Week

8

Stories To Read From FNArena

Friday, 24 February 2017

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Australia

1 Baby Bunting's Growth Spurt To Slow, A Little
2 Link Delivers On Targets Yet Upside Elusive
3 BlueScope Outlook Improves Markedly
4 New Investor Augurs Well For G8 Education
5 Going Tough But Growth Returns To FlexiGroup

FYI

6 Weekly Ratings, Targets, Forecast Changes
7 Uranium Week: Buying Interest Fades
8 The Short Report
9 The Wrap: Cars, Coal, Copper And Inflation

Small Caps

10 One-Stop Pet Shops Lead Greencross Outlook
11 Has iSentia Hit A Road Block?

Technicals

12 ASX200: Looking Good

Weekly Analysis

13 Feb Reporting Season: The Interim Verdict

Baby Bunting's Growth Spurt To Slow, A Little

Baby goods retailer Baby Bunting is investing in price & customer service, and brokers believe this is paying off in terms of market share.

-Gross margins soft in first half but attributed to shift in sales mix -Sales growth to moderate over the second half -Medium-term growth outlook seen captured in share price

By Eva Brocklehurst

Baby Bunting ((BBN)) is growing strongly. First half results were broadly in line with broker estimates although gross margins were soft. Morgans believes the company's strategy of investing some of its top line back into prices and customer service is the right one and should confirm the company's proposition as a category killer in the baby/nursery goods segment.

Baby Bunting delivered 8.2% sales growth in the first half. Morgans notes this implies like-for-like sales growth over the last seven weeks of around 3.1%, given 10% was reported for the first 20 weeks. This represents, in the broker's view, a reasonable slowdown towards year and. Gross margins were below expectations because of the focus on price and customers. Online investment is observed to be paying off, and now comprises 5.9% of group sales.

Store Footprint To Double

The main attraction for Morgans is the fact that around 43% of the stores are less than three years old and the company has a net cash position. In the meantime, the competition is struggling to remain viable. The broker believes the company can assert its ascendancy over competitors in coming years and its store footprint can double. The broker downgrades its recommendation to Hold from Add on valuation grounds only.

The company reports trading in FY17 to date shows sales growth of 8%, implying around 7.6% like-for-like growth in the first six weeks of the second half. The trend, Morgans observes, continues to be solid. Management expects sales growth will moderate over the balance of the second half as the group cycle stronger comparables.

Gross margins were slightly softer than Macquarie expected too and, as also expected, like-for-like sales growth is moderating throughout the year as the previous corresponding period becomes increasingly tougher to beat. FY17 operating earnings guidance (EBITDA) of $21.5-24.5m represents growth of 15-31%, the broker calculates.

Macquarie's previous forecasts were at the top end of the guidance range and this now appears a stretch. The broker revises estimates to assume around 7% like-for-like growth with less operating leverage in the second half.

While lowering near-term forecasts, Macquarie emphasises the medium-term growth outlook is attractive but this is currently captured in the stock's price, given a 50% price/earnings ratio premium to the market. Hence, Macquarie downgrades to Neutral from Outperform.

The medium-term outlook remains intact in the broker's view. Three new stores are to be opened in the second half and the broker notes the group is only around half way to meeting its medium-term store target of around 80.

The result was just below Morgan Stanley's estimates but the miss is not considered material, considering the difficulty in forecasting six months for a company in a strong growth phase. The broker envisages both new and maturing stores are an opportunity for revenue growth and margin expansion.

With potential to more than double its store count and the benefits from scale, Baby Bunting should be able to maintain earnings growth above the market rate for a long time, Morgan Stanley suggests. The decline in the gross margin was unexpected but the broker attributes this to a shift in mix that resulted in higher sales, and believes this shows how the company continues to invest in price to expand its market share.

The industry is highly fragmented and the broker believes the competitive advantage of Baby Bunting will only strengthen as it extracts the benefits of scale.

Risks to the outlook include a competitive threat from online and international retailers and a depreciation in the Australian dollar which increases buying prices. Morgan Stanley also notes there is a risk the retailing of baby

goods proves too hard to corporatise effectively while the Australian consumer environment remains challenging.

Baby Bunting has one Buy rating (Morgan Stanley) and two Hold on FNArena's database. The consensus target is $2.81, suggesting 22.3% upside to the last share price.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Link Delivers On Targets Yet Upside Elusive

Funds administrator Link Administration has delivered on its integration targets yet several brokers suspect upside is factored into the stock.

-Expects to return group operating earnings margins to 34% by FY20 -Near-term headwinds for recurring revenue suggests better buying opportunity ahead -Risks from competitive pressures which may erode margin expansion

By Eva Brocklehurst

Market services and funds administrator Link Administration Holdings ((LNK)) has delivered on its Superpartners integration targets in the first half of FY17, ahead of time and budget. Brokers expect these synergies will continue to materialise through FY18 and FY19.

The company posted results ahead of market expectations and materially stronger than the previous corresponding half, and expects to progressively return group operating earnings (EBITDA) margins to 34% by FY20. Yet, several broker consider this upside is already factored into the stock.

In Macquarie's view the main issues for Link remain revenue growth, margin progression and the movement in provision balances. Link utilised $24.5m in provisions in the first half and reversed $2.9m in other provisions via significant items. For the company to achieve Macquarie's earnings expectations, these costs will need to be removed.

Macquarie forecasts 1-3% revenue growth from FY17-20 and likes the fact that new business continues to bolster recurring revenue in an competitive environment. While pricing remains under pressure this is offset by increased volume, the broker notes. Macquarie retains an Outperform rating.

A tougher corporate market is eroding the medium-term margin upside, UBS believes. Hence, the broker envisages only moderate upside to the stock, calculating longer-term growth in earnings per share of 3-4% per annum and lifting this to 6% per annum when potential capital management accretion is included.

Better Buying Opportunity Ahead

The broker's Neutral rating is retained. Funds administration margin expansion particularly impressed UBS, as it lifted to 22.0% compared with estimates of 18.0%.

Citi finds the share price becoming more attractive yet, with some near-term headwinds for recurring revenues in funds administration, suspects there may be a better opportunity ahead. Citi also retains a Neutral call. Substantial earnings growth is intact, driven by the recovery in margins as Superpartners synergies are realised.

In the near term, nevertheless, there are revenue growth pressures for funds administration, as the fee reduction for Superpartners appears reasonably significant. The company's corporate markets division won a number of clients during the half but margins fell to 23% from 28%, likely in Citi's view to be partly caused by the drop in non-recurring revenue that was flagged for this division after a robust performance in the previous corresponding half.

Funds administration produced greater revenue growth than Morgans expected, while the corporate market revealed margin compression, which remains a concern. The broker likes the stock and believes it has a strong competitive position and should benefit from favourable longer-term structural tailwinds. Morgans forecasts double-digit growth in earnings per share per annum over the next four years.

The risk lies with competitive pressures, which may erode the margin expansion from the Superpartners synergies. The broker believes the current valuation is fair as opposed to offering significant value and maintains a Hold rating. Upside risks are likely to come from further client wins in funds administration, stronger EBITDA margins in corporate markets, and faster and larger synergies extracted from the Superpartners integration. Downside risk come from greater competition.

Acquisition-led Growth?

Citi notes, at the IPO, one of the company's attractions that was highlighted, beyond the margin expansion from Superpartners synergies, was the opportunity to grow market share in funds administration, given its significantly

cheaper cost of administration.

The unease expressed by the competition regulator, ACCC, regarding the bid for Pillar late last year has caused the broker to query such acquisitions as a means to growth. The company remains upbeat about the medium-term opportunities, suggesting that it was hard to pursue other meaningful contracts while attention was focused on the Superpartners integration.

Regardless, while Citi is optimistic about Link's ability to win new contracts over time, the lead time required for bringing funds on board and converting these to revenue suggests this is more likely to be a medium term rather than the short term feature for revenue growth.

FNArena's database shows one Buy rating (Macquarie) and four Hold. The consensus target is $8.29, suggesting 10.7% upside to the last share price. Targets range from $8.10 (UBS) to $8.50 (Macquarie).

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

BlueScope Outlook Improves Markedly

BlueScope Steel's fundamental position has improved markedly, brokers observe, and plans to pay out 30-50% of free cash flow have been welcomed.

-Now focussed on growth with capital expenditure on high-returning internal areas -Subdued Chinese steel exports and US protectionism supportive -Magnitude of capital management underpins broker sentiment

By Eva Brocklehurst

Cost reductions and capital management are at the top of BlueScope Steel's ((BSL)) agenda. In its first half results, the company appears on track for at least $300m in cost reductions in FY17, having already achieved $150m. BlueScope has also announced a $150m on-market share buy-back. The board intends to pay consistent dividends along with buy-backs, planning to pay out 30-50% of free cash flow.

Having improved the fundamental position of the business, Macquarie observes the company is now focusing on growth. Much of the capital expenditure will be on high-returning internal areas, where incremental capacity and efficiency can be gained. BlueScope is targeting a two-year pay-back on many of its investments.

The stock has an attractive relative valuation versus the ASX 200 and international peers, and this underpins the upside case for Macquarie. Its US business, North Star, continues to feature highly in the stock's performance, while improving construction and oil & gas markets are envisaged more than compensating for slightly slower demand in the automotive area. North Star is operating at 100% utilisation and further process optimisation aims for a 90,000 tonnes per annum capacity expansion.

Macquarie notes a sale of Taharoa would support debt reduction and a further buy-back. The sale is proceeding, with two interested parties in advanced negotiations. Compared with international peers the stock is inexpensive and Macquarie, while cautious on commodity price progression, maintains a Outperform rating.

International Conditions Supportive

The positive investment context is supported by subdued Chinese steel exports and US protectionism, brokers believe. Credit Suisse's main concern is that a portion of the surprisingly strong North American building product performance in the half year could have been an outcome of profit in stock, where the business would have benefited from inventory gains stemming from lagging input steel prices for product awaiting conversion.

The downside of US protection is that the company's cost of steel substrate for conversion to its building products has risen and accessing steel is getting more challenging. At present, however, the selling price differential to the highest substrate cost is favourable. Credit Suisse acknowledges that, in common with all steel and resource analysts, it has been conditioned by market experience to be bearish at best and pessimistic more generally. The broker is now less confident that China's new-found discipline will not be sustained and that US protection will fail.

The sale of the Arrium assets is one uncertainty, domestically, that overhangs the stock. There is some modest risk that a foreign owner could acquire the company's steel-making, pipe and tube, and distribution assets and use this as a conduit to the domestic market.

Nevertheless, the broker notes, in light of Chinese steel capacity cuts and stronger domestic demand, surplus Asian steel seeking an export market is declining. Management has stated that domestic hot rolled coil prices to pipe and tube makers are extremely competitive, making the domestic tube market unattractive for exported hot rolled coil.

UBS was impressed with the first half results and believes a combination of cash losses by most Chinese steel mills, declining Chinese exports and a step-up in global protectionism should help limit the probability that steel spreads could retest previous lows. The broker envisages upside to its modest volume growth outlook for the company's Australian steel business.

Ord Minnett is more circumspect, forecasting earnings will be reaching a cyclical peak. As the stock is approaching the broker's valuation, and despite the attractive multiples, the broker downgrades to Hold from Accumulate. The broker agrees the capital management initiatives should help support the stock but forecasts earnings momentum to slow.

The broker also accepts that productivity gains are continuing to flow through at Port Kembla and, given the high level of fixed costs, additional volumes are an incremental positive to the bottom line, even if they are directed to the lower value export market. Deutsche Bank also retains a conservative stance, continuing to rate the stock Hold as the share price is broadly trading in line with its target price.

Tax Effective Strategy

Credit Suisse upgrades to Outperform, noting a lack of franking credits means dividends are not tax effective for shareholders. The broker notes the low multiples versus peers make the stock look cheap, particularly if earnings are now at mid cycle and broadly sustainable. The magnitude of capital management and the intention to sustain this surprised the broker in a positive way and signals that there are many incremental, low capital expenditure opportunities that can be readily funded.

Citi agrees. As the balance sheet is in pristine condition, there is more than sufficient capacity in cash flow for the company to engage in an annual on-going share buy-backs of $100m per annum, in addition to maintaining an unfranked distribution of $0.14 per share from FY18. The broker highlights BlueScope's structural advantage enables it to deliver positive shareholder returns through the cycle.

As global steel spreads are favourable and there is ongoing strength in iron ore this will support a meaningful contribution from the NZ iron sands operation as well, Citi asserts. The broker revises up forecasts for earnings per share by 18% and 13% respectively for FY17 and FY18.

Morgan Stanley considers the company's guidance for second half EBIT of $510m conservative. The broker believes there is scope for further upgrades throughout the course of the second half. The capital management plans were delivered earlier than expected and Morgan Stanley is most impressed with the plan to buy back 30-50% of free cash flow per annum.

While not explicitly including these numbers in its forecasts, the broker calculates that the cumulative buy-back could be up to $1.1bn by the end of FY20. This would be around 6.4% accretive, assuming a share price of $12.50 and a cost of debt of 5.0%. As the balance sheet is largely un-geared and earnings risks are to the upside organ Stanley retains a Overweight rating.

There are five Buy ratings on FNArena's database and two Hold. The consensus target is $13.71, signalling 6.7% upside to the last share price. This compares with $12.18 ahead of the results. Targets range from $11.73 (Deutsche Bank) to $15.00 (Citi, UBS).

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

New Investor Augurs Well For G8 Education

Child care provider G8 Education has improved its balance sheet metrics, teaming up with a Chinese investor to provide capital to pursue acquisitions.

-Commentary around dividend augurs well for improved capital allocation -Need to witness delivery on performance indicators such as occupancy -Increased detail on longer-term strategy welcomed

By Eva Brocklehurst

Child care operator G8 Education ((GEM)) has teamed up with a Chinese investor, which has provided the capital to enable the company to restore its balance sheet and pursue acquisitions.

The $213m placement to fund committed growth opportunities and de-gear the balance sheet was a positive surprise for Deutsche Bank. The broker also welcomes increased disclosures around occupancy in the 2016 results and the commentary surrounding the dividend, which augurs well for improved capital allocation.

The company settled on 21 new childcare centres in 2016. Its Australian portfolio has increased to 490 with 38,713 daily licensed places. An additional 28 centres are expected to settle in 2017 at a cost of $80m. The placement, to China First Capital at $3.88 per share, will be used to pay down a corporate bond and working capital facilities. The company now has a 12.5% stake in G8 Education.

Following debt re-payment the company's net debt/earnings ratio will reduce to 1.7 from 2.2. Management intends to maintain gearing at this level. The equity raising alleviates Deutsche Bank's main concerns while reducing the downside risks for shareholders.

Moelis notes around $200m has been committed for future acquisitions, mainly new developments, over the next 2.5 years and assumes a contribution of around $45m to earnings by the end of 2019. The broker, not one of the eight monitored daily on the FNArena database, has a Buy rating and $4.22 target.

Occupancy Concerns

Deteriorating occupancy remains a concern for UBS, stemming from increased supply, and this in turn raises the question of whether the company can continue to raise prices at around 6% annually over the medium to long-term.

The re-capitalisation of the balance sheet underpins the company's acquisition profile and while trading multiples are not demanding Macquarie, too, would like to witness delivery on key performance indicators, particularly around occupancy, as well as obtain further details on the nature of acquisitions which are development weighted.

Operating revenue was around 2% below Macquarie's expectations and this reflected a decline in occupancy in operating centres where there are pockets of weakness such as inner Sydney and the northern beaches as well as generally in both Western Australia and north Queensland.

Occupancy weakness, caused by increased supply, is also Canaccord Genuity's main short-term concern regarding the stock. The broker notes the company will spend the next three months evaluating whether there is an opportunity to collaborate with China First Capital in the early education sector in China.

While the detail is absent at present, the broker believes the opportunity is significant, although suspects, should this materialise, the board would take a cautious approach. Canaccord Genuity, not one of the eight monitored daily on the database, has a Buy rating and $4.30 target.

Ambitious 2019 target

In consultation with major shareholders, the company will determine the appropriate dividend policy moving forward. The broker suspects that with a balance sheet positioned for growth, it is likely that the pay-out ratio, considered too high, can reduce as earnings per share increases.

Canaccord Genuity estimates the pay-out ratio will reduce to below 70% by 2019, assuming the dividend is maintained at 6c per quarter.

Management is targeting earnings per share of 40c in FY19 but the broker believes this goal is likely to be a stretch, although it does point to expectations for strong earnings growth over the forecast years. Moelis also expects a lower pay-out ratio in future and assumes 65-70% from 2018.

While early days, Canaccord Genuity welcomes the approach by the new management team to market communication. The broker observes greater detail on the long-term strategy. Investors usually respond well to further clarity, which could have a positive influence on sentiment over time, the broker suggests.

Results were in line with guidance and, importantly, Ord Minnett notes a stabilisation of operating costs. The broker believes the investment by China First Capital provides the financial flexibility to pursue growth opportunities and removes a primary negative attribute, in that the company was relatively highly geared versus its peers.

Ord Minnett upgrades forecasts but remains well below management's FY19 target of 40c for earnings per share. Nevertheless, the broker believes this is the time to upgrade to Buy from Accumulate.

There are three Buy ratings and one Hold on the database. The consensus target is $4.05, suggesting 6.6% upside to the last share price. Targets range from $3.87 (Macquarie) to $4.20 (Deutsche Bank). The dividend yield on FY17 and FY18 forecasts is 5.8% and 5.9% respectively.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Going Tough But Growth Returns To FlexiGroup

Business & consumer credit company FlexiGroup is returning to growth after a year of transition but there are challenges to be surmounted to meet targets.

-Dividend reduced to support fast-growing cards book -Ambitious targets previously set for FY18 not reiterated -Further clarity to be provided at the annual investor briefing

By Eva Brocklehurst

Consumer credit business FlexiGroup ((FXL)) is returning to growth, although the outlook remains muted and several brokers believe the company must execute on targets to regain confidence.

2016 was a year of transition for the company, with some businesses being hived off and growth being re-established. There are some early successes evident in the first half, Deutsche Bank notes, with volumes in Certegy stabilising strongly.

The broker believes the reduction in the dividend is a rational move to support the fast-growing cards book. This will be a drag on capital, margins and returns through the growth phase but is expected to deliver a higher quality recurring earnings stream.

The broker believes the stock offers strong valuation support and the metrics do not require a lot of growth. The company has not reiterated its previous target of 10% growth in FY18, or divisional volume growth targets, but has committed to providing further information at its annual investor strategy briefing.

Deutsche Bank expects the volume growth targets will be either re-affirmed or upgraded, although cost investment and the earnings drag from the rapidly growing cards book are likely to make double-digit growth in FY18 a challenge.

Dividend Pay-out Reduced

The company has reduced its dividend pay-out target to 30-40% of cash net profit from 50-60%. The dividend reinvestment plan has been reactivated for the first half dividend. FlexiGroup expects FY17 cash net profit of $90-97m, and the realisation of $47.5m in the first half implies there is some room from the bottom end of the range, in Macquarie's view. The broker suggests the swing between the top and bottom end of guidance will depend on the timing of investments and level of expensing.

First half results were ahead of the broker's forecasts, overall, while the actual divisions were mixed. Although the company has taken a step in the right direction, following a succession of earnings downgrades and several years of little growth, Macquarie believes more is required for the stock to re-rate.

As a result, at this stage, the broker retains a Neutral rating. Relative to the broker's forecasts first half cash net profit for Certegy and Australian leasing were ahead, Australian and New Zealand cards in line, and New Zealand leasing below.

UBS observes the deal with Flight Centre ((FLT)) is delivering in its initial phase. The company believes there is potential to more than double the Australian card segment revenue/profitability over the next few years. The broker likes the positive steps taken to address organic growth concerns but believes more deals like this will be necessary to achieve ambitious targets for FY18, and offset the slower growth in Certegy/point of sale leasing.

Targets For FY18

The company has previously outlined targets for volume growth in FY18 of 10-12% in NZ cards, over 15% in Australian cards, 8-10% in Certegy, 10% in NZ leasing and 5-10% in Australian leasing. While there are some initiatives in place, UBS is cautious about the necessary lift in several of these divisions in FY18 in order to achieve the targets.

Overlaying this with risks around impairments, higher funding costs, margin compression and competition, the broker believes there is still a significant number of issues outstanding and retains a Neutral rating.

Morgans believes management has set a realistic base of the business and is implementing a number of

meaningful growth strategies. The broker considers a return to growth into FY18 is readily achievable and supported by a material step-up in receivables in Australian cards, as well as early traction from the re-building of the commercial leasing team, stable Certegy earnings and growth potential in the new dental contract.

The fact the company did not reaffirm its previous targets that were set for FY18 does not, in the broker's view, signal a lack of confidence in the outlook. Rather, Morgans believes new management requires further assessment of the traction it is achieving in its growth initiatives. The broker does not believe looming funding pressure is material. Management expects a 20 basis point increase in the cost of funds in the short to medium term.

Citi sticks with its Buy rating but believes execution on targets is paramount. The broker suggests that while bulls will lean towards the two solid credit card businesses, the bears may believe the stock is still too complex and under incremental competitive pressure. While the broker believes the latter case has merit it remains in the bull camp.

Citi considers online competitors being incrementally pulled in-store potentially pose a risk for Certegy. The advantages of their competitive offerings include being lower cost and easier to use, while Certegy's strengths are in its larger transaction size, longer repayment periods and strong in-store relationships. The company has much to prove in FY17 but is positioning well, in the broker's view, to leverage its strengths. Citi also finds the fully franked yield appealing.

There are four Buy ratings on FNArena's database and two Hold. The consensus target is $2.57, suggesting 13.2% upside to the last share price. Targets range from $2.25 (UBS) to $2.75 (Citi).

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

The FNArena database tabulates the views of eight major Australian and international stock brokers: Citi, Credit Suisse, Deutsche Bank, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS.

For the purpose of broker rating correlation, Outperform and Overweight ratings are grouped as Buy, Neutral is grouped with Hold and Underperform and Underweight are grouped as Sell to provide a Buy/Hold/Sell (B/H/S) ratio.

Ratings, consensus target price and forecast earnings tables are published at the bottom of this report.

Summary

Period: Monday February 13 to Friday February 17, 2017 Total Upgrades: 8 Total Downgrades: 15 Net Ratings Breakdown: Buy 43.54%; Hold 42.36%; Sell 14.10%

The local reporting season is heating up and so are the number of downgrades issued by stockbroking analysts. The latter is less a reflection of disappointing results as it is a reflection of the fact share prices are a lot higher than where they were in 2016, and this means companies have to do better than projected to justify further upside.

For the week ending Friday, 17th February 2017, FNArena registered 15 downgrades for individual ASX-listed stocks against eight upgrades. Magellan Financial was the only one receiving two upgrades during the week. Aurizon Holdings was downgraded three times. JB Hi-Fi and IOOF Holdings each received two downgrades.

CSL tops the week's list for positive adjustments to price targets, followed by OZ Minerals, Sims Metal and AMP. On the flipside, IPH Ltd (-16%) takes the wooden spoon, followed by IOOF, Telstra and Tatts.

The week's table for upgrades to earnings estimates shows some gigantic increases, with Alacer Gold in pole position with a gain of +302%. AMP, with a gain of +159% comes second, followed by Mt Gibson (+101%). The negative side looks a lot more benign with Boral leading the week's losers (so to speak), seeing market expectations retreating by -16%. Next up are Ten Network (-11.5%), Sydney Airport (-9%) and Domino's Pizza (-7%).

The February reporting season will really get into swing this week.

Upgrade

AINSWORTH GAME TECHNOLOGY LIMITED ((AGI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/0

Macquarie upgrades to Outperform from Neutral. Target is raised to $2.10 from $1.80.

The broker notes Australian ship-share shows positive trends and, while not the largest contributor to earnings, will be positive for sentiment and should be a lead indicator for the US market.

BLUE SKY ALTERNATIVE INVESTMENTS LIMITED ((BLA)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 2/0/0

First net profit was supported by an uptick in the contribution from the New York-based Cove and higher investments income. Ord Minnett notes the institutional investor base continues to expand.

After upgrading growth expectations and factoring in a lower revenue margin, option issue and higher costs, the broker's forecasts for earnings per share are downgraded -6% and -7% for FY17 and FY18 respectively.

Rating is upgraded to Buy from Hold. Target is raised to $7.87 from $7.60.

CSL LIMITED ((CSL)) Upgrade to Buy from Neutral by Citi .B/H/S: 6/1/0

Post the formal release of CSL's interim financials, Citi analysts have become a lot more comfortable with the growth outlook. Their projections now imply 21% EPS CAGR for FY16-FY19.

Citi believes this outlook, in combination with the reliability that continues to be on display, warrants a premium valuation. The analysts have increased their price target to $136.40 (was $113.75). Upgrade to Buy from Neutral.

MAGELLAN FINANCIAL GROUP LIMITED ((MFG)) Upgrade to Add from Hold by Morgans and Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 5/1/0

Magellan's -20% drop in first half profit on lower performance fees was in line with Morgans. The broker expects strong net inflows into both retail and institutional to taper in the second half but to remain solid.

Morgans sees a long term opportunity in the announcement of three new US low carbon funds, but doesn't expect meaningful inflows for two-three years. Target falls to $26.80 from $27.47 but that suggests a 15% total shareholder return. Hence an upgrade to Add.

Magellan's retail inflows slowed in the first half but Morgan Stanley is expecting a modest recovery, while institutional flows bounced back. Magellan pays out 75-80% of earnings to dividends but given peers pay 85-90% and Magellan's balance sheet has been strengthened, the broker expects a stronger dividend.

Morgan Stanley upgrades to Equal-weight. The broker might be more positive but for pressure on retail fees and Magellan's limited product mix compared to peers. Target rises to $25.00 from $21.50. Industry view: In-Line.

SOUTH32 LIMITED ((S32)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 5/2/0

First half results were slightly better than the broker's estimates, FY17 guidance for D&A has been revised upward by $40m to $$760m.

FY17 production guidance remains unchanged, but cost guidance has been increased across most divisions, reflecting FX moves and price linked royalty payments. The broker forecasts cash of $1.6bn at the end of FY17 and assumes $800m of buy-backs in each of FY18 and FY19.

The broker upgrades the stock to Outperform from Neutral and raises the target price to $2.95 from $2.80.

SIMS METAL MANAGEMENT LIMITED ((SGM)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 4/2/1

First half results were in the middle of the guidance range. Macquarie finds the market environment far from clear but believes the company has done well to mitigate downside risks.

The company believes further self-help could add more than 50% to EBIT. On the strength of such potential, Macquarie upgrades to Outperform from Underperform. Target is raised to $13.60 from $11.20.

VICINITY CENTRES ((VCX)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/0/2

At face value, the H1 financial performance was in-line, but Citi analysts highlight the result also put the limelight on the broader benefits of capital recycling.

Upgrade to Buy from Neutral. Target price loses 2c to $3.22. The analysts point out the shares are now offering circa 6% yield plus 10% upside to the price target for the year ahead.

Estimates have changed little. Citi analysts encourage investors to look through the earnings impact of asset sales. They expect growth to accelerate from FY18.

Downgrade

AURIZON HOLDINGS LIMITED ((AZJ)) Downgrade to Underperform from Neutral by Credit Suisse and Downgrade to Neutral from Outperform by Macquarie and Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 0/5/3

One-off items boosted the first half result. Credit Suisse notes the focus of the company is on cost control and more rigorous capital allocation.

The intermodal freight review will be completed mid year and, while the company could achieve its targets by retaining the challenged division, the broker believes it would take until FY19 to achieve.

Credit Suisse believes the shares are fully valued and downgrades to Underperform from Neutral. Target is raised to $5.00 from $4.75.

First half results were better than Macquarie expected. Nevertheless, there were numerous favourable and non-sustainable items above the line.

The broker notes no clarity around any fundamental change in strategy will be heard until mid-year but the company will start executing on items such as reducing capital expenditure and re-pricing bulk contracts.

Macquarie downgrades to Neutral from Outperform. Target is reduced to $4.98 from $5.16.

The first half was stronger than Deutsche Bank forecast. However, a large proportion of the variance was one off items which are unlikely to be repeated.

The company continues to generate cash flow which enabled it to maintain its dividend pay-out ratio. Capital expenditure is expected to fall further, given the limited growth projects.

The broker makes minor changes to earnings forecasts but downgrades to Hold from Buy, given the shares are trading at a premium to its price target. Target is raised to $5.10 from $4.95.

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/0/6

First-half results disappointed Credit Suisse and earnings estimates are downgraded by -2-4%.The broker liked the cost control and improvement in asset quality but did not like the softer net interest margin.

The result highlights the heightened earnings risks from dilution and bad debts. Credit Suisse downgrades to Underperform from Neutral. Target is reduced to $11.90 from $12.50.

COMPUTERSHARE LIMITED ((CPU)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/3/1

Computershare's growth outlook has changed dramatically, and for the better, comment analysts at Citi. They have made only small positive adjustments to estimates.

However, the analysts also note the share price has rallied hard. On this basis, they downgrade to Neutral from Buy. Target jumps to $13.80 from $11.

DWS LIMITED ((DWS)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

DWS reported first half results that were better than expected by Ord Minnett. The broker was a little surprised at the reduction in contractor headcount and sees DWS as having to try harder in the second half to deliver organic revenue growth.

The broker has downgraded the stock to Hold from Buy and reduces price target to $1.60 from $1.63.

HENDERSON GROUP PLC. ((HGG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/5/0

2016 results beat Credit Suisse forecasts. The short-term operating outlook is expected to remain challenging for longer than previously expected.

The broker continues to envisage value in the merger and medium-term story but finds further negative catalysts on the horizon for the short term.

Rating is downgraded to Neutral from Outperform. Target falls to $3.80 from $4.30.

IOOF HOLDINGS LIMITED ((IFL)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/4/1

First half underlying profit missed Macquarie's expectations. Gross margin pressure flowed through to net margins. The dividend pay-out of 98% was ahead of forecasts, backed by strong cash flow, but the broker expects this to return to 90%.

Macquarie downgrades to Neutral from Outperform as operating headwinds are expected to remain despite the prospect of some moderation in the second half. Target is reduced to $8.50 from $9.60.

First half earnings were disappointing for the broker, despite a small increase in net profit. Credit Suisse has downgraded FY17 forecasts by -6%, primarily driven by business divestments.

The broker notes cost savings have largely come through, but the unexpected divestments raise questions around the earnings outlook. The broker has downgraded the stock to Neutral from Outperform and reduced the target price to $8.60 from $9.50.

IPH LIMITED ((IPH)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 1/2/0

Adjusting for unrealised FX gains, first half results were broadly in line with Deutsche Bank forecasts. The broker downgrades to Hold from Buy on valuation grounds.

Medium-term earnings estimates are reduced to better capture the risks around national phase entries being conducted electronically and potential margin compression from increasing competition.

Target is reduced to $5.40 from $6.60.

JB HI-FI LIMITED ((JBH)) Downgrade to Hold from Add by Morgans and Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 3/4/1

JB Hi-Fi's first half results were better than Morgans had expected. The strong sales growth has continued into the second half and management has guided to full year earnings of $5.58bn.

The broker believes sales growth may moderate as the group cycles the exit of Dick Smith from the market. The broker downgrades the stock to Hold from Add and target price rises to $31.80 from $30.94.

JB HiFi's first half results were better than the broker had expected. The impact of Dick Smith's exit from the market should be finished in the second half and management has guided to slowing sales growth in the period.

Credit Suisse has downgraded the stock to Underperform from Neutral and raised the target price to $26.49 from $26.43.

OZ MINERALS LIMITED ((OZL)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/2/4

OZ Minerals' share price has risen 130% in 12 months, compared to 55% for the ASX200 resources index. Copper price strength, and expectation for more strength, as well as updated mine plans for Prominent Hill and Carrapateena have driven the move, Morgan Stanley concludes.

The broker has revised forecasts to account for these factors but cannot arrive at a valuation to match market enthusiasm. Downgrade to Underweight. Target rises to $8.50 from $5.80. Industry view: Attractive.

PRAEMIUM LIMITED ((PPS)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Praemium's first half results were well below the broker's expectations, mainly due to rising costs associated with increased sales and IT development. Morgans has reduced FY17 forecasts by -51.5%, FY18 by -14.3% and FY19 by -9.7%

As the company trades close to the broker's revised valuation, Morgans downgrades the stock to Hold from Add. Target is reduced to 43c from 61c.

TELSTRA CORPORATION LIMITED ((TLS)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/5/3

Ord Minnett has downgraded to Hold from Accumulate upon Telstra's release of what turned out a weak interim report. The analysts highlight both top line and bottom line were well off what the market was expecting.

There's sector dominance and an attractive looking yield, but Ord Minnett is taking a medium term view and sees potential structural changes and downward pressure. Target falls to $5.35 from $5.45.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AINSWORTH GAME TECHNOLOGY LIMITED Buy Neutral Macquarie 2 BLUE SKY ALTERNATIVE INVESTMENTS LIMITED Buy Neutral Ord Minnett 3 CSL LIMITED Buy Neutral Citi 4 MAGELLAN FINANCIAL GROUP LIMITED Buy Neutral Morgans 5 MAGELLAN FINANCIAL GROUP LIMITED Neutral Sell Morgan Stanley 6 SIMS METAL MANAGEMENT LIMITED Buy Sell Macquarie 7 SOUTH32 LIMITED Buy Neutral Credit Suisse 8 VICINITY CENTRES Buy Neutral Citi Downgrade 9 AURIZON HOLDINGS LIMITED Neutral Buy Macquarie 10 AURIZON HOLDINGS LIMITED Sell Neutral Credit Suisse 11 AURIZON HOLDINGS LIMITED Neutral Buy Deutsche Bank 12 BENDIGO AND ADELAIDE BANK LIMITED Sell Neutral Credit Suisse 13 COMPUTERSHARE LIMITED Neutral Buy Citi 14 DWS LIMITED Neutral Buy Ord Minnett 15 HENDERSON GROUP PLC. Neutral Buy Credit Suisse 16 IOOF HOLDINGS LIMITED Neutral Buy Macquarie 17 IOOF HOLDINGS LIMITED Neutral Buy Credit Suisse 18 IPH LIMITED Neutral Buy Deutsche Bank 19 JB HI-FI LIMITED Neutral Buy Morgans 20 JB HI-FI LIMITED Sell Neutral Credit Suisse 21 OZ MINERALS LIMITED Sell Neutral Morgan Stanley 22 PRAEMIUM LIMITED Neutral Buy Morgans 23 TELSTRA CORPORATION LIMITED Neutral Buy Ord Minnett Recommendation Positive Change Covered by > 2

Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MFG MAGELLAN FINANCIAL GROUP LIMITED 83.0% 33.0% 50.0% 6 2 SGM SIMS METAL MANAGEMENT LIMITED 36.0% -7.0% 43.0% 7 3 VCX VICINITY CENTRES 10.0% -30.0% 40.0% 5 4 S32 SOUTH32 LIMITED 71.0% 43.0% 28.0% 7 5 CSL CSL LIMITED 79.0% 64.0% 15.0% 7 6 XRO XERO LIMITED 42.0% 30.0% 12.0% 6 7 FLT FLIGHT CENTRE LIMITED -13.0% -14.0% 1.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 IFL IOOF HOLDINGS LIMITED -20.0% 20.0% -40.0% 5 2 IPH IPH LIMITED 33.0% 67.0% -34.0% 3 3 JBH JB HI-FI LIMITED 19.0% 44.0% -25.0% 8 4 BEN BENDIGO AND ADELAIDE BANK LIMITED -93.0% -79.0% -14.0% 7 5 TTS TATTS GROUP LIMITED 8.0% 21.0% -13.0% 6 6 AMP AMP LIMITED 44.0% 56.0% -12.0% 8 7 OZL OZ MINERALS LIMITED -25.0% -13.0% -12.0% 8 8 TLS TELSTRA CORPORATION LIMITED -38.0% -31.0% -7.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 CSL CSL LIMITED 123.529 116.550 5.99% 7 2 OZL OZ MINERALS LIMITED 8.581 8.244 4.09% 8 3 SGM SIMS METAL MANAGEMENT LIMITED 12.840 12.387 3.66% 7 4 AMP AMP LIMITED 5.626 5.433 3.55% 8 5 JBH JB HI-FI LIMITED 30.761 29.713 3.53% 8 6 MFG MAGELLAN FINANCIAL GROUP LIMITED 26.442 26.008 1.67% 6 7 S32 SOUTH32 LIMITED 3.131 3.080 1.66% 7 8 BEN BENDIGO AND ADELAIDE BANK LIMITED 10.957 10.821 1.26% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 IPH IPH LIMITED 5.857 7.003 -16.36% 3 2 IFL IOOF HOLDINGS LIMITED 8.330 9.000 -7.44% 5 3 TLS TELSTRA CORPORATION LIMITED 4.844 5.024 -3.58% 8 4 TTS TATTS GROUP LIMITED 4.267 4.391 -2.82% 6 5 VCX VICINITY CENTRES 3.074 3.114 -1.28% 5 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AQG ALACER GOLD CORP 22.689 5.633 302.79% 5 2 AMP AMP LIMITED 34.875 13.429 159.70% 8 3 MGX MOUNT GIBSON IRON LIMITED 3.500 1.733 101.96% 3 4 A2M THE A2 MILK COMPANY LIMITED 8.877 7.636 16.25% 4 5 SGM SIMS METAL MANAGEMENT LIMITED 66.923 59.727 12.05% 7 6 VCX VICINITY CENTRES 20.583 18.450 11.56% 5 7 MGR MIRVAC GROUP 15.717 14.300 9.91% 6 8 MIN MINERAL RESOURCES LIMITED 85.060 77.840 9.28% 4 9 NWS NEWS CORPORATION 62.752 58.319 7.60% 6 10 S32 SOUTH32 LIMITED 32.364 30.299 6.82% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 BLD BORAL LIMITED 29.308 34.939 -16.12% 4 2 TEN TEN NETWORK HOLDINGS LIMITED -2.761 -2.476 -11.51% 4 3 SYD SYDNEY AIRPORT HOLDINGS LIMITED 15.575 17.230 -9.61% 7 4 DMP DOMINO'S PIZZA ENTERPRISES LIMITED 130.633 140.500 -7.02% 6 5 TLS TELSTRA CORPORATION LIMITED 31.728 34.074 -6.89% 8 6 TTS TATTS GROUP LIMITED 16.884 18.122 -6.83% 6 7 SGR THE STAR ENTERTAINMENT GROUP LIMITED 27.028 28.809 -6.18% 8 8 IFL IOOF HOLDINGS LIMITED 53.917 56.533 -4.63% 5 9 SGF SG FLEET GROUP LIMITED 24.733 25.700 -3.76% 3 10 SUN SUNCORP GROUP LIMITED 91.663 95.213 -3.73% 8 Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Uranium Week: Buying Interest Fades

By Greg Peel

As the uranium spot price continued to fall without relief last last year to multi-year lows, analysts assumed that at some point uneconomical prices would force sufficient supply reduction to turn prices around. It is unlikely any analysts perceived a price as low as US$17.75/lb as the turning point, but since hitting that level in early December the spot price has done nothing but rally ever since.

While supply curtailments have been announced across the globe by various miners in past months, it was an announced -10% reduction in 2017 production from Kazakhstan's state-owned miner that rang the bell. The extent of reserves in Kazakstan makes that country a global swing producer to the extent OPEC once controlled oil markets. Since early December to two weeks ago, the spot uranium price rallied 49% without one single weekly pullback in price.

Utilities across the globe remain well stocked with uranium, yet prices at historically low levels have been too good to pass up. Speculative interest was also reignited by price momentum. But at some point all good rallies must come to an end.

Last week saw buying interest finally starting to fade. Sellers tried to test buyers with lower prices but still found indifference, given demand remains discretionary rather than urgent. Only four transactions totalling 550,000lbs U3O8 equivalent were concluded during the week, industry consultant TradeTech reports. The consultant's weekly spot price indicator has fallen US$1.50 to US$25.00/lb.

There were two transactions concluded in uranium term markets last week. TradeTech's term price indicators remain unchanged at US$27.75/lb (mid) and US$35.00/lb (long).

Reduced supply has driven uranium's bounce-back from the brink. But how is the demand-side looking?

Japanese company Toshiba last week announced a US$6.3bn write-down of its US-based CB&I Stone & Webster nuclear construction and services business. Aside from admitting poor project management, the company cited a lack of global near term demand for nuclear power. Management also admitted it had overestimated the value of the company's projects at the time of acquisition.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

The Short Report

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentage amounts in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

Summary:

Week ending February 16, 2017

Last week saw the ASX200 reach the 5800 level and proceed to consolidate. Over the week the local earnings season began to ramp up. The end result of that is a sea of red and green in the table below, clearly influenced by earnings season positioning given little in the way of macro drivers.

There are some interesting moves up and down amongst companies that had either reported by the time the latest ASIC data were published or reported this week, with often material responses. There are too many to highlight among those stocks seeing a change in short position of less than one percentage point. Please refer to the table.

We might note, nonetheless, that short positions at the very top of the table notably increased (albeit less than 1ppt), specifically those of Myer ((MYR)), Aconex ((ACX)), Western Areas ((WSA)) and TFS Corp ((TFC)). Aconex and WSA reported this week.

Four stocks posted changes in excess of 1ppt.

Lithium miner Orecobre ((ORE)) is a stock which share price-wise is about as volatile as the metal it mines – lithium being the most volatile of all metals. Two weeks ago Orocobre shorts sat at 8.0% and last week the stock was shorted by less than 5%, meaning not appearing on our table.

The stock price has not moved that much of late and the company doesn't report until early next month. This is one I will reserve judgement on as it may be yet another ASIC data blip.

More readily explained are a 3.2ppt jump in Bega Cheese shorts to 9.5% and a 2.0ppt jump in Domino's Pizza ((DMP)) shorts to 7.6%, both having posted results.

Rio Tinto ((RIO)) posted a result largely in line with forecasts but its shorts have risen 1.5ppt to 6.6%.

Weekly short positions as a percentage of market cap:

10%+

MYR 17.5 ACX 16.2 WSA 13.4 TFC 12.4 VOC 11.4 NEC 10.9 WOR 10.4 SYR 10.2 MTS 10.1

In: SYR, MTS Out: MYX

9.0-9.9%

MYX, BGA In: MYX, BGA Out: SYR, MTS, NWS

8.0-8.9%

OFX, MND, NWS, BAL, HSO, FLT, ISD, DOW

In: NWS, BAL, HSO Out: ISD, DOW

7.0-7.9%

DOW, ISD, NXT, DMP, RWC, BEN, EHE, GTY, MTR

In: DOW, ISD, DMP, MTR Out: BAL, HSO, ORE

6.0-6.9%

IGO, PRU, AAD, SGH, SRX, RIO, IVC, MYO, TGR, PDN, SEK, AWC, IPD

In: IGO, RIO, PDN, IPD Out: BGA, MTR, CSR, CSV, IFL

5.0-5.9%

CSV, IFL, ILU, IPH, A2M, MSB, GXL, OSH, GEM, CSR, CTD, AAC, KAR, WOW, GMA, SUL

In: CSV, IFL, CSR, SUL Out: DMP, PDN, IGO, IPD, RIO, JHC, CLH, AHG

Movers and Shakers

Late 2016 and early 2017 have seen a litany of high growth, high PE stocks falling spectacularly to earth from priced-to-perfection levels.

Bega Cheese ((BGA)) has been one such company, originally taking off in 2015 when the Chinese discovered cheese before the Bega decided to also jump on the infant formula bandwagon, another China-inspired growth story. The latter hasn't gone so well, just as it hasn't for Bellamy's Australia ((BAL)), which is 8.1% shorted. Bega posted a profit warning in November.

Bega posted a well received result this week, but last week it would appear shorters were expecting the opposite. Shorts rose to 9.5% from 6.3%.

For so long Domino's Pizza ((DMP)) was a can-do-no-wrong story, constantly priced for perfection and constantly living up to such expectations with consecutive results. But one cannot continue to outdo perfection forever. From late last year Domino's was caught up in the investor shift out of high growth small caps and into beaten-down large caps such as the miners and banks.

This year the company has been caught up in a wage underpayment scandal, a la 7/11. Last week the company's earnings result disappointed. Last week Domino's shorts rose to 7.6% from 5.6%.

Shorts in Rio Tinto ((RIO)) last week rose to 6.6% from 5.1%. Rio is only one of two ASX20 stocks shorted 5% or more, the other being Woolworths ((WOW)) on 5.2%. The next most shorted Top 20 stock is Commonwealth Bank ((CBA)) on 2.2%.

While a case can be made for "naked" shorts in Woolworths it is more likely this is a long/short sector play with Coles, meaning Wesfarmers ((WES)), being the "long". Wesfarmers is only shorted 1.1%.

BHP Billiton ((BHP)) is only shorted 1.7%. Again, Rio shorts likely reflect this often popular long/short play.

ASX20 Short Positions (%)

To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering"

may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio – a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option ("buy-write") position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a "long" position in that stock.

Another popular trading strategy is that of "pairs trading" in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a "net neutral" market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

The Wrap: Cars, Coal, Copper And Inflation

Weekly Broker Wrap: Automotive dealer commissions; China's coal policy; Citi bullish on copper; ANZ Bank researchers' new inflation indicator.

-Proposed cap on add-on insurance commissions for car dealerships rejected by ACCC -But reduced incentives considered still likely in the longer term -Why would the Chinese government roll out the 276-day coal policy again? -Copper supply expected to underperform demand -RBA's cash rate expected to remain at 1.5% for the near future

By Eva Brocklehurst

Automotive Dealers

The financial regulator ASIC's report last September found that add-on insurance products offered by car dealerships provided little or no value for consumers. Responding to the findings in the report, the Insurance Council of Australia announced it intends to impose a 20% cap on commissions paid to motor vehicle dealers, starting July 1, 2017. Average commissions currently range from 20-50% on these products.

However, the consumer watchdog, the ACCC, intends to reject this proposal and, while agreeing with the ASIC findings, considers the proposed cap unlikely to result in a public benefit. The ACCC believes a reduced cap on commissions does not remove the incentive for insurers and dealerships to sell consumers these more expensive products.

Believing a cap on flex commissions in terms of dealer finance is still likely, Moelis incorporates a 1.5% cap in its analysis. Given that ASIC has now indicated it is more open to industry discussions this also raises the possibility of a higher cap than the broker is factoring in.

Should a 1.5% cap on flex commissions be implemented, after management acts to mitigate the downside, Moelis expects a -5-10% hit to automotive earnings. Nevertheless, even after adjusting for the impact, the broker believes both Automotive Holdings ((AHG)) and AP Eagers ((APE)) are trading at attractive multiples.

The ACCC's objection may reduce the probability of lower commissions in the short term, but Morgan Stanley believes ASIC is still intent on removing the incentive for insurers and dealerships to sell these poor value products. The broker also suspects any changes will take longer to execute. Morgan Stanley maintains a view that revenue for the likes of Automotive Holdings and AP Eagers is at risk, but this is less likely to come from an immediate cap on commissions.

Coal

China's government is apparently considering resuming its controversial policy of limiting the coal industry's operating days to 276, versus the normal rate of 330 days. Morgan Stanley observes coal equities have lifted on the speculation, probably expecting another surge in the coal price similar to what occurred last year. The broker believes this is an odd response.

As the Chinese government was alarmed at how the policy affected coal supply and the price spike, why would it roll that out again? The government's reform program poses the biggest risk to the broker's coal forecasts but, given the 276-day policy was reversed in 2016, a more moderate strategy for 2017 is expected, with limited upside risk for prices.

Morgan Stanley forecasts US$74/t FOB for thermal coal prices in 2017, based on a 40mt deficit for this trade. Conversely, metallurgical coal is seen closer closer to balance and product prices have fallen 32-50% since November. Morgan Stanley forecasts spot coking coal prices of US$183/t for 2017.

Copper

Citi maintains a bullish view on copper, expecting supply to underperform demand, which could push peak prices to over US$8000/t before the end of the decade. Chinese demand growth of 3-4% in 2017 is stacked against weaker-than-expected supply, which has been affected by capital expenditure reductions.

The broker's base case includes an 8.3% upgrade for 2017 copper prices and 5.8% for 2018. Both OZ Minerals

((OZL)) and Sandfire Resources ((SFR)) have witnessed an upgrade to 2017/18 earnings estimates.

Citi prefers the former for its copper leverage, thanks to the Carrapateena development in South Australia. Oz Minerals compares well to global producers and ranks fourth out of the 16 stocks in the broker's global review, on metrics such as C1 costs and earnings per share growth.

Sandfire is a high-quality operator with more leverage to copper prices but the broker remains troubled by the diminished mine life at DeGrussa, which requires exploration success.

Inflation Risk Indicator

ANZ Bank researchers have developed a measure of future inflation probabilities for Australia, called the ANZ Inflation Risk Indicator. This measures the probability that underlying inflation over the next 12 months will fall within one of three compartments: less than 2%; between 2-3% (the central bank's inflation target band); and above 3%.

Assessing the likely future path of inflation is useful in determining the implied policy bias and likely action from the Reserve Bank of Australia. The analysts are encouraged that the indicator shows inflationary pressures in Australia are weak but also stabilising.

Returning inflation to the RBA's policy target band is likely to occur only gradually according to the indicator and this supports the analyst view that monetary policy is on hold for this foreseeable future and the cash rate is likely to remain steady at 1.5%.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

One-Stop Pet Shops Lead Greencross Outlook

Growth options abound for veterinary chain and pet supplies business Greencross as it seeks to expand its one-stop shop concept.

-Financial pay-off from in-store clinics unlikely until FY19 -Yet expected to become a significant driver of value over time -Post rally, stock considered fully valued

By Eva Brocklehurst

Veterinary chain and pet supplies business, Greencross ((GXL)) may not be posting the sort of growth that was booked years ago but its latest results highlight for brokers a relatively defensive business, with growth options in terms of private-label/exclusive brands for pet products and prescription diets. Recently released data reveals that, since 2013, domestic dog numbers have increased by 3% and cat numbers by 7%.

UBS notes a solid cash performance in the first half, although margins continue to slip across both the retail and veterinary divisions. The broker reduces earnings forecasts over FY18-21 by -10-13% as a result of the softer margin profile.

The broker believes the rolling out of in-store veterinary clinics adds to Petbarn's "one-stop shop" concept. Nevertheless, financial pay-off from these clinics is considered unlikely until FY19. UBS believes Petbarn, as the category-leading brand in a growing and fragmented industry, has plenty of growth options in the form of new stores, rising private-label penetration and in-store veterinary clinics.

The company has shown it can increase supply chain control while also extending its private-label into food under the Leaps & Bounds brand. The broker notes there has been a lack of organic growth in stand-alone veterinary clinics in recent history. This appears to be partially explained by a loss of customers following re-branding. Organic performance is expected to improve in the future as procurement benefits flow through to lower pricing and joint loyalty programs are more widely used.

Vet Clinics In Retail Stores

UBS believes that veterinary clinics in a retail store will work, although the co-location strategy is not yet proven. The Petbarn business has scale and the concept is supported by offshore experience in both the UK and US. The company has also recently taken control of its largest distribution centre.

While IT investment is likely to remain elevated and a new point-of-sale installation is likely, UBS does not believe these upgrades will stress gearing levels, estimating there is 25-28% head room in operating earnings (EBITDA) before additional equity would be required and this is an unlikely scenario. The broker maintains a Neutral rating based on forecast shareholder returns.

While operating cash flow highlighted a better supply chain and working capital management, the first half missed Deutsche Bank's expectations, largely in the veterinary business. The broker also remains underwhelmed by the retail growth, given the significant store expansion over the last three years, and suspects this is a sign of increasing competition and some saturation in parts of the market.

Domestic veterinary like-for-like sales growth of 5.3% was reported, with co-located clinics contributing around 2% to this figure. A net 26 locations were added to the network, which has increased to 401 sites. Three practices were acquired during the first half and Canaccord Genuity expects modest acquisition activity can to continue, while gearing is sound and the expansion is self-funded.

The broker incorporates further network growth into forecasts and allows for an additional five new stores in the second half, for a total of 21 new retail sites over FY17. Canaccord Genuity, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $8.40 target.

Macquarie observes both the retail and veterinarian businesses are performing well and the integrated strategy is delivering on the promise of cross referrals and revenue synergies. There are now 24 in-store clinics across a group and a further four under construction and management is keen to accelerate the roll out. The broker believes these new-to-market clinics are crucial to an increase in market share and should be a key driver of value for the group over the medium term.

Share Price Now At A Premium

The market reaction to the results suggests some concerns have been alleviated regarding underlying margins and the cash generation capability. Following the rally, the share price is trading at a substantial premium. Hence, Macquarie retains a Neutral rating.

Shaw and Partners is pleased with the initiatives management has undertaken, including growth in the loyalty membership and private-label dog food. Management intends to move into new varieties, such as premium dog and cat food, which are expected to contribute significantly, if overseas comparables are anything to go by. The broker estimates around 3.5% like-for-like growth in the core business, reflecting good retention of veterinary clinics and management practice initiatives.

The company has reported on data from Animal Medicines Australia, which showed strong companion animal trends, boding well for prospective periods, although strong market growth is yet to materialise. Shaw and Partners believes the company is essentially a retailer and remains reasonably priced next to other discretionary retailers, given the headwinds. The broker, not one of the eight monitored daily on the database, has Hold rating and $7.25 target.

The database has two Hold ratings and one Sell (Deutsche Bank). The consensus target is $7.10, suggesting 0.5% upside to the last share price.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Has iSentia Hit A Road Block?

Competitive pressures are mounting on media intelligence service iSentia and growth has slowed to a crawl in its core business.

-Asia the bright spot with evidence the company is gaining traction -Australasian competition intensifies with Meltwater's entry -Australasian market considered by many to be ex growth

By Eva Brocklehurst

Has media intelligence service, iSentia ((ISD)), hit a road block? Brokers observe competitive pressures are mounting and growth has slowed to a crawl in its core business. Deutsche Bank suspects the business has reached a limit in terms of its ability to harvest returns through price increases.

The company's first half results highlight higher client churn and an inability to recover publishing costs, which resulted in lower margins. The King Content business also disappointed the broker, reinforcing concerns around the quality and execution of this segment.

Management's expectations for the second half and beyond assume price growth continues at historical levels and there is a turnaround in King Content. Yet Deutsche Bank suggests recent trends may make this difficult to achieve. The bright spot is in Asia, with revenue and margin improvements signalling the company has gained traction there.

First half underlying earnings were down -13% and missed broker forecasts. Margins decline to 25.4%, which mainly reflected the loss in King Content as well as higher publishing costs. Software-as-a-service revenue grew 3%, supported by price increases, although the company acknowledged an inability to hold onto the majority of the increases, citing increased competition and client resistance.

Full year guidance has been downgraded and the company now expects both its core Australasian and Asian businesses to post growth in the low single digit range, while content marketing is expected to report an FY17 loss of -$3m.

Macquarie believes there is inherent value in the stock but appreciates that two earnings downgrades in three months means it will take some time for the value to be realised. There are no immediate catalysts outside of the company achieving on its FY17 guidance.

The broker retains an Outperform rating which takes a 12-month view. The main negative surprise for Macquarie was the intensifying of competition in Australasia. The enhanced pricing power that is materialising from Meltwater has proved greater than the broker anticipated.

Macquarie believes new product development is the way to reduce customer churn and to be able to justify price increases going forward. The broker observes the most recent price increase back in May-June was not accompanied by any new product releases. That said, the new product pipeline is considered promising. A new version of Mediaportal is being released and Story View is slated for the fourth quarter.

Churn Factored In

Customer churn is now factored into guidance at around -2% of revenue, versus the previous -1%. This is in line with the churn that was realised in the first half, but Macquarie observes this does not leave head room for a worsening competitive situation. King Content has proved difficult to forecast and the broker believes no value is being ascribed to this business, which means it is less of an issue if it misses guidance.

Moelis flags the savage sell-off in the stock and suspects many investors believe the Australasian market is ex growth, with volumes falling and driven by pricing pressure from Meltwater. The broker asserts that should the new features fail to arrest the churn over the next 6-12 months, the company risks price deflation and a further decline in margins. King Content has 6-12 months to prove itself or, the broker suspects, parts of it may be shuttered.

Moelis assumes flat prices and minimal volume growth in its forecasts. The broker also believes the risk of predators potentially assessing the stock as a takeover target may mean short positions close in the near term. The broker's price target of $1.94 does not incorporate a control premium. Moelis, not one of the eight

stockbrokers monitored daily on the FNArena database, retains a Hold rating.

Shaw and Partners assumes the Australasian marketplace will be extremely competitive in the next 12 months and that Meltwater will take revenue share. The broker believes Meltwater will build a presence and apply pressure on iSentia's premium prices and high margins relative to global peers. The broker suspects the impacts of churn will continue to have increasing negative revenue impact on iSentia as Meltwater penetrates larger clients.

Client churn back to iSentia is high, too, and the broker expects this will decline as Meltwater beefs up its accounts management and business development. While management is very confident it will obtain pricing leverage in FY18 from Story View, Shaw and Partners is sceptical. The broker assumes further growth in Asia but remains concerned about the core business. Shaw and Partners, not one of the eight monitored daily on the database, downgrades to Sell from Buy. Target is $1.50.

There is one Buy rating on the database (Macquarie) and two Hold. The consensus target is $2.34, suggesting 38.7% upside to the last share price. This compares with $2.78 ahead of the results. Targets range from $2.10 (Deutsche Bank) to $2.50 (UBS, yet to update on the results). The dividend yield on FY17 and FY18 forecast is 4.3% and 5.3% respectively.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

ASX200: Looking Good

By Craig Parker, asset manager, Moat Capital

Looking good! The technical trends lined up last week and delivered this week. Last week I mentioned to keep an eye on the 5800 mark which the market had trouble surpassing today. I doubt the 5800 level will be much of an issue going forward as the weekly chart doesn't provide any resistance at this level and looks well set up to continue towards the 6000 level in the coming weeks. The monthly chart is also well set up and is about midway in the upward trending channel with the momentum indicators neither overbought or oversold. This contrasts with the S&P 500 which is technically overbought on the daily and likely to have a short-term correction soon. The S&P 500 weekly chart is also overbought so it should be interesting in the coming weeks to see if Trump's talk on tax reform continues to prop the market up or it runs out of puff.

Back to our market and there is some bearish divergence on the ASX 200 weekly RSI although, I would be waiting for a third peak lower on the RSI before getting prepared for a decent correction. If there happens to be a short-term pullback, then it will most probably be short lived. Assuming the market continues to trend up in the coming weeks this could create some overbought conditions.

ASX200 daily

ASX200 weekly

ASX200 monthly

S&P500 daily

Authorised Representative Sentinel Private Wealth AFSL 344762

www.moatcapital.com.au

Important Information

This document and its contents are general in nature and do not constitute or convey personal advice. It has been prepared without consideration of anyone's particular financial situation, needs or financial objectives. Personal advice should be sought before acting on any of the areas discussed. The authors and distributors of this document accept no liability for any loss or damage suffered by any person as a result of that person, or any other person, placing any reliance on the contents of this document.

Moat Capital has made every reasonable effort to ensure the information provided is correct, but Moat Capital makes no representation or any warranty as to whether the information is accurate, complete or up to date. To the extent permitted by law, Moat Capital accepts no responsibility for any errors or misstatements, negligent or otherwise. The information provided may be based on assumptions or market conditions and may change without notice.

Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Feb Reporting Season: The Interim Verdict

In This Week's Weekly Insights:

-Feb Reporting Season: The Interim Verdict -The March S&P Index Shuffle -Fresh Conviction Ideas -Who's Afraid Of The Big Bad Bear? -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Feb Reporting Season: The Interim Verdict

The quality of a corporate reporting season should always be judged against the background of market expectations, and general trends in share prices. Every investor worth his salt should know by now profit growth is exploding to the upside, but that's predominantly a mining sector story on the back of significantly higher commodity prices from twelve months ago.

Even so, the calendar might suggest we are about two-thirds through corporate results in Australia, fact remains the concentration of corporate releases is very much skewed towards the week ahead. In other words: its still too dangerous to draw any definitive conclusions. Too many reports outstanding can change views and statistics. We'll have to wait until next week to compile a clearer picture.

Nevertheless, the general impression thus far is that most companies are living up to expectations and underlying the general trend in profits and forecasts retains a slight upward bias.

At least, such are the early, and preliminary, impressions as published by strategists at UBS, Deutsche Bank and Macquarie on Monday. Our own observations here at FNArena are slightly different.

Again, any statistics are incomplete, but it remains remarkable that more companies seem to be beating results, but also that more companies seem to be missing the mark. Both percentages to date are potentially en route for setting new records in the short history of the FNArena Market Monitor, in place since 2013.

Among those who clearly beat market expectations were CSL ((CSL)), Amcor ((AMC)), Boral ((BLD)), JB Hi-Fi ((JBH)), Nick Scali ((NCK)) and ResMed ((RMD)). Plus two of three big banks that either released financial results (CBA) or a March quarter trading update (ANZ Bank). The latter hasn't been witnessed for quite a while.

There have already been plenty of disappointments, of course, and savage share price responses have followed. Disappointments often hide in industry dynamics or underlying organic growth rates, which leaves share prices still vulnerable after financial results came out in line with analysts' expectations. Others simply suffered from the fact that share prices already were at elevated price levels.

Observe, for example, how resources stocks have stopped outperforming the broader market even though the sector's corporate performance pushes most others in the shadow.

One observation stands out in that some of the quality industrials that had previously been left to the wayside, because they no longer fit in with the new market narrative, have been able to arrest investors' ignorance with their financial results. Apart from CSL and Amcor, Link Administration ((LNK)) also springs to mind, as well as Class ((CL1)), a2 Milk ((A2M)) and Carsales ((CAR)).

There is also a growing list of former staple portfolio stocks revealing their weaknesses: Telstra ((TLS)), Brambles ((BXB)), Medibank Private ((MPL)), IOOF Holdings ((IFL)), and Tabcorp Holdings ((TAH)). We could even add Wesfarmers ((WES)) to this list, though the conglomerate from Perth has many more options up the board's sleeves to unlock shareholder value.

As per always, there have been the usual punishments, in particular among small cap industrials, where perennial disappointers such as Village Roadshow ((VRL)) remained true to form.

All in all, FNArena has been registering twice as many downgrades in stockbroker ratings for individual stocks than upgrades, but this is no surprise given the rally in share prices over the past five months.

A more in-depth assessment will be published next week, when the end of the local February reporting season is truly near.

The March S&P Index Shuffle

Standard & Poor's are responsible for some key, and widely followed, share market indices in Australia. Their next update on exclusions and inclusions is scheduled for Friday, March 10th.

Macquarie analysts already offered their educated guess-work with a few insightful angles that might be of interest to those currently owning some of the stocks involved.

First up, and this shouldn't surprise: the surge in the Fortescue Metals ((FMG)) share price puts the company firmly inside the Top 50 on the ASX as far as market capitalisation is concerned. Yet, Macquarie doesn't think FMG is about to be added to the ASX50 index.

For this to happen, reasons Macquarie, things have to go a lot worse for Seek ((SEK)), which looks like the obvious candidate to lose its spot in the ASX50, but not yet if Macquarie's insight can be trusted.

Prospects for change look somewhat brighter for the ASX100 with all of Sirtex ((SRX)), Blackmores ((BKL)) and Navitas ((NVT)) at risk of losing their spot. The analysts observe all three are now below required market cap levels, in particular Sirtex post de-rating.

Macquarie lines up an interesting queue of candidates ready to switch places. Evolution Mining ((EVN)) has now become the stockbroker's favourite ASX100 inclusion, followed by OZ Minerals ((OZL)) and Macquarie Atlas ((MQA)). It wasn't that long ago Mayne Pharma ((MYX)) looked like a shoe-in, recall the analysts, but recent share price weakness has pretty much destroyed that story, at least for now.

As far as the ASX200 is concerned, Macquarie's gut feel predicts no changes. If there is one, it probably involves the inclusion of Chorus Ltd ((CNU)), New Zealand's prior government owned broadband provider. But who would lose out? It could be Japara Healthcare ((JHC)), but Macquarie's bet would rather be on Sky Network ((SKY)), also operating from across the Tasman.

The ASX300 is traditionally more prone to changes and this time might prove no different. Macquarie suggests up to 14 new inclusions could be possible, with eight of these suggestions labeled as either "standout" or "likely". These eight are: Washington H. Soul Pattinson ((SOL)), Inghams Group ((ING)), Propertylink Group ((PLG)), Servcorp Ltd ((SRV)), Mystate Ltd ((MYS)), Superloop Ltd ((SLC)), Ausdrill Ltd ((ASL)) and Mt Gibson ((MGX)).

These stocks stand a big chance for being replaced: Cash Converters ((CCV)), Fonterra Shareholders Fund ((FSF)), Alexium International ((AJX)), Donaco International ((DNA)), Paladin Energy ((PDN)), Adairs Ltd ((ADH)), Doray Minerals ((DRM)), MG Unit Trust, otherwise known as Murray Goulburn ((MGC)), Webster Ltd ((WBA)), ERM Power ((EPW)) and Sino Gas & Energy Holdings ((SEH)).

The importance of all of the above is that professional funds managers often limit their scope to ASX200 or ASX300 members and this means they'll sell when stocks are dropped from either of these indices. The impact can be magnified when institutional selling occurs against a backdrop of low volumes.

In similar fashion, stocks that are newly included can all of a sudden land on institutional investors' radar. And then there are the hedge funds and traders who try to front run what is likely to transpire in case any of these index predictions prove accurate.

As such, it shouldn't surprise if some of the stocks mentioned are already trending accordingly.

Fresh Conviction Ideas

The local reporting season is generating fresh ideas for institutional investors. To back up that statement, look no further than Citi strategists Liz Dinh and Simon Thackray who have been far busier than usual with adding and removing new names to Citi's Focus List Australia/NZ, essentially a selection of conviction calls for the year ahead.

The latest addition to the list is South32 ((S32)) with the Citi strategists declaring the share price weakness post interim result has been the result of investors expecting too much capital management too soon. Earlier, Citi mining analysts had told their clientele investors simply have to be more patient as cash will continue to accumulate, and thus rewards shall follow. Citi strategists clearly are backing up that prediction.

Prior to South32, Citi strategists added Sims Metal ((SGM)) to the Focus List. Prior to that, both Aconex ((ACX)) and Brambles ((BXB)) had been removed. No doubt, Citi strategists are feeling a little smug since Brambles managed to prolong its bad news cycle with the release of H1 financials, and the removal of previous medium term financial targets.

Apart from the two latest additions, Citi's conviction ideas for the year ahead now include AGL Energy ((AGL)), Newcrest Mining ((NCM)), Aristocrat Leisure ((ALL), Star Entertainment Group ((SGR)), Caltex Australia ((CTX)), Santos ((STO)), and MYOB Group ((MYO)).

Elsewhere we observed portfolio managers responsible for Model Portfolios at stockbroker Morgans decided to reduce exposure to CSL ((CSL)) post re-rating as risks for Trump to go ballistic on healthcare companies is still seen as tangible and material. Average cash position for the Balanced Model Portfolio has increased to 4%.

Morgans' Model Growth Portfolio decided to sell down its stakes in Domino's Pizza ((DMP)), in IPH Ltd ((IPH)), in Star Entertainment Group ((SGR)), and in CSL. Positions were increased in ALS Ltd ((ALQ)) while South32 is a new inclusion.

Over at Morgan Stanley, a general reshuffling of Model Portfolios has led to the birth of a monthly updated Australia Conviction List. The inaugural publication revealed the inclusion of ANZ Bank ((ANZ)), Aveo Group ((AOG)), BHP Billiton ((BHP)), Cochlear ((COH)), Domino's Pizza ((DMP)), Evolution Mining ((EVN)), Goodman Group ((GMG)), Graincorp ((GNC)), Insurance Australia Group ((IAG)), InvoCare ((IVC)), James Hardie ((JHX)), Mantra Group ((MTR)), Origin Energy ((ORG)), Rio Tinto ((RIO)), Tabcorp Holdings ((TAH)), TPG Telecom ((TPM)), Treasury Wine Estates ((TWE)), Westpac ((WBC)), WorleyParsons ((WOR)) and Woodside Petroleum ((WPL)).

Aconex, post profit warning, and Oil Search ((OSH)), on expected relative underperformance, were removed.

Who's Afraid Of The Big Bad Bear?

Market speculation is rife about when exactly giant international retail disruptor Amazon will be opening its doors in Australia, so to speak, and what kind of impact, devastating or not, this might have on the likes of Harvey Norman ((HVN)), RCG Corp ((RCG)), Premier Investments ((PMV)), and others.

But every Internet shopper in Australia already knows there is a dot com dot au Amazon market place where products can already be purchased in exchange for local dollars. Differences with the US-based Amazon website remain prominent, however. This also includes the availability of my latest book, Who's Afraid Of The Big Bad Bear?

The Australian Amazon allows the purchase of eBook version only, while foreign Amazon websites also offer the paperback version. It's an antiquated legal thing, originally meant to protect local content.

Paying subscribers should note a free copy in pdf is included in 6 and 12 months subscriptions. Look up "Special Reports" on the brand new FNArena website, where you'll also find prior publications, as well as PowerPoint slides of my on-stage presentations.

All-Weather Model Portfolio

In partnership with Queensland based Vested Equities, FNArena manages an All-Weather Model Portfolio based upon my post-GFC research. The idea is to offer diversification away from banks and resources stocks which are so dominant in Australia, while also providing ongoing real time evidence into the validity of my research into All-Weather Performers.

This All-Weather Model Portfolio is available through Self-Managed Accounts (SMAs) on the Praemium platform. For more info: info@fnarena.com

Rudi On TV

This week my appearances on the Sky Business channel are very much subject to last minute changes. As things currently stand, I'll appear on Sky Business on:

- Tuesday around 11.15am, Skype-link to discuss broker calls - Thursday, between 7-8pm, interview on Switzer TV - Friday around 11.05am, Skype-link to discuss broker calls

Rudi On Tour

Your Editor has been invited to present at the Australian Shareholders Association's (ASA) 2017 Securing Your Investing Future Conference to be held at the Grand Hyatt Melbourne from 15-16 May.

The conference details - www.australianshareholders.com.au/conference-2017

Speaker information - www.australianshareholders.com.au/speakers

Program information - www.australianshareholders.com.au/program

Those who register before 31 March 2017 will receive $70 off the registration fee. Telephone: 1300 368 448

(This story was written on Monday 20th February 2016. It was published on the day in the form of an email to

paying subscribers at FNArena).

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions. All views are mine and not by association FNArena's - see disclaimer on the website.

In addition, since FNArena runs a Model Portfolio based upon my research on All-Weather Performers it is more than likely that stocks mentioned are included in this Model Portfolio. For all questions about this: info@fnarena.com or via the direct messaging system on the website).

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?) - Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate) - Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection) - Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow. - Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $380 for twelve months or $210 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible): http://www.fnarena.com/index2.cfm?type=dsp_signup

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with News Network with respect to your use of its FN Arena website, its weekday news periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on its website, or anywhere else, from time to time. Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call or the Australian Super Stock Report, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to "FN Arena" and "News Network" means reference to News Network Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. News Network Ltd is the owner of the FN Arena website and brand name.

3. Reference to "we" or "us" is reference to News Network.

4. Reference to "this website" or the "FN Arena website" means reference to www.fnarena.com, and includes reference to News Network's weekday news periodical, Australian Broker Call, as well as its monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on this website, or anywhere else, from time to time.

5. Reference to "news periodicals" means reference to News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other periodicals News Network may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to "publications" in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, and any other periodicals News Network may publish from time to time.

7. Reference to a "visitor" means, you, a visitor to this website, and includes a subscriber to Australian Broker Call and the Australian Super Stock Report, as well as any other publications or periodicals News Network may, from time to time, publish on this website.

8. News Network is a media company which employs financial journalists to report financial news. News Network's journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in News Network's news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations News Network reports on this website are not the opinions of News Network or any of its journalist or other employees. News Network is ONLY and specifically a matter-of-fact reporter of industry signals suggesting price direction probability of some shares. News Network simply delivers the information – it does not create it.

9. Although News Network obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. News Network does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by News Network, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. News Network publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. News Network is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and News Network will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FN Arena website, News Network's publications and/or periodicals have not been recommended by News Network. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by News Network, do not constitute a recommendation or endorsement by News Network with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FN Arena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and News Network shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by News Network from time to time, or in any other publications News Network may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold News Network responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. News Network does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. News Network strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. News Network shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall News Network be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FN Arena website, and any or the News Network's publications and/or periodicals.

19. As a condition of use of the FN Arena Website, News Network's publications and periodicals, you agree to indemnify News Network and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FN Arena website, News Network's publications and periodicals. If you are uncertain about this agreement or the contents of the FN Arena's website, or are dissatisfied in any shape or from, with the content of the FN Arena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FN Arena website, News Network's publications and periodicals.

20. News Network may, from time to time, publish advice, opinions and statements of various third parties, other then the ten stock brokers, and various other information and content providers. News Network does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FN Arena website may contain links and pointers to websites maintained by third parties. News Network does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services provided by the third party link owners or operators. News Network has no control over any websites that we might link to and does not take responsibility for their quality, content or suitability.

22. News Network is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services advertised. News Network does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from News Network whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does News Network endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. News Network is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. News Network reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. News Network reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FN Arena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. News Network shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FN Arena website, including the publications and periodicals, is subject to copyright with all rights reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from News Network.

29. All original content is the copyrighted property of News Network.