The State of the Deal and Deloitte Queensland Index

Q3 2023 – Quarterly Insight

Contents

Foreword

This year, corporate and private equity investors have been bracing for a potential slowdown in the growth rate amid challenging economic conditions. Investor concerns regarding rising interest rates and slowing economic growth continued to weigh on investor sentiment in Q3 2023.

The cash rate increases implemented by the Reserve Bank of Australia (RBA) to combat rising inflation, has naturally increased the cost of debt. Higher interest rates have also translated into higher mortgage payments and higher rents with the affordable housing crisis further deepened by overseas migration. While the cash rate was held steady for Jun-23 and during Q3 2023, inflation remains elevated. Though inflation has trended downwards from its peak, the unemployment rate has started to tick up in some parts of the economy, most notably in Queensland.

The Queensland Government's State of the State Address published in October 2023 notes that households continue to be hurt by global and national pressures. As the world adjusts to the end of the pandemic, war and geopolitical tensions in Europe and the Middle East have resulted in higher fuel costs thereby increasing the cost of everyday goods.

Additionally, weather experts forecast the probability of an El-Nino event in Australia in the upcoming summer leading to a warm and dry summer with low rainfall and possibility of a drought.

Against this backdrop, the Deloitte Queensland Index experienced a slight decrease in Q3 2023, with the total market capitalisation of QLD-based ASX listed companies decreasing by 0.9% from $121.1b at 30 June 2023 to $119.8b at 30 September 2023. In the 12 months leading up to September 2023, the Deloitte Queensland Index increased by 10.4%, outperforming the S&P/ASX All Ordinaries Index, which recorded a 8.5% rise over the same period.

Market capitalisation increased for QLD-listed coal miners (New Hope and Stanmore) which reported strong annual operating results for FY23 as a result of high coal prices from an increase in demand for non-Russian coal. This was partly offset by a reduction in market capitalisation of Lithium producer Allkem as lithium prices trended downwards following fears of a potential oversupply by 2024/25. Market capitalisation for the Consumer sector reduced as (i) casino operator Star Entertainment attempted to raise further capital following a period of trading halt amid regulatory scrutiny and (ii) Lottery Corporation results were below analyst expectations due to an unfavourable sequence of large jackpots resulting in a 1.5% year-on-year decline in lotteries revenue. The top six performers based on both dollar and percentage increases in market capitalisation can be found on page 8.

Out of the 156 companies that make up the Deloitte Queensland Index, 69 companies increased in market capitalisation during Q3 2023, 77 reported decreases, one new company was listed, four companies de-listed, five changed registered address into Qld and the remainder were steady.

Executive Summary

With fears of a slowdown in the growth rate and geo-political tensions in the middle-east, the Deloitte Queensland Index displayed resilience losing only 0.9% in Q3 2023 compared to negative 2.1% return of the ASX All ordinaries Index

Deloitte Queensland Index return in Q3 2023

(0.9)%

1.0% in Q2 2023

10.4% in LTM Sep-23

S&P/ASX All Ordinaries return in Q3 2023

(2.1)%

0.4% in Q2 2023

8.5% in LTM Sep-23

Market capitalisation as at Sep-23

$119.8b

$121.1b as at Jun-23

Companies in the Deloitte QLD Index

156 at 30 September 2023

155 at 30 June 2023

Since 30 June 2023

69 companies increased market capitalisation (44%)

***77** companies decreased market capitalisation (49%)*

***8** no movement (5%)*

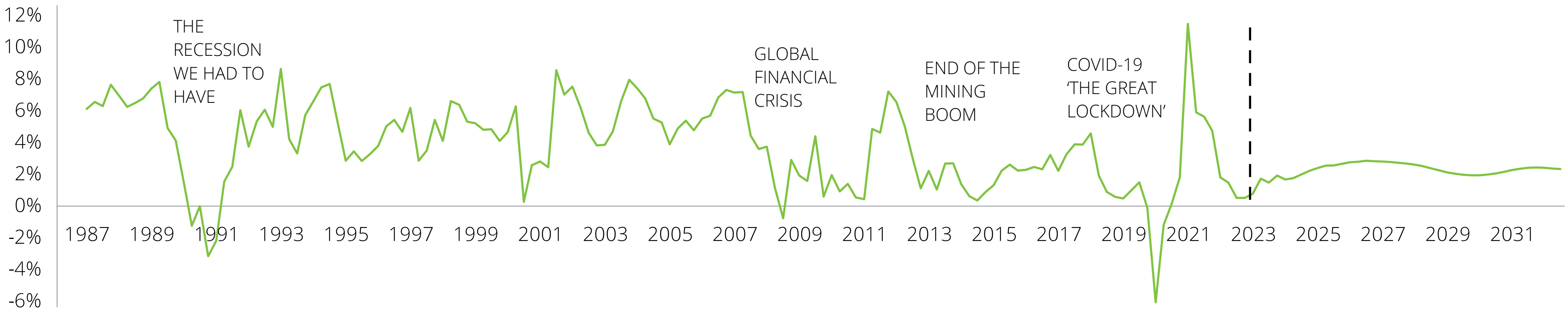
***4** delistings offset by 5 companies changing registered address into QLD*

***1** new listing (Great Divide Mining)*

Queensland Economic Update

Fears of a slowing growth rate have intensified both domestically and abroad. However, Queensland remains resilient, benefitting from a suite of public investment measures and a surprisingly robust commodities market.

Queensland real gross state product (change on year earlier)



Source: Deloitte Access Economics, September Quarter 2023

Amid growing concerns of a slowdown in growth rate in Australia and internationally, Queensland beat expectations as demand growth outpaced the previous quarter's and was recorded as the highest in the nation. This was largely driven by a rise in government expenditure in the health and education sectors, driven by the latest budget measures which include substantial investments in schools, hospital and health services as well as kindergarten subsidies. On the household side, growth in consumer spending was moderate.

Nationally, the RBA's struggle to tame inflation is still central to the outlook for the economy. While the cash rate was held steady in June and during Q3 2023, inflation remains elevated, though it has fallen from its peak, and the unemployment rate has started to tick up in some parts of the economy, most notably in Queensland. This may be a signal that the effects of monetary tightening have begun to surface.

Accordingly, the number of households under financial stress is growing, reflected through lower household discretionary spending and savings, as homeowners roll onto higher variable rates from pandemic-low fixed rates. At the same time, the rental crisis is worsening as it becomes harder to find quality rental properties at reasonable rents. Queensland is no exception, with the average weekly rent in Brisbane having grown by a fifth in the past year, and house prices have grown by a tenth over the same period.

As summer approaches, meteorologists have confirmed that Australia will face an El Niño event, following three consecutive years of la Niña. Concerns over bushfires have grown in a year that is set to become the hottest on record. And more recently, conflict has broken out in Israel and Palestine once again, sparking fears that it could ripple through international markets and disrupt supply chains, all while the Ukraine War continues. These risks are being reflected in the sharemarket as the ASX wiped out all of its gains for 2023 in September.

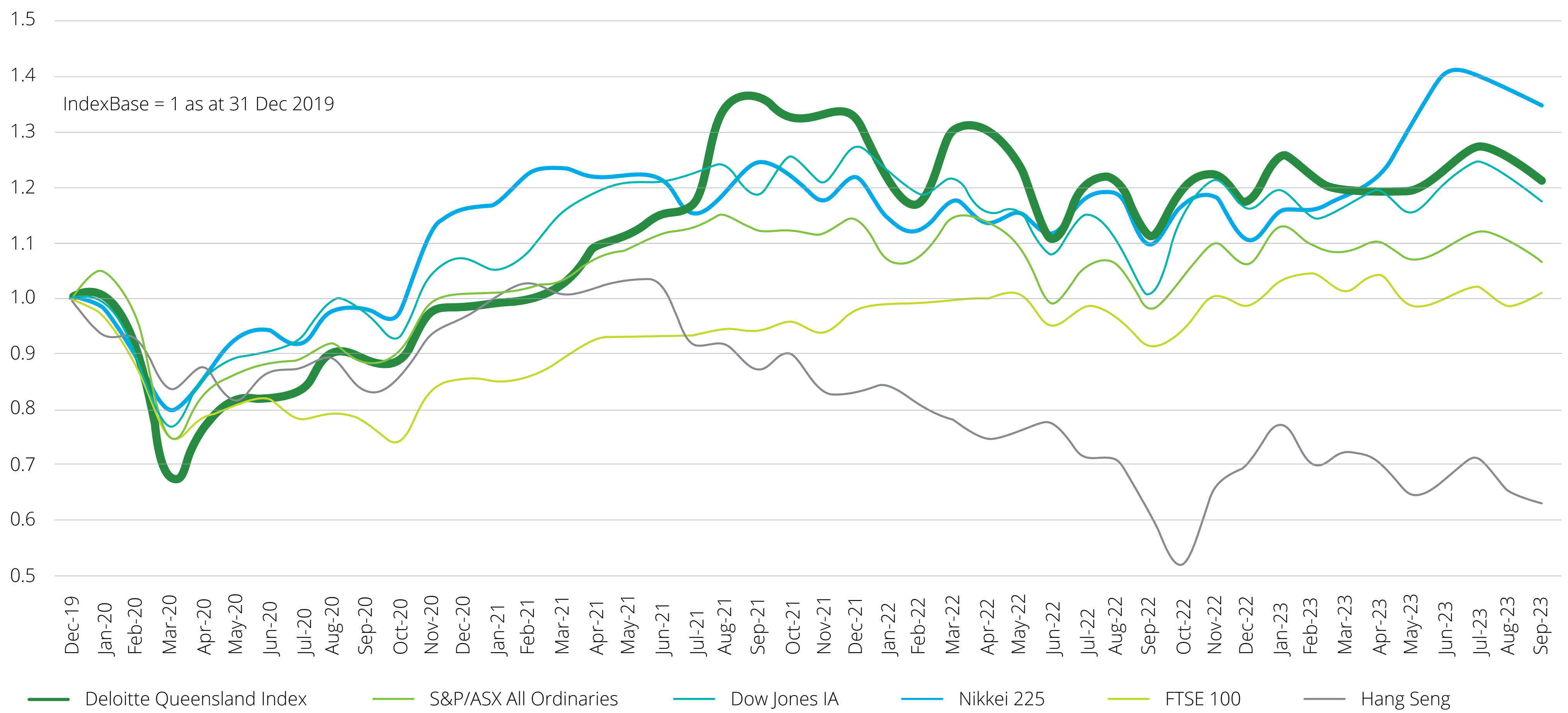
Despite all of this, Queensland has remained robust and outperformed its state counterparts. Indeed, the Sunshine state continues to benefit from coal exports which have grown for two key reasons. First, while the Chinese economy is slowing, it has recently lifted the ban on Australian coal imports. Second, demand from Western economies has remained surprisingly strong – enough to maintain growth in the sector that is further driven by a fall in the Australian dollar.

Overall, a global inflationary environment, combined with higher interest rates, a slowing Chinese economy and a stumbling national momentum was enough to dampen the excitement of the first half of the year across Australia. In Queensland, however, government spending in the key areas of education and health have bolstered the local economy. If households remain resilient, this may allow the state to avoid a slowdown in its growth rate.

The Deloitte Queensland Index Q3 2023

In a time of increasing economic uncertainty, the Deloitte Queensland Index returned -0.9% in Q3 2023 compared to -2.6% return of the Dow Jones Industrial Average, -4.0% of the Nikkei 225 and -5.9% of the Hang Seng. The FTSE 100 was the best performing index with a positive 1.0% return.

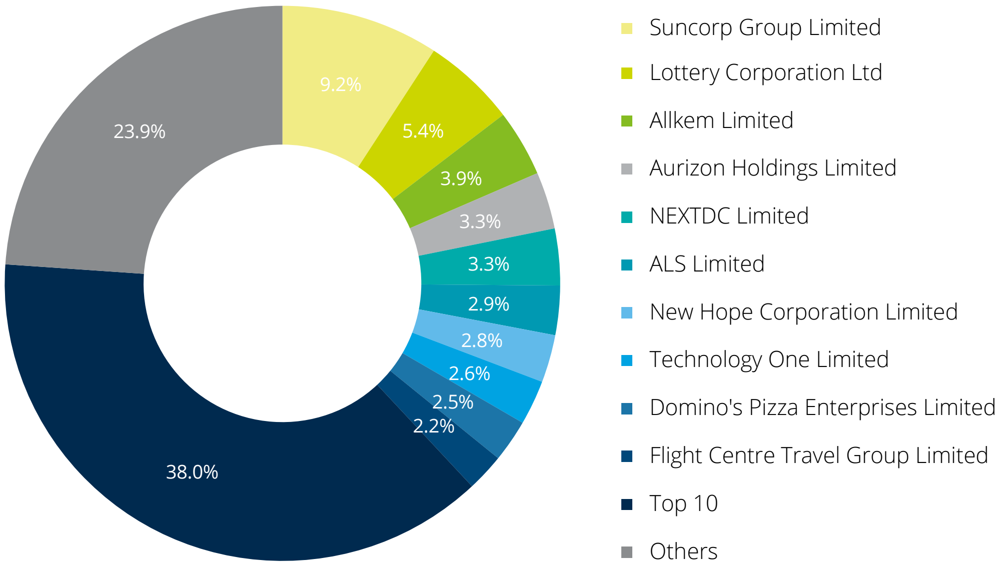
Deloitte Queensland Index versus Major International Indices



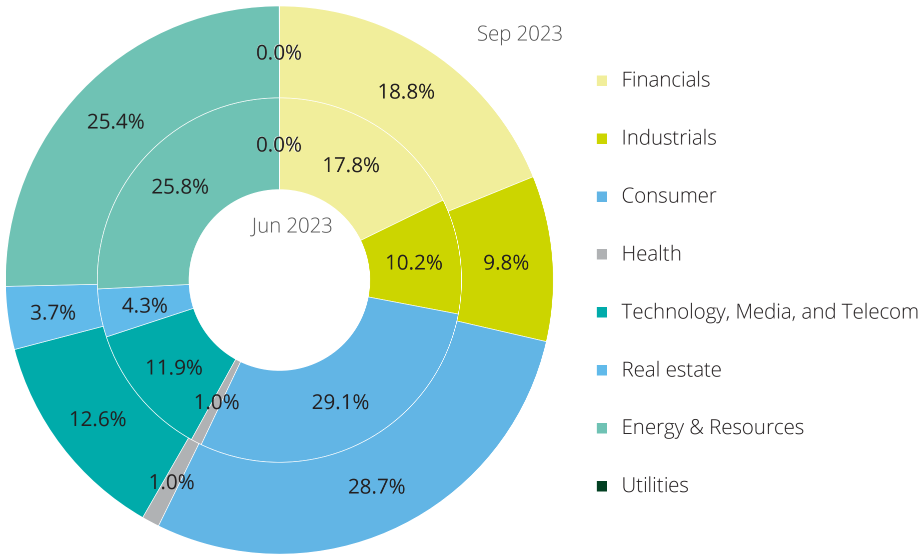
The Deloitte Queensland Index

The composition of the Index as at 30 September 2023 continues to show a strong amount of sector diversification, with a marginal contraction in the Consumer, Industrials and Energy & Resources sectors since Jun-23 offset by gains in Financial services and TMT.

Deloitte Queensland Index – Largest Companies (%)



Deloitte Queensland Index Sector Composition (%)



- The composition of the Index as at 30 September 2023 is broadly unchanged compared to the mix as at 30 June 2023.
- The Top 10 companies in the Deloitte Queensland Index saw a 2.3% decrease in their total market capitalisation with the top 6 maintaining their relative ranking since Jun-23 and reshuffling for ranks 7 to 10 between New Hope, Technology One, Domino's and Flight Centre.
- Decline in market capitalisation of the top 10 was partly offset by a 0.9% increase in the market capitalisation of Queensland Listed companies ranked 11-100. Market capitalisation increased $0.4b from $45.8b at Jun-23 to $46.2b at Sep-23.

Top Performers

Queensland Index: top performers in Q2 2023

Company	Change $m	Rank Jun 23	Rank Sep 23
Top 6 increases in Top 100 Companies by $ movement in market capitalisation			
New Hope Corporation Limited	1258	10	7
Stanmore Coal Limited	1010	17	13
Megaport Limited	727	24	18
Coronado Global Resources Inc.	687	16	14
Suncorp Group Limited	660	1	1
Domino's Pizza Enterprises Limited	640	9	9
Top 6 increases in top 100 companies by % movement in market capitalisation			
EML Payments Limited	88%	47	31
Alligator Energy Limited	83%	65	46
Healthia Limited	73%	56	43
A-Cap Energy Limited	65%	88	74
Megaport Limited	64%	24	18
Redflow Limited	48%	100	88

Top movers in Q3 2023 by market capitalisation movement

New Hope Corporation: Higher share price since Jun-23 is largely driven by strong annual results. For the 12 months ended 31 July, New Hope reported record gross revenue of $2.6b (6% increase on FY22). Net profit after tax (NPAT) also rose by 10.6% to $1.1b. New Hope attributed part of this to record high coal prices in the first half of FY23 driven by key coal importers hunting for non-Russian sources of coal following sanctions on Russian commodities.

Stanmore Coal: also benefitted from record high coal prices since the outbreak of the Russia-Ukraine war. Per the reported half-year results to Jun-23, revenue of US$1.5b was 36% higher than the six months to Jun-22 with net profit of US$340m being 46% higher. Half-year results note robust operating performance despite wet weather conditions and underperformance of logistics partly limiting sales.

Megaport: the marginal increase in the QLD TMT sector was driven by a 63% increase in the share price of Megaport due to continued improvement in operating metrics and financial performance. For FY23, the company reported revenue up 40% to $153m, Annual Recurring Revenue (ARR) up 39% to $179m and positive normalised EBITDA for the first time in company history ($20m compared to a loss of $10m last year). FY23 4Q was the first positive net cash flow quarter in company history and the company expects to remain so in FY24. As a result, it has decided to terminate its $25 million debt facility with HSBC.

Suncorp: the increase in the QLD Financials sector was largely driven by Suncorp – which reported strong improvement in FY23 results – (i) NPAT of $1.1b, up from $0.7b in FY22 (ii) Gross written premium (GWP) across Australia and New Zealand up 10.8% year-on-year and (iii) full-year dividend at 60 cents per share, up from 40 cents per share in FY22. While the ACCC blocked the merger with ANZ at the start of August, this decision was subsequently challenged for a review. While the review is yet to be completed, the Queensland Government has argued that the $15 billion in new lending as well as thousands of jobs would be at risk if the merger didn't go through.

Allkem Limited: reduction in market capitalisation driven by overall downward trends in global lithium prices and fears of a potential oversupply by 2024/25 from a slowdown in the EV transition. Lithium prices have been on a downward trend for most of the year trading at c.US$28 per kilogram, down from more than US$85 in December 2022. Allkem also reported cost increases at three of its major projects (James Bay in Canada and Cauchari and Sal de Vida in Argentina) due to inflation in labour and material costs.

Star Entertainment Group: share price reduction in the quarter of 47.4% as continued regulatory scrutiny across the nation’s gambling industry eroded its financial position. The regulators’ focus on Star’s community impact means its casinos have locked out more customers — and spent more on compliance — while discretionary spending has dropped.

Lottery Corporation Ltd: share price reduction since Jun-23 following FY23 reported results being below analyst expectations due to unfavourable sequence of large jackpots resulting in a small year-on-year decline in lotteries revenue, while higher operating expenses resulted in lower EBIT.

Top companies by market capitalisation

Rank		Company	Market Capitalisation ($m)		Change since Jun 23	
Sep 23	**Jun 23**		**30 Sep 23 $million**	**30 Jun 23 $million**	**$million**	**%**
1	1	Suncorp Group Limited	17,746	17,086	660	3.9%
2	2	Lottery Corporation Ltd	10,506	11,418	(912)	(8.0%)
3	3	Allkem Limited	7,516	10,212	(2,696)	(26.4%)
4	4	Aurizon Holdings Limited	6,424	7,216	(79)	(11.0%)
5	5	NEXTDC Limited	6,377	6,474	(97)	(1.5%)
6	6	ALS Limited	5,553	5,403	150	2.8%
7	10	New Hope Corporation Limited	5,368	4,110	1,258	30.6%
8	7	Technology One Limited	5,032	5,075	(44)	(0.9%)
9	9	Domino's Pizza Enterprises Limited	4,776	4,136	640	15.5%
10	8	Flight Centre Travel Group Limited	4,252	4,154	98	2.4%
11	11	Bank Of Queensland Limited	3,753	3,589	163	4.6%
12	12	Eagers Automotive Limited	3,579	3,466	113	3.2%
13	17	Stanmore Coal Limited	3,335	2,326	1,010	43.4%
14	16	Coronado Global Resources Inc.	3,261	2,573	687	26.7%
15	13	National Storage REIT	2,967	3,169	(202)	(6.4%)
16	15	Super Retail Group Limited	2,708	2,581	126	4.9%
17	14	Corporate Travel Management Limited	2,466	2,618	(152)	(5.8%)
18	24	Megaport Limited	1,872	1,145	727	63.5%
19	22	Dalrymple Bay Infrastructure Ltd	1,388	1,309	79	6.1%
20	23	Collins Foods Limited	1,124	1,153	(29)	(2.5%)
		Top 20	**100,000**	**99,213**	**787**	**0.8%**
		Others	19,763	21,874	(2,111)	(9.7%)
		Total QLD Index	**119,763**	**121,087**	**(1,324)**	**(1.1%)**
		Top 20 as a % of total	83.5%	81.9%		

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