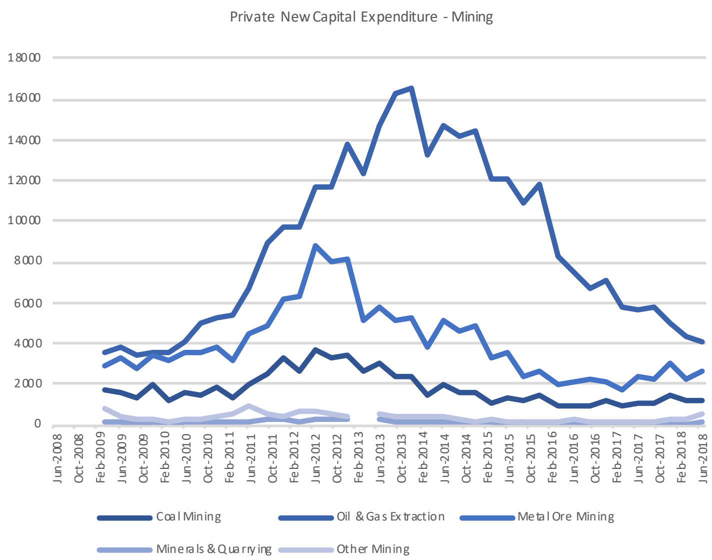
Given that this is a national measure, the mining boom alone cannot be blamed for this poor trend in Rental & Hiring Pricing. Granted, competitive pressures exist in the marketplace however as an industry, there is a clear failure to track broader customer trends and maintain parity with associated markets. It is widely known that pressure has been applied on the equipment rental industry for some time from major customers (often at the advice of professional consultants) in a search for improved margins however the industry can only absorb this profit squeeze for so long. There are early signs of a recovery with this industry PPI appearing to have bottomed out around May – June 2017. Equally, industry sources indicate that prices are on the improve however this is being challenged by customers.

General economic conditions continue to provide mixed signals – GDP growth of 3.4% YoY (June Qtr) is stronger than expected however a number of macroeconomic challenges remain. Ongoing uncertainty regarding US trade/economic policy and turbulent political conditions continue to weigh on international sentiment and confidence with the threat of a trade war between the USA and China causing particular fear in markets. In addition to the US concerns; fear regarding the impact of Brexit (29th March 2019), instability in Southern Europe (see Turkey, Italy, Spain, Greece), the Japanese economy and economic turbulence in South America are all cause for pause in global terms. Market watchers must look beyond the doom and gloom, fear mongering and negative sentiment promoted by the media. There is much cause for confidence, the US economy is surging, local interest rates remain historically low (despite the recent rises) and we have already discussed the positive trends in construction activity.

At publishing (19/9/2018), the AUD/USD exchange rate is at $1/0.72c. This is getting close to the economic 'sweet zone' for the Australian economy (between 60c – 70c) where traditional non-mining industries reliant on exports and tourism are most globally competitive. This should encourage the reinvestment we are already seeing in hotels, casinos, resorts and commercial activities. However, for every winner, there is a loser – significant spend in recent years in logistics and warehousing may struggle to realise projected returns if the lower exchange does lead to a significant fall in imports.



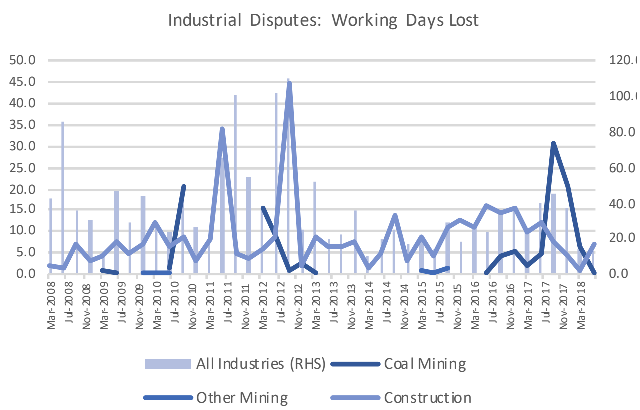
Source: RBA, Wolf & Bear Services 1



Source: Based on ABS Data 5

Turning our attention to Private New Capital Expenditure, it is worth focussing on the mining industry. Unsurprisingly, we can see the consecutive peaks in IO followed by Oil & Gas extraction following the respective booms. The key observation here is that the massive spend in Oil & Gas did not translate to domestic improvement – the reason for this is that much of the plant required in this industry is 'plug-and-play'. Components and plant are manufactured offshore and shipped in, or in the case of off-shore processing shipped 'close'.

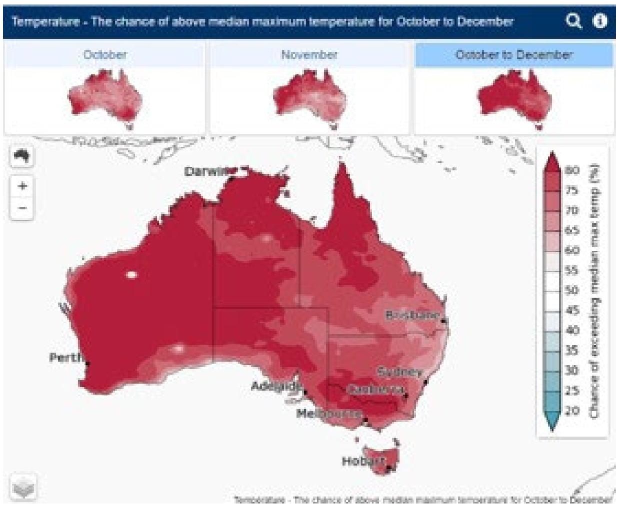
Oil & Gas New Capital Expenditure is expected to continue to fall as mega-projects such as Ichthys in Darwin reach completion and transition to production. Interestingly Metal Ore spend has seen a slight increase over the last 12 months, again, reaffirming that we have seen the bottom of the trough in the investment cycle in this sector. The Victorian Government continues to hold its position on banning on-shore gas exploration but further hunting in the Bass Strait may lead to new investment in the near future. Ongoing commentary and challenges regarding domestic supply versus exports suggest that additional exploration and infrastructure spend is likely in this sector. Whilst these works should provide a base for Capital Expenditure going forward it is inconceivable that we will see a return to the highs witnessed between 2010-2018.

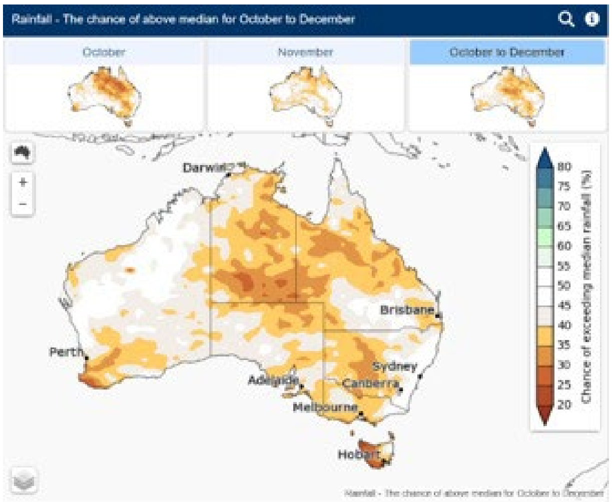


Industrial disputes in construction remain subdued despite the ongoing war of words between Canberra and the CFMEU over the ABCC reinstatement. Coal mining will surge again in the next release on the back of the continuing action in Alcoa's WA operations with the AWU action over 5 weeks (Pinjarra, Wagerup and Kwinana affected).

The well-publicised drought in Australia (particularly NSW) is causing significant pain in Agriculture and has obvious flow on impacts to spend in construction, capital expenditure and rental. Unfortunately, the Bureau long term forecast (September – November) doesn't indicate much sign of relief.

The Victorian emergency services have already brought forward the gazetted 'fire-season' to start in early September – particularly in the East of the State. Equally, we can expect that NSW/Southern QLD are at high risk of significant 'fire-events' over the last quarter of the year. For rental and construction, this will have significant negative impact on the requirements for the grain season and the flow on effects in regional economies will be poor.

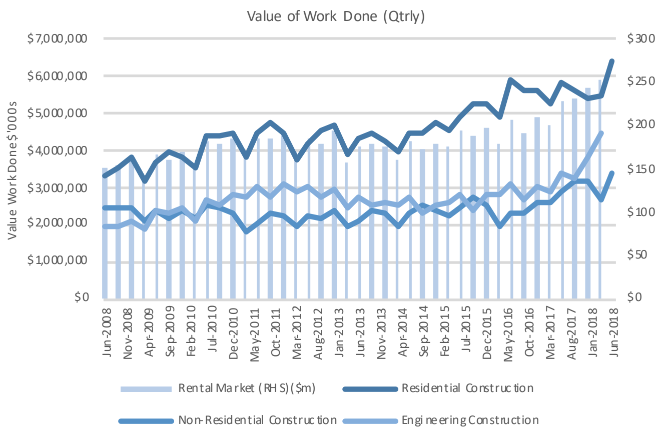




Source: Bureau of Meteorology 1

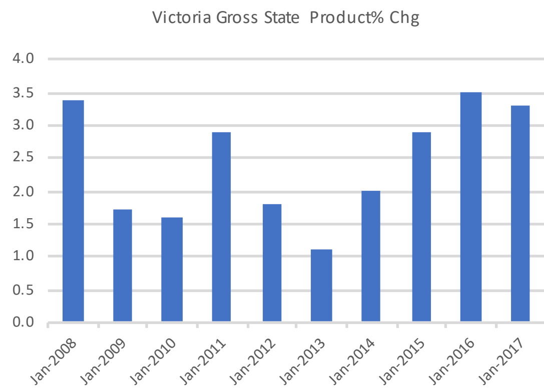
Notable Events	**Location**	**Date**
Building & Construction Law Conf	NSW	10/10/2018
Conflict Resolution for Construction	NSW	11/10/2018
NT Major Projects Conference	NT	17/10/2018
Australian Nickel Conference	WA	23/10/2018
The 6th PASA Premier ConfeX - Melbourne	VIC	20/11/2018
NSW Major Projects Conference	NSW	21/11/2018
Victoria State Election	VIC	24/11/2018
Smart Buildings Summit	NSW	28/11/2018
Sydney Build 2019	NSW	14/03/2019
WA Major Projects Conference	WA	20/03/2019
Brexit	Na	29/03/2019
HRIA Conference Melb 2019	VIC	22/05/2019
Federal Election	Na	Early 2019?

Victoria



Construction activity in Victoria continues to power ahead with all three primary sectors recording strong growth. Activity is led by residential construction which has been on a solid growth trend since 2014 growing by approx. 40% in 4 years. Whether this growth can continue when faced with significant headwinds in the form of a falling housing market and increasing barriers to new lending will have to be seen. As the pipeline of major infrastructure works continues to break ground, Engineering Construction has shot up by 30% in 3-4 years driven by the Level Crossing Removal project, Freeway improvements and the start of the Metro Rail Tunnel project.

A strong pipeline of works in Victoria will continue to deliver growth in Engineering Construction out to at least 2021/22 with new works on the Westgate Duplication, Missing North-East Link Freeway and a long tail of rail works all contributing. In line with the national commentary, Victoria is on the receiving end of the pivot from Mining to the more traditional economies even as manufacturing has been significantly diminished in the state. An exchange rate (vs USD) between the 60c – 70c zone will support this ongoing investment in non-residential construction however any unexpected increase in the exchange could put at risk a number of medium-long term projects.



Victoria is facing some level of uncertainty in that a state election is due on 24th November, election promises/ policies to date have not suggested a significant impact on the construction pipeline. Both major parties have made some overtures regarding renewable energy sources with the most significant being a suggestion that the Liberals may relax on-shore gas exploration restrictions, but concrete statements are yet to be made.

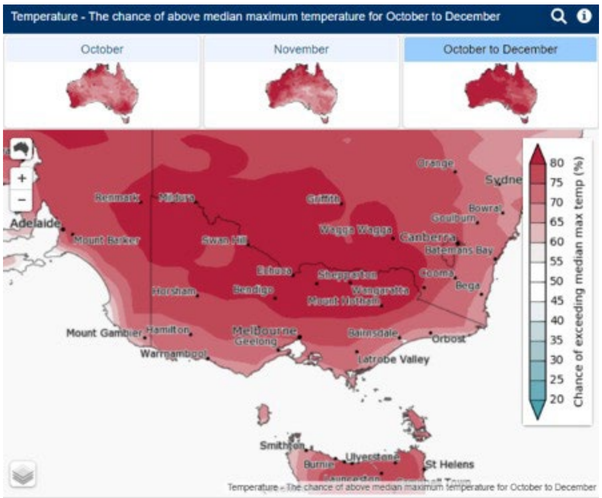
Greater Melbourne has now hit a population of $5m (2018) with the urban sprawl growing to reflect this. Significant residential expansion has occurred in the South East (Pakenham, Officer), North (Mernda, Doreen, Craigieburn), West (Sunbury, Melton) and South West (Werribee, Wyndham, Trugagina). Additional residential projects will continue to push these boundaries as improved transport infrastructure opens new commuter options – electric rail extensions such as Geelong – Waurn Ponds, Frankston – Mornington and Frankston – Crib Point (largely subject to Western Port second port facility).

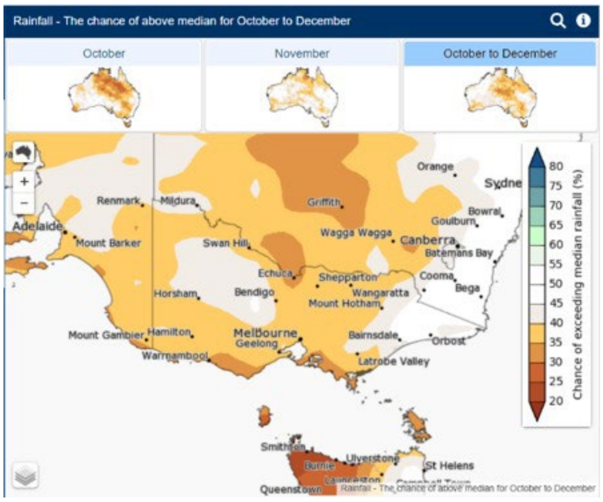
Just before we put the final nail in the coffin of manufacturing, it is worth noting the recent announcement by Carbon Revolution – a specialist wheel manufacturer based in Geelong. The company is expanding its facility to the tune of $100m and 500 workers – this just reinforces the power of the exchange rate in supporting the viability of manufacturing in Australia.

The Victorian government has recently announced a slew of renewables projects including Berrybank, Cohuna, Mortlake and Winton which will help to lift regional activity for the next couple of years. Unfortunately for construction and rental these renewable projects are often primarily plug-and-play components with relatively limited general construction activity.

Continued population growth, a strengthening economy and relatively strong state coffers indicate that Victoria is in a strong position to continue to grow and invest over the medium – long term. Disregard ‘political thought bubbles’ such as the $50b outer rail link, third airport (most likely site Tyabb), Second port (Western Port/Hastings), East/West Tunnel etc… There is a substantial enough pipeline of infrastructure to maintain the Victorian industry for the next 5 years. Provided the AUD/USD exchange remains in the 60-70c zone, tourism will return and drive improved investment in retail/commercial however challenges remain in normalising logistics/warehousing investments that are so dependent on imports which are likely to deflate with a lower exchange rate.

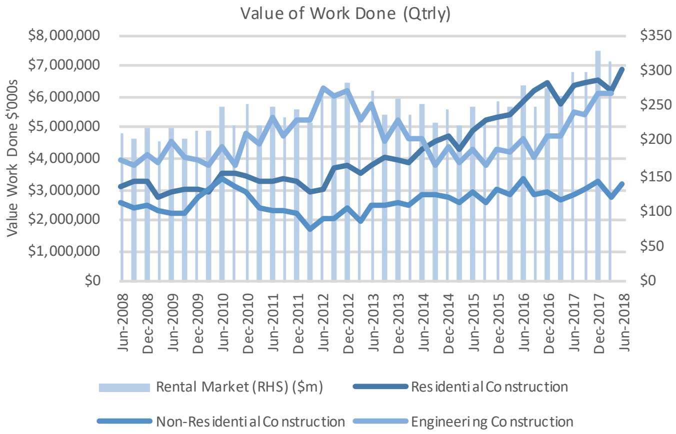
The long range forecast from the Bureau suggests a hot and dry period in the next quarter in Victoria with a high likelihood of higher than average temperatures particularly in the north of the state.





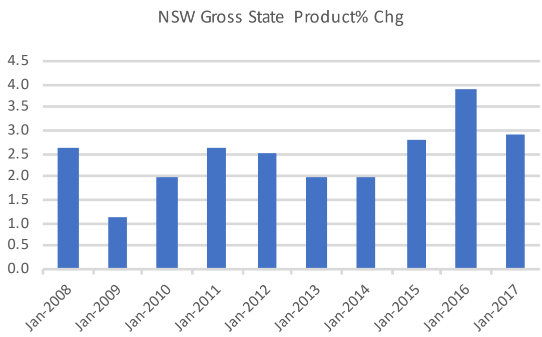
Source: Bureau of Meteorology 2

New South Wales



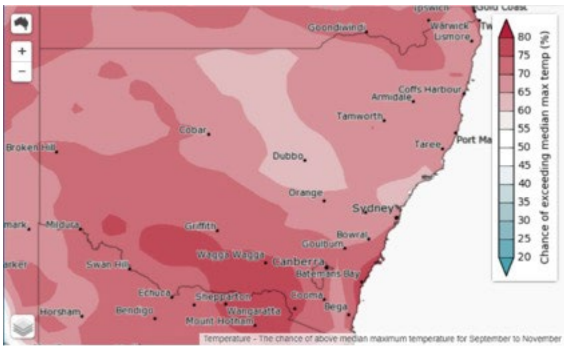
Construction activity in New South Wales took a long time to wake from its slumber but now it has a run-on, there's no stopping the growth. The 'Connex' projects (West and North) have underpinned Engineering Construction Activity in the State whilst Residential Construction has skyrocketed for 7 years on the back of unbelievable capital growth (try explosion). One of the key drivers of the Sydney Residential growth in contrast with Melbourne, is the lack of land for development. Melbourne can grow in multiple directions due to its geography whereas Sydney is largely stuck with developing further and further West. This in itself is now generating new opportunities as the cities Western population now demands new infrastructure to service its needs. The most obvious of these demands is the Badgery's Creek second airport, this project will cost approx. $5.5B over 7 years to deliver however associated infrastructure such as rail, retail, commercial, logistics and warehousing will easily deliver a further $3B in works.

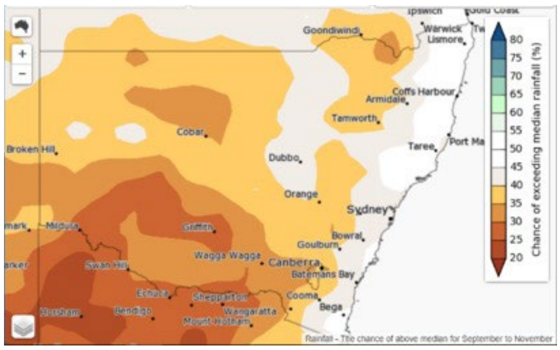
Despite its investment slumber, NSW has had consistent growth in GSP largely in professional services and finance. An unfortunate decade of political ‘issues’ have now opened the doors to growth with asset sales funding a strong infrastructure pipeline.



Regionally, NSW has had mixed fortunes, the Maules Creek Coal project was a welcome injection in employment and investment but other projects such as the Orica Kooragang Island expansion have been shelved.

A dark cloud hangs over regional New South Wales as the drought continues to ravage regional towns and communities suffering through failed crops and dying livestock.





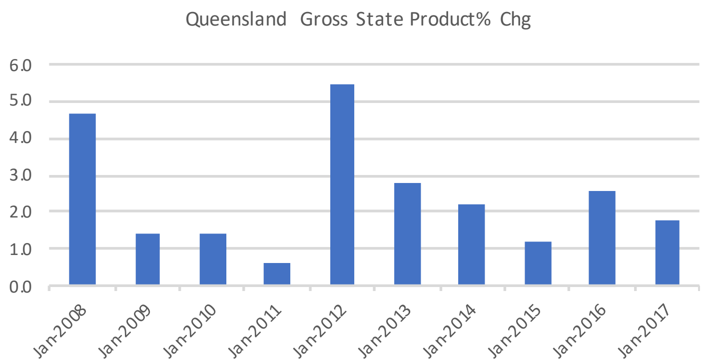
Unfortunately, the bureau offers little promise of relief with long-term forecasts indicating hot and dry conditions running into November. As widely reported in the media, assistance in terms of finance and feed are on the way but without rain, significant rain, the state will continue to struggle into 2019 and maybe beyond.

Queensland

Queensland enjoyed the fruits of the Gas boom in the form of massive infrastructure works by QGC however the rest of the economy has struggled to get out of second gear. Residential construction has never met the delirious highs witnessed in NSW and VIC but modest growth and investment has still buoyed the construction economy in certain areas. The Gold Coast Commonwealth Games were a welcome financial injection in terms of tourism dollars but failed to generate the same broader economic activity seen in the lead-up to the Melbourne games of 2006.

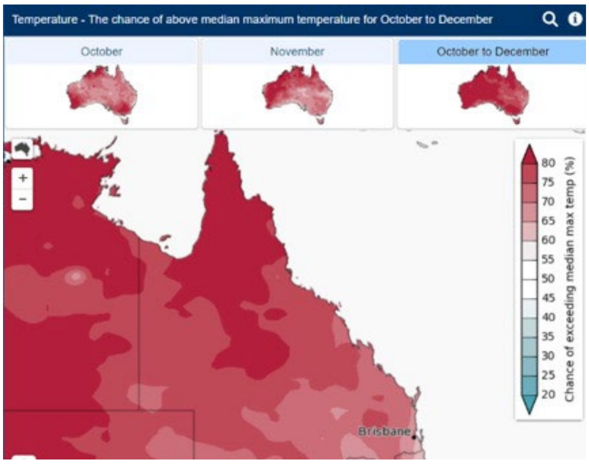
On a positive note, Engineering Construction is rebounding from its low of May 2016 trending back towards its pre-gas-boom levels. Both Eng-Con and Non-Residential should continue to improve on the back of projects such as; Cross River Rail, Queens Wharf, Brisbane Live, Brisbane Metro and the new Brisbane Airport Runway.

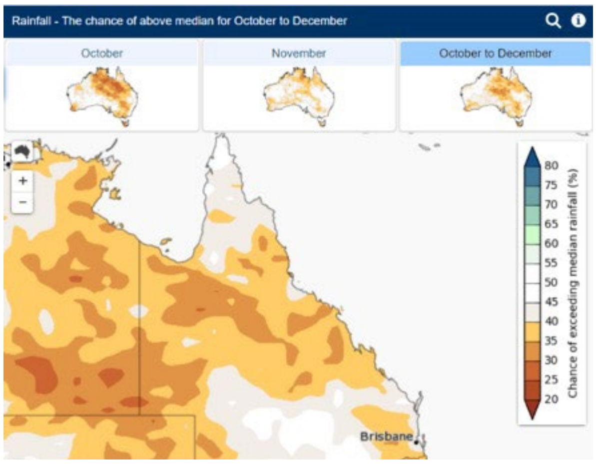
Unlike VIC and NSW, the Queensland state government does not have the war chest of capital available after asset sales to fund significant infrastructure however this is now turning. The Gas 'Boom' in the state hid some infrastructure spend with the airport link, freeway works, busways and light rail on the gold coast all dwarfed by the spend in resources. Regardless, GSP remains stubbornly low in Queensland where alternative industries such as finance and professional services are largely absent.

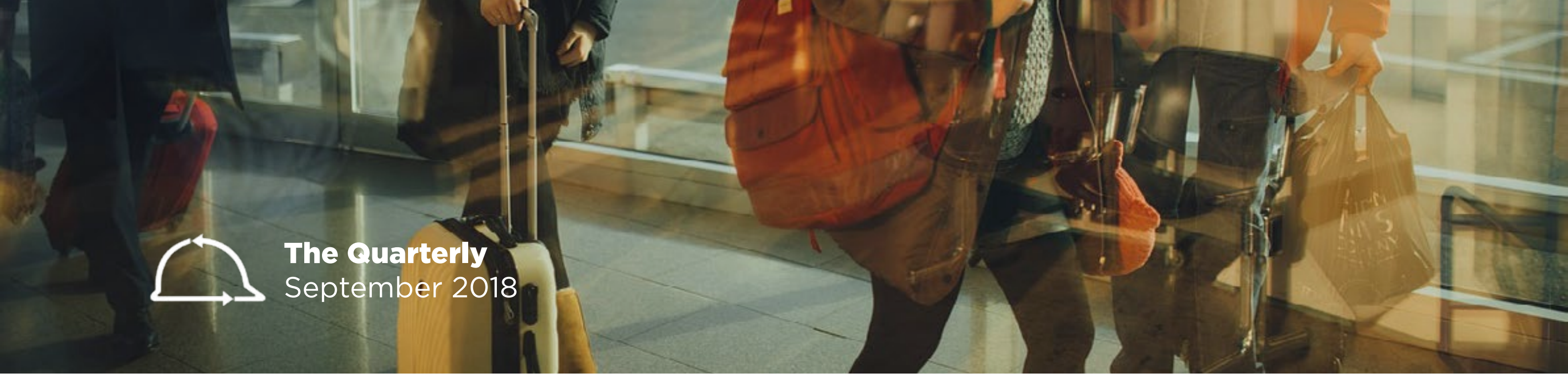


The elephant in the room when reviewing the QLD major project pipeline is the Adani Carmichael Coal mine and its associated infrastructure (Rail/Abbot Point). Most estimates put the project value at around $16.5B and whilst the construction phase will offer opportunities, the company has expressed its intention to automate much of the production requirements. The questions of whether the project can secure the funding it requires, if it can establish a feasible ongoing business case and how disruptive protests may be are all yet to be answered. Recently announced changes to the business case including downgrading the investment in the rail extension of approx. $1.5B by utilising some of the existing Aurizon infrastructure.

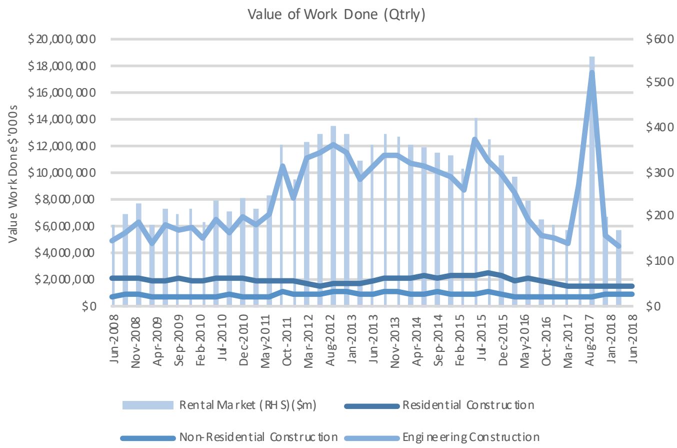
The long range outlook for Queensland with mostly average forecasts for rainfall however temperatures are predicted to exceed averages particularly in the North-West of the state.





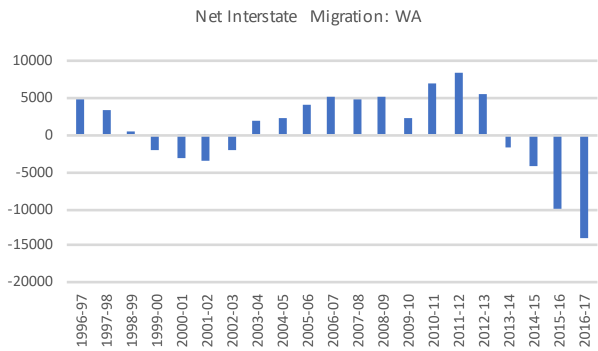


Western Australia



WA isn't an enigma – commodities go up, spend goes up, commodity prices go down, spend goes down. Everyone who could, rode the gravy train but as construction comes to an end production has just begun. Engineering Construction (despite the odd 'blip' in May 2018) is steadily down and has even fallen below the long-term average. Recent murmurings have shown some signs of life; the BHP commitment to South Flank is nice but ultimately it is just replacing Yandi as it expires. Rio (amongst others) have announced increased spend in exploration and this may yield some new grounds for development but commodity prices will always dictate the level of investment in greenfield developments.

Even during the 'good' times, Perth has been a perennial under performer in terms of construction activity and pricing. This situation for rental companies was exacerbated by the glut of equipment transitioning from the Pilbara waiting for redeployment to the East Coast between 2012 – 2017.



One major issue facing WA and its recovery is the accelerating Net Interstate Migration. Workers are leaving the state in great numbers, more people left in 2015/17 than in the 6 years between 04/10. Compounding this issue is growth in international departures combined with falling international arrivals. It would appear that the main beneficiaries of this interstate trend are Victoria and Queensland with both states growing strongly.

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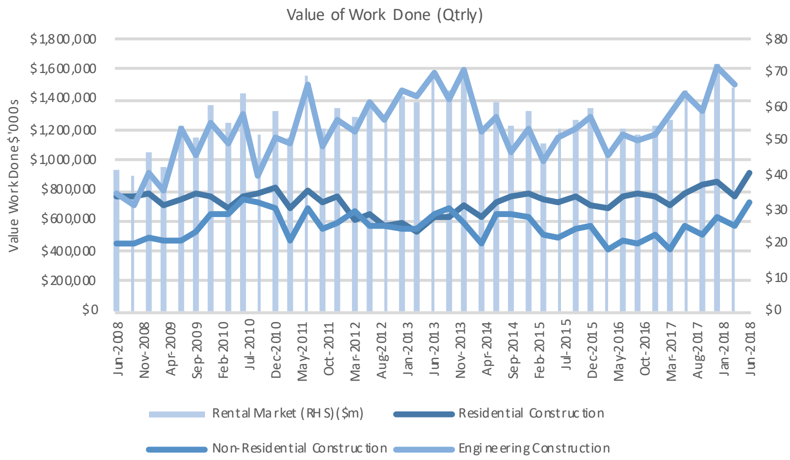
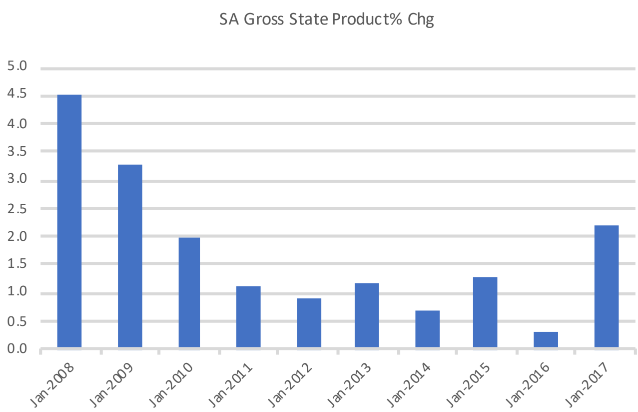
It is time to let go of the mega-project boom, this was a once in a generation event and will not happen again in the foreseeable future. However, the echoes of the construction boom are found in the new levels of production and opportunities exist. It is unfortunate that much of the riches accrued in the boom were not translated into significant development in Perth, yes the new stadium is a success but the wealth didn't translate into city defining infrastructure and much was spent on misguided retail/commercial projects that now appear to be floundering.

Just as during the 'two-speed economy' during the mining boom, current conditions in agriculture are vastly different between the East and West coasts. Whilst NSW and parts of Queensland suffer through one of the worst droughts in recent memory, WA is enjoying a bumper season with crop yields and prices both surging. However in a cruel twist, recent successive frost events (mid-September) have seriously impacted some crops (particularly barley and wheat).

South Australia

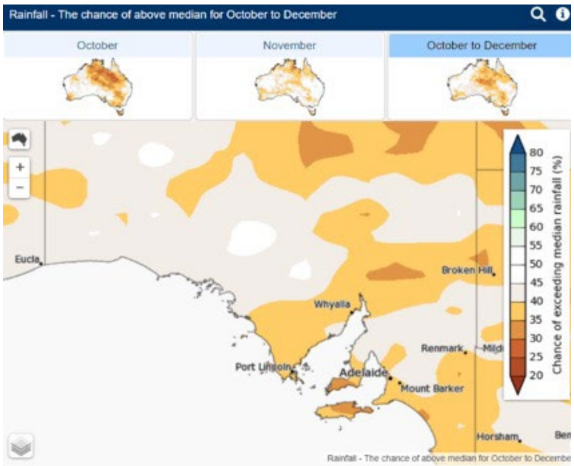
SA for the most part has kept to itself amid the maelstrom of activity between the West and East. It caught neither the residential construction boom nor the full effect of the mining boom. SA is (and has long been) a land of promise… that struggles to deliver. It is true that there is a potential pipeline of >$46B in projects but only a fraction of those are committed. In many ways, Adelaide boomed before either the West or the East with major projects including the Adelaide Hospital, South Rd Superway and Renewable energy projects driving work in the late 2000's/early 2010's.

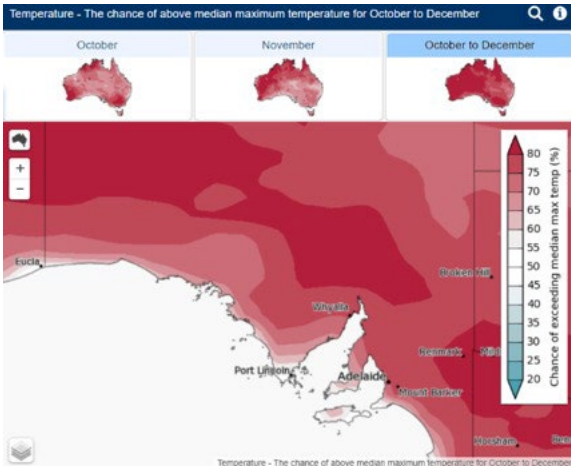




The GSP reflects this as the state has declined over the past decade but shows signs of rebounding with 2017 exceeding 2010 for the first time. Key to this recovery is a combination of government spend and investment in renewables. The power crisis of 2017 led to the much-publicised investment in battery farms and ongoing spend on both wind and solar projects. Additionally, defence spending has long been an integral part of the SA economy. The commitment to build the next generation of the Australian Navy Submarines in Adelaide will be a welcome boost to the economy however design work is not scheduled to be completed until 2022 meaning that meaningful spend is still some time away.

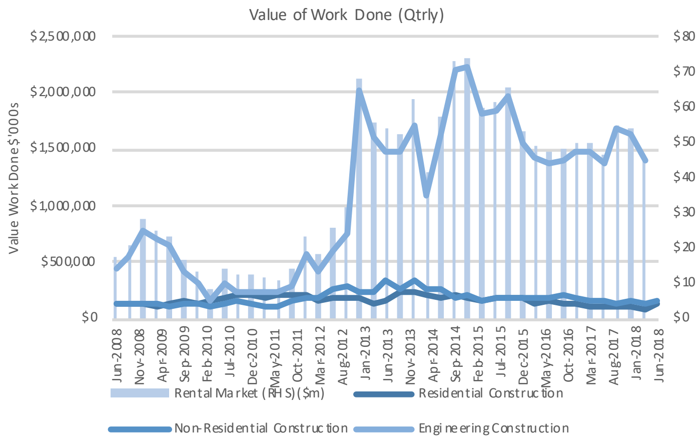
The Bureau is forecasting mostly average rainfall over the coming quarter with some drier than normal areas in the North-East and South-East of the state. However temperatures are highly likely to be above the average outside of the coast areas around Adelaide and the Eyre peninsula.



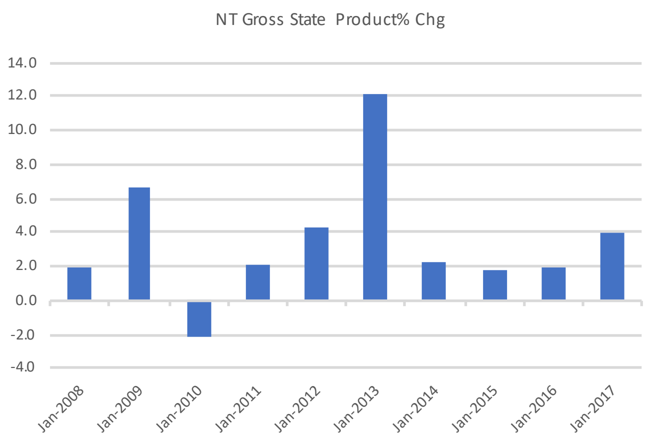


Northern Territory

The NT has enjoyed a buoyant 6 years on the back of the Inpex Ichthys project but failed to convert this into significant associated works. Indeed, both Non-Residential and Residential construction have steadily fallen throughout the Ichthys project. The pipeline includes almost $1B in defence spending on new and upgraded facilities in both Darwin and Pine Gap. Additional works on Project Sea Dragon, Mt Todd, Chandler and Jervois are yet to be committed but offer the prospect of ongoing investment.

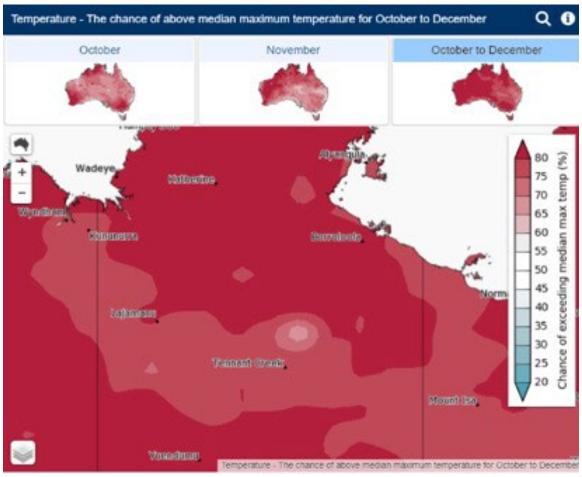


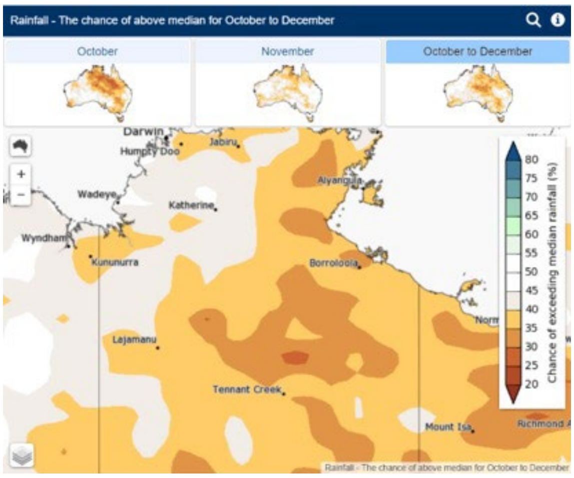
The most notable project activity includes; the Air Combat Capability JSF project at RAAF Darwin and Tindal ($473m), Durack residential subdivision ($160m) and ongoing maintenance and improvement works throughout the Territory. Now approximately $20B AUD and 2 years beyond budget (according to the SMH July 2018), the Ichthys project has delivered far more to the NT economy than anyone predicted but its eventual completion will leave a gaping hole in the Darwin economy.



The NT GSP has remained positive over the past 10 years and it is fair to attribute this to the ongoing project activity. How well the territory is able to sustain this growth in the absence of significant mining activity is yet to be seen. Tourism NT has been investing heavily in advertising in recognition of the need to stimulate the local economy through the ‘Do the NT’ and ‘Guess Where’ campaigns along with continued partnerships with domestic airlines and travel companies.

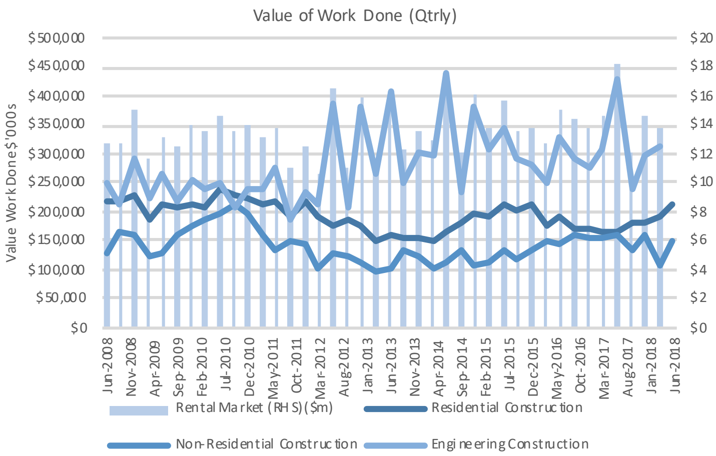
Unsurprisingly for the NT, the Bureau forecast is hot (most of the Territory is highly likely to exceed the average over the quarter). As we head towards the wet season, the outlook is for largely average rainfall with some drier areas inland towards Tennant Creek.



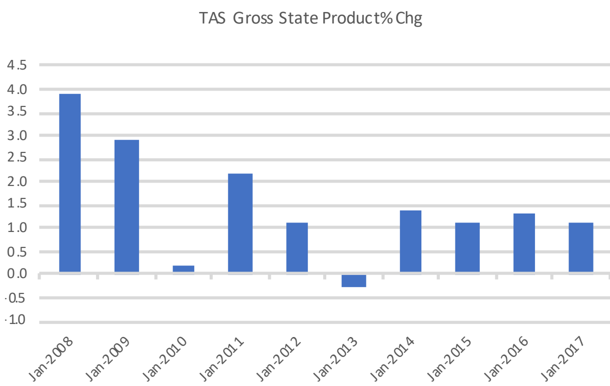


Tasmania

Construction activity in Tasmania, whilst small in relative terms has remained largely stable. Residential construction has entered a growth cycle with six quarters of consecutive activity growth.

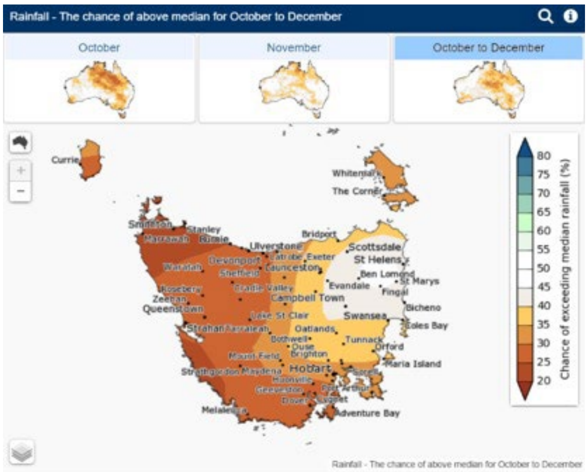


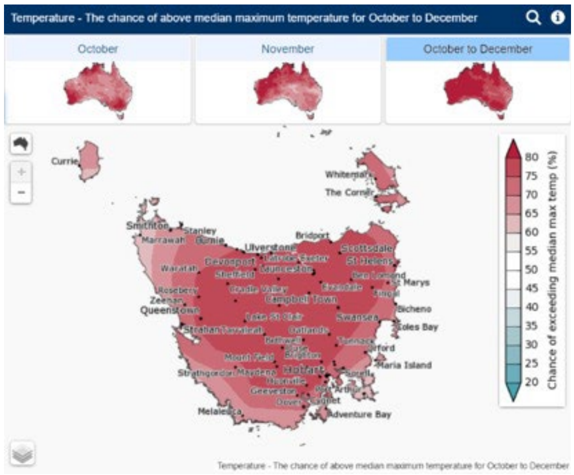
The Tasmanian Government Infrastructure Project Pipeline (2018) forecasts activity to decline moderately in the years to FY22 before a surge in road/rail spending will lift activity spend back above the FY19 high. Additional spending on the Bass/Midland Hwys as well as water infrastructure and airport improvements will all contribute to maintaining a consistent pipeline of works until the anticipated uplift. Consistent with the national pipeline, TAS has a number of tourism backed proposals in either the concept or business case stage with a string of hotels and upgraded facilities a strong possibility of proceeding on the back of a lower AUD/USD exchange rate.



The TAS GSP has actually remained largely positive with YoY growth of around 1% from 2014-2017. Despite the easing Engineering Construction Spend, the relatively full non-residential pipeline along with agriculture/aquaculture and forestry activities should help to maintain this performance.

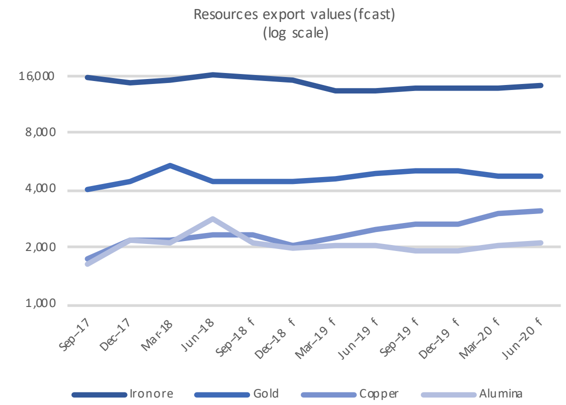
In contrast with the rest of the states and territories, TAS isn't forecast to experience a significantly higher than average temperature over the quarter to December however it is likely to be dry particularly in the West and South of the State.



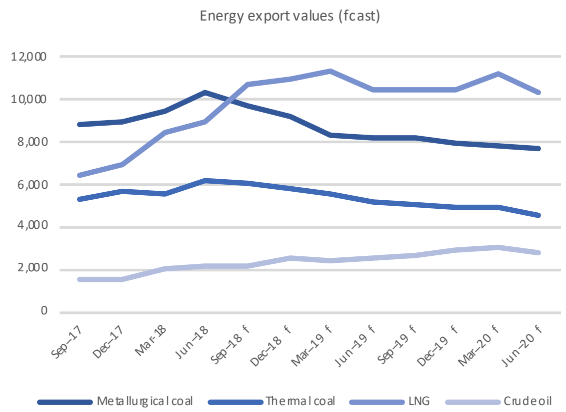


The Mining Sector

Whilst the age of the mega-project is now over, production is in full swing and there are even some signs of life in construction after a pitched decline between 2012 and 2017. The Department of Industry, Innovation and Science forecasts relative stability in major commodities such as IO, Gold and Alumina whilst there is growth in Copper, LNG. Declines are forecast in Metallurgical and Thermal coal leading out to 2020.



The elephant in the room is the ongoing trade war between the USA and China. How this tit-for-tat tariff exchange is going to impact the global economy is anyone's guess. When we include the looming unknowns around Brexit and political instability in Europe, macroeconomic factors could pose a significant threat to these forecasts. However, despite these risks it is unlikely that even significant political interventions would have devastating short term impacts on these forecasts given committed contracts and supply agreements. Equally, the rise of the Chinese domestic consumption market is increasingly offsetting its reliance on exports (although there is a long way to go before parity in balance of trade). With forecasts for Chinese GDP growth consistently holding at around 6% for the next few years, there should be a level of confidence in ongoing demand for these resources. Additionally, the continued growth of the developing economies in both South-East Asia and the subcontinent is oft forgotten in these discussions.

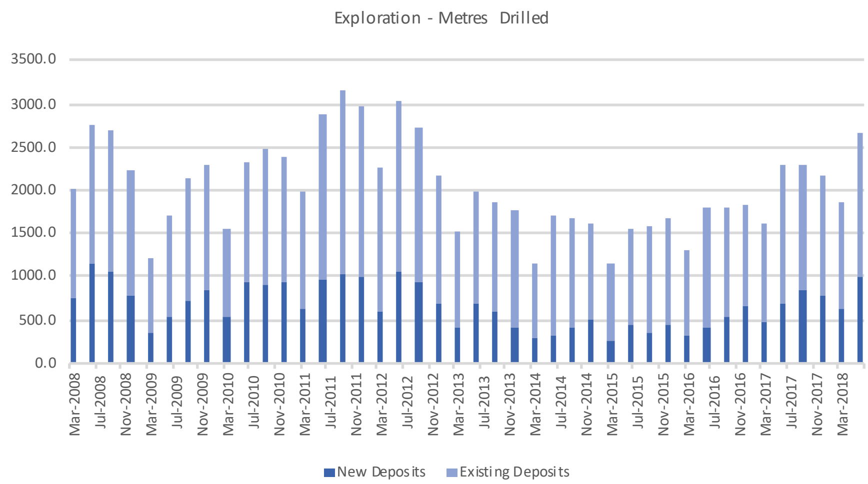


Sources: ABS (2018) International Trade in Goods and Services, Australia, Cat. No. 5368.0; Department of Industry, Innovation and Science (2018); Wolf & Bear Services

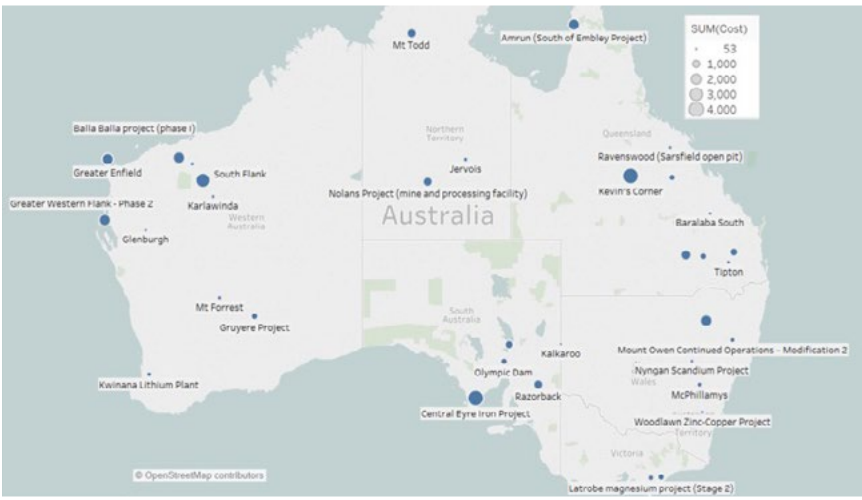
Previously addressed in the Queensland section of this report, we will revisit the Adani Carmichael Coal project here. The proposed project is to develop the Carmichael Thermal Coal Mine in the Galilee basin.

Projected to cost $16.5B, the proposal has faced years of protests and environmental stipulations from both public and government sources. If executed, this would create the largest coal mine in Australia and lead to additional mining projects in the basin. In terms of construction, much of the work is around the supporting infrastructure such as new rail lines and exporting infrastructure at Abbot Point and Hay Point port facilities. Recent announcements (September 2018) indicate that the company is gaining confidence in securing the funding it requires by redrafting some of the proposed infrastructure to reduce development costs.

After a cyclical lull reflective of falling commodity prices, exploration has entered another growth cycle. Rio’s half-year results indicate an 18% increase in exploration expense whilst BHP had a more modest 5% increase. It is worth noting the increase in exploration for ‘new’ deposits as opposed to existing, indicating that many in the industry are turning their attention back to long-term planning compared with the frantic efforts to keep pace with demand and contain costs seen throughout the boom.



Projects scheduled to begin 2019-2020 in at least ‘feasibility’ stage – excludes Adani Carmichael Coal Project



Sources: Dept of Industry, Innovation & Science; Wolf & Bear Services (2018)

Results Season Wrap

**Sources include relevant company websites, annual reports and the ASX. Results in $M's

Downer Grp: DOW	FY17	FY18	% Change
Total Revenue	$10,818.6	$12,620.0	16.7%
EBITDA	$762.3	$783.1	2.7%
EBIT	$439.3	$412.9	-6.0%
NPAT	$277.9	$296.5	6.7%
EBITDA % Rev	7.05%	6.21%	-0.8%
EBIT % Rev	4.06%	3.27%	-0.8%
NPAT % Rev	2.57%	2.35%	-0.2%

BHP Billiton Ltd: BHP *USD/AUD @ 0.739c	FY17	FY18	% Change
Total Revenue	$45,634.5	$57,765.1	26.6%
EBITDA	$25,593.3	$30,404.0	18.8%
EBIT	na	na	na
NPAT	$7,427.3	$4,672.0	-37.1%
EBITDA % Rev	56.08%	52.63%	-3.4%
EBIT % Rev	na	na	na
NPAT % Rev	16.28%	8.09%	-8.2%

Monadelphous: MND	FY17	FY18	% Change
Total Revenue	$1,264.7	$1,784.0	41.1%
EBITDA	$98.2	$119.0	21.2%
EBIT	$82.7	$102.8	24.3%
NPAT	$58.5	$72.3	23.6%
EBITDA % Rev	7.76%	6.67%	-1.1%
EBIT % Rev	6.54%	5.76%	-0.8%
NPAT % Rev	4.63%	4.05%	-0.6%

Fortesque Grp: FMG*USD/AUD @ 0.739c	FY17	FY18	% Change
Total Revenue	$10,651.7	$8,684.5	-18.5%
EBITDA	$5,982.2	$4,012.5	-32.9%
EBIT	na	na	na
NPAT	$2,639.3	$1,107.2	-58.1%
EBITDA % Rev	56.16%	46.20%	-10.0%
EBIT % Rev	na	na	na
NPAT % Rev	24.78%	12.75%	-12.0%

CIMIC: CIM (Half Year Results)	FY17	FY18	% Change
Total Revenue	$6,279.4	$6,937.4	10.5%
EBITDA	$713.3	$794.3	11.4%
EBIT	$461.5	$535.8	16.1%
NPAT	$318.1	$357.1	12.3%
EBITDA % Rev	11.36%	11.45%	0.1%
EBIT % Rev	7.35%	7.72%	0.4%
NPAT % Rev	5.07%	5.15%	0.1%

Orica: ORI (Half Year Results)	FY17	FY18	% Change
Total Revenue	$2,437.0	$2,532.0	3.9%
EBITDA	$445.5	$378.9	-14.9%
EBIT	$314.2	$251.5	-20.0%
NPAT	$195.2	-$229.3	-217.5%
EBITDA % Rev	18.28%	14.96%	-3.3%
EBIT % Rev	12.89%	9.93%	-3.0%
NPAT % Rev	8.01%	-9.06%	-17.1%

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Coates Hire: Sub Seven Grp Holdings			
	FY17	FY18	% Change
Total Revenue	$918.2	$978.0	6.5%
EBITDA	na	na	na
EBIT	$142.0	$172.0	21.1%
NPAT	na	na	na
EBITDA % Rev	na	na	na
EBIT % Rev	15.47%	17.59%	2.1%
NPAT % Rev	na	na	na

BOOM Logistics: BOL			
	FY17	FY18	% Change
Total Revenue	$150.0	$183.0	22.0%
EBITDA	$10.4	$20.6	98.1%
EBIT	-$19.5	$2.4	
NPAT	-$22.6	-$1.5	
EBITDA % Rev	6.93%	11.26%	4.3%
EBIT % Rev	-13.00%	1.31%	14.3%
NPAT % Rev	-15.07%	-0.82%	14.2%

RIO TINTO: RIO (Half year results)*USD/AUD @ 0.739c			
	FY17	FY18	% Change
Total Revenue	$25,101.5	$26,754.6	6.6%
EBITDA	$11,402.0	$11,598.7	1.7%
EBIT	$4,969.6	$5,568.6	12.1%
NPAT	$4,167.6	$5,523.2	32.5%
EBITDA % Rev	45.42%	43.35%	-2.1%
EBIT % Rev	19.80%	20.81%	1.0%
NPAT % Rev	16.60%	20.64%	4.0%

Lend Lease: LLC			
	FY17	FY18	% Change
Total Revenue	$16,671.0	$16,572.1	-0.6%
EBITDA	$1,201.8	$1,244.8	3.6%
EBIT	$1,007.0	$1,066.2	5.9%
NPAT	$758.6	$792.8	4.5%
EBITDA % Rev	7.21%	7.51%	0.3%
EBIT % Rev	6.04%	6.43%	0.4%
NPAT % Rev	4.55%	4.78%	0.2%

Adelaide Brighton: ABC (Half Year)			
	FY17	FY18	% Change
Total Revenue	$722.9	$807.2	11.7%
EBITDA	$154.5	$167.2	8.2%
EBIT	$113.0	$123.5	9.3%
NPAT	$77.6	$85.2	9.8%
EBITDA % Rev	21.37%	20.71%	-0.7%
EBIT % Rev	15.63%	15.30%	-0.3%
NPAT % Rev	10.73%	10.56%	-0.2%

Mirvac: MGR			
	FY17	FY18	% Change
Total Revenue	$3,021.0	$2,802.0	-7.2%
EBITDA	$1,138.0	$1,207.0	6.1%
EBIT	$1,104.0	$1,166.0	5.6%
NPAT	$1,164.0	$1,089.0	-6.4%
EBITDA % Rev	37.67%	43.08%	5.4%
EBIT % Rev	36.54%	41.61%	5.1%
NPAT % Rev	38.53%	38.87%	0.3%

Watpac: WTP			
	FY17	FY18	% Change
Total Revenue	$1,108.7	$1,080.0	-2.6%
EBITDA			
EBIT	-$33.2	-$46.9	41.3%
NPAT	-$31.4	-$56.9	81.2%
EBITDA % Rev	0.00%	0.00%	0.0%
EBIT % Rev	-2.99%	-4.34%	-1.3%
NPAT % Rev	-2.83%	-5.27%	-2.4%

Emeco: EHL			
	FY17	FY18	% Change
Total Revenue	$196.0	$381.0	94.4%
EBITDA	$51.9	$130.7	151.8%
EBIT	-$85.8	$49.7	-157.9%
NPAT	-$157.2	$5.3	-103.4%
EBITDA % Rev	26.48%	34.30%	7.8%
EBIT % Rev	-43.78%	13.04%	56.8%
NPAT % Rev	-80.20%	1.39%	81.6%

Sum of Group			
	FY17	FY18	% Change
Total Revenue	$124,252.2	$139,073.8	11.9%
EBITDA	$47,398.8	$50,693.6	7.0%
EBIT	$8,381.8	$9,281.0	10.7%
NPAT	$16,795.3	$13,627.6	-18.9%
EBITDA % Rev	38.15%	36.45%	-1.7%
EBIT % Rev	6.75%	6.67%	-0.1%
NPAT % Rev	13.52%	9.80%	-3.7%

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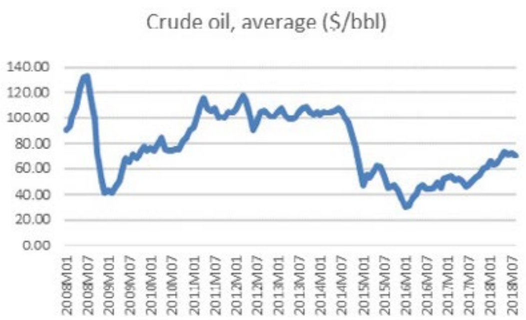
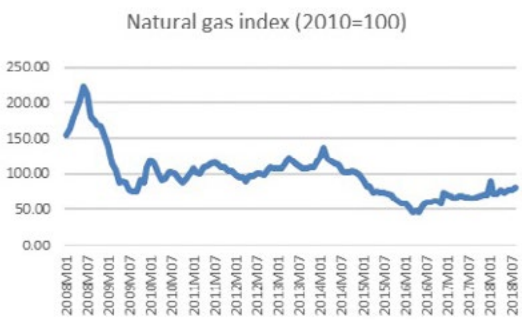
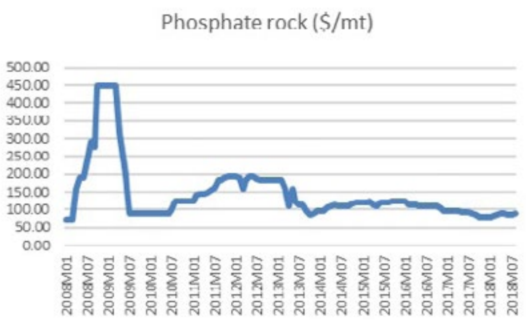
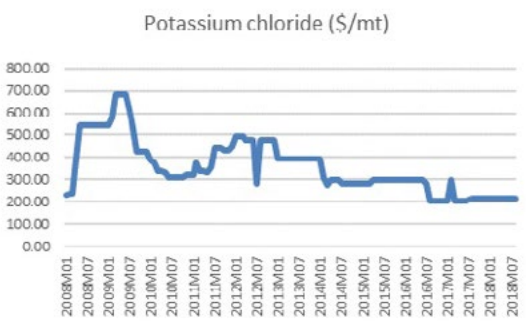
Commodities Update

*Source: World Bank Commodity Price Data (Pink Sheet) $USD





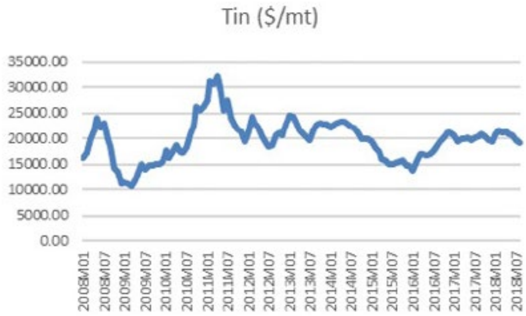


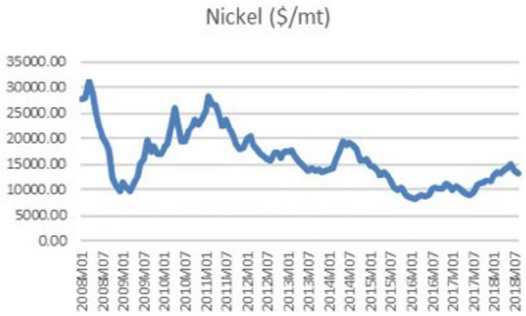


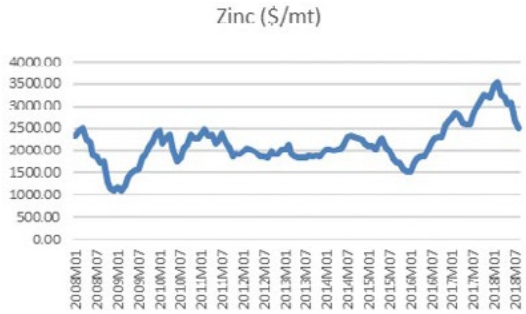

Iron ore, cfr spot ($/dmtu)
250.00 200.00 150.00 100.00 50.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Copper ($/mt)
12000.00 10000.00 8000.00 6000.00 4000.00 2000.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Lead ($/mt)
3500.00 3000.00 2500.00 2000.00 1500.00 1000.00 500.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Tin ($/mt)
35000.00 30000.00 25000.00 20000.00 15000.00 10000.00 5000.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Nickel ($/mt)
35000.00 30000.00 25000.00 20000.00 15000.00 10000.00 5000.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Zinc ($/mt)
4000.00 3500.00 3000.00 2500.00 2000.00 1500.00 1000.00 500.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Gold ($/troy oz)
2000.00 1800.00 1600.00 1400.00 1200.00 1000.00 800.00 600.00 400.00 200.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Platinum ($/troy oz)
2500.00 2000.00 1500.00 1000.00 500.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07


Silver ($/troy oz)
45.00 40.00 35.00 30.00 25.00 20.00 15.00 10.00 5.00 0.00
2008M01 2008M07 2009M01 2009M07 2010M01 2010M07 2011M01 2011M07 2012M01 2012M07 2013M01 2013M07 2014M01 2014M07 2015M01 2015M07 2016M01 2016M07 2017M01 2017M07 2018M01 2018M07

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