

Week  
11

# Stories To Read From FNArena

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FNArena  
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Analysis

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## Contents

### Australia

- 1 [Time To Re-Evaluate A-REITs?](#)
- 2 [Qube Holdings Thrown An Opportunity](#)
- 3 [CSL Primed For Additional Market Share](#)
- 4 [ACCC Fuels Acquisition Debate For Caltex](#)

### Commodities

- 5 [Material Matters: Iron, Aluminium, Nickel & Oil](#)
- 6 [Oil Price Collapse Risk](#)
- 7 [Material Matters: Mining And Miner Outlook](#)

### Feature Stories

- 8 [Australian Banks: Risks And Valuations](#)

### FYI

- 9 [Weekly Ratings, Targets, Forecast Changes](#)
- 10 [Uranium Week: See You In Court](#)
- 11 [The Short Report](#)
- 12 [The Wrap: Insurers, IP, China And Gas](#)
- 13 [New Website: How Do I Find Stuff?](#)

### Small Caps

- 14 [JV Paves Upside For Gold Road Resources](#)

### Technicals

- 15 [ASX200: Cautious Week](#)

### Weekly Analysis

- 16 [The Bubble Is \(Finally\) Ready To Burst](#)

## Time To Re-Evaluate A-REITs?

Brokers sift through Australian Real Estate Investment Trusts (A-REITs) and re-allocate preferences, as office returns continue to improve and retail returns deteriorate.

-Growth rate for A-REITS at lows not witnessed since FY12 -Preference is to be overweight active stocks versus passive -Developers managing apartment settlements with minimal defaults

By Eva Brocklehurst

Having passed the latest reporting period, Australian Real Estate Investment Trusts (A-REITs) are under the microscope as brokers sift through the sector and re-allocate preferences. Active groups are envisaged doing better than passive groups.

Macquarie forecasts long-term bond yields will rise and highlights the strong negative correlation between the A-REIT sector's share price performance and changes in the long bond. The broker observes A-REITs have not had a growth rate this low since FY12.

Macquarie's strategy is to be overweight in the growth vehicles such as Goodman Group ((GMG)), Mirvac Group ((MGR)), Lend Lease ((LLC)) and Charter Hall ((CHC)) at the expense of those more passive A-REITs that are not growing earnings attractively, such as Westfield ((WFD)), Scentre Group ((SCG)) and Vicinity Centres ((VCX)).

The broker notes the fund managers - Goodman Group and Charter Hall - are still enjoying elevated transaction fees while the developers are managing apartment settlements with minimal defaults - Mirvac and Lend Lease. Brokers observe the retail segment is slowing, residential strength is lasting longer, office is better than expected and the industrial segment is running as anticipated.

In terms of individual stocks, Macquarie believes dilution via asset sales is negatively affecting Westfield, Vicinity Centres and Charter Hall Retail ((CQR)) in FY17. Cromwell Property Group ((CMW)) is underperforming because of elevated performance fees in FY16 and problematic lease expiries.

Morgan Stanley continues to prefer those stocks that can add value and deliver superior growth through development, funds management or asset management, such as Goodman and Lend Lease. The broker prefers office over retail and believes the divergence between the two asset classes will widen, as office returns continue to improve and retail returns deteriorate.

The broker's preferred play in office is through Dexus Property ((DXS)), Mirvac or GPT Group ((GPT)). In retail, Scentre Group is considered a quality stock, while for more diversified exposure Morgan Stanley prefers Mirvac or GPT.

### Morgan Stanley Upgrades And Downgrades

Despite the strong run in the year to date, Morgan Stanley believes Charter Hall will deliver superior growth in the medium term and upgrades to Overweight. The broker also takes up an Overweight stance on Mirvac and GPT. Mirvac has shown it is less reliant on a growing residential cycle and the broker believes its property trust is one of the best in the sector. GPT is expected to accelerate its growth profile as development and fund management earnings rise.

Morgan Stanley downgrades three A-REITs to Underweight, including Westfield, Investa Office Fund ((IOF)) and Stockland ((SGP)). Westfield is unlikely to re-rate, in the broker's opinion, from its elevated multiple until there is real evidence of a strategy driving superior free funds from operations (FFO) and asset growth.

Investa is supported by a takeover play from Cromwell and is viewed increasingly as fully valued. In the case of Stockland, its residential business remains relatively defensive but the broker is increasingly concerned about a slowing in the property trust. Morgan Stanley's top picks in the sector include Goodman and Lend Lease.

Ord Minnett considers the A-REITs around 8% undervalued and expects the sector, excluding Westfield, will deliver 4.7% growth in earnings per security on an weighted average basis in FY17 and 4.5% in FY18. The broker also notes the slowing of the retail trend continues while residential remain strong.

Ord Minnett expects an elongated residential cycle but believes volumes have probably peaked. The broker

agrees settlement defaults are not, thus far, an issue. Better leasing markets are being experienced in office, and in Sydney this flowed through to higher net income and occupancy in the latest reporting period.

UBS agrees the challenges facing the sector have risen over the reporting season. Asset growth has likely peaked and retail sales continue to grind lower. Sydney office rents did little to affect A-REIT FFO while the housing market, which beat the expectations, is at peak levels. In this environment, UBS moves its global allocation to market weight from overweight but remains cautious about becoming too negative.

Australian real estate markets continue to be a preferred option for global capital and assets in the direct market are well bid, the broker observes. UBS finds value in select exposures such as Mirvac, Lend Lease, Westfield and Scentre Group. The broker observes serious headwinds in the retail sector, and suspects these may accelerate. UBS considers Mirvac is the best way to play the office segment and prefers Dexu over Investa.

The broker finds the variation in market valuations for the development businesses of Goodman, Mirvac and Lend Lease look unusually large and does not believe the market has the balance right. In this sense the broker favours Mirvac and Lend Lease over Goodman.

#### UBS Downgrades

UBS believes the acquisition-led growth profile for Growthpoint Properties ((GOZ)) is coming to an end and downgrades to Sell from Neutral. Further de-leveraging is expected in addition to the underwritten distribution reinvestment plan, as management focuses on reducing gearing towards the middle of its 35-40% target range. Given the de-leveraging that will occur, growth in earnings per share is expected to be affected going into 2018.

In the case of BWP Trust ((BWP)), UBS believes leasing risk remains a headwind and also downgrades this stock to Sell from Neutral. The broker notes 23% of the portfolio expires over the next three years.

Five assets have already been vacated, with a further seven expected to be vacated in the next three years as Bunnings re-locates to more favourable locations left by the exit of Masters. A further nine vacancies are occurring in the next three years. Taking vacancy factors into account and assuming 12 months downtime, UBS expects there will be a hit to earnings in the vicinity of -1% and -2.2% in FY18 and FY19.

Another A-REIT that UBS sets its downgrade sights on is Vicinity Centres, downgraded to Neutral from Buy. The broker believes the decline in retail sales growth is a worrying trend, as is a large number of assets that are posting declines in sales. Hence, a buy rating predicated on a discount to valuation can no longer be justified. This company is well positioned for returns from various assets, but UBS would like to witness an improved performance across the entire portfolio.

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## Qube Holdings Thrown An Opportunity

DP World Australia has raised some of its port levies and flagged an opportunity for Qube Holdings to follow suit.

-Unlikely DP World Australia will face meaningful loss of market share -Opportunity for Patrick to relieve margin pressures -Sign of a more rational stevedoring industry?

By Eva Brocklehurst

Port and logistics operator Qube Holdings ((QUB)) has been thrown an opportunity. Competitor DP World Australia intends to raise the levy it applies to the truck and rail operators picking up or delivering full containers to and from its Port Botany (Sydney) and Melbourne terminals. DP World Australia competes with Qube's Patrick operations.

This price increase is reflecting substantial cost increases, DP World Australia stated, and the increased charges will apply to the land-side logistics operators, not the shipping lines (customers) that it charges for lifting containers on/off vessels.

Qube appears to have the option of either following DP World's lead and increase its own levies, or hold levies constant with the aim of gaining market share. Morgans suggests the former is more likely, urging caution, as it is unlikely DP World will face meaningful market share losses from the decision given charges for customers are not being increased.

The broker suspects cost increases have not fully flowed through to Patrick's cost base. Patrick is yet to complete its market rent review for the Melbourne terminal.

Morgans assumes Qube will lift its levies by \$20 per container. The broker also assesses that full containers comprise around 80% of total containers that are moved, while those moved through Port Botany and Melbourne comprise 70% of the total across the four ports where Patrick operates.

With all else being constant, such a levy increase would add around 6-8% to the broker's profit forecasts. The broker also highlights the profit increase does not translate into an equivalent valuation increase because of the value diversification provided by Qube's various operating divisions and the Moorebank project. Hence, the announcement may be positive for Patrick but has less meaningful valuation impact for Qube as a whole.

There is material upside potential for Patrick, UBS believes. The broker estimates a surcharge could raise an additional \$25m in revenue for Patrick, while the costs that the surcharge would seek to recover have already been incurred. The broker estimates this would produce a 20% boost to the \$40m after-tax contribution to Qube's profits in FY18. It is hard for UBS to envisage a scenario whereby Patrick does not follow DP World's lead.

Logically, the increased charge will ultimately be passed on to the underlying importer or exporter, and is unlikely to be material in the context of a total land-side logistics cost. Hence, UBS agrees there is unlikely to be much gained in terms of market share if Patrick chose not to follow suit.

Citi believes Patrick should be pleased now that DP World is introducing a new infrastructure surcharge as this provides an opportunity to relieve margin pressure. Citi assumes Patrick will follow suit.

Is Patrick facing A More Rational Competitor?

Ord Minnett suspects DP World is now concentrating on its bottom line and returns, while Patrick and Hutchison, the other main operators at these ports, now have commercial decisions to make. Ord Minnett believes it makes most sense to raise charges, thus gaining a certain bottom-line benefit sooner, rather than waiting for the possibility of market share gains later on.

The broker believes the announcement by DP World could help allay those concerns regarding Patrick's performance, as it signals a tentative step towards a more rational, disciplined Australian stevedoring industry.

Surcharge Detail

Morgans understands Port of Melbourne Corp increased the company's rent in the order of 275% between 2016 and 2023. From April 3, DP World Australia will levy a \$21.16 per container charge on full containers at Sydney and

increase its existing surcharge to \$32.50 at Melbourne. There has been a similar surcharge in place in Brisbane for a number of years.

The company has justified the move by highlighting a 60% increase in occupancy costs at Melbourne and 35% at Sydney. The surcharge will be collected from road movements through the one-stop vehicle booking system that is owned by DP World and Patrick.

Several brokers are yet to comment on the impact of DP World's new surcharges. The general view for those with Hold ratings is that the competitive outlook for ports and bulk handling is tough for Patrick and the shares of Qube appear fully valued. Credit Suisse awaits the signing up of tenants for Moorebank before it becomes more positive on the stock.

Morgans continues to like the stock, retaining an Add rating, for its medium to long-term growth prospects. The main drivers of growth are extracting the benefits of the Patrick acquisition and developing the Moorebank intermodal and industrial property complex.

FNArena's database shows five Buy ratings and three Hold. The consensus target is \$2.61, suggesting 6.0% upside to the last share price. Targets range from \$2.20 (Morgan Stanley) to \$3.01 (Citi).

Disclaimer: the writer has shares in Qube Holdings.

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## CSL Primed For Additional Market Share

Supply issues with competitors are expected to support vaccine and blood product supplier CSL's volume and market expansion.

-Undersupply now apparent in raw plasma market and likely to persist for a time -Substantial rise in capital expenditure to establish recombinant manufacturing facility -Favourable trading terms expected to continue for the longer term

By Eva Brocklehurst

A problem with supply for small-medium fractionators is expected to support vaccine and blood product supplier CSL's ((CSL)) expansion. For its part, the company has raised the tempo of its operations, brokers observe, accelerating the opening of plasma collection centres to double its fractionation capacity by 2024.

On UBS estimates, 2016 raw plasma collections grew around 5-6% and there is no new incremental allocation to low-priced and emerging markets. Hence, the under-supply that is now apparent. The last under-supply cycle occurred in 2006-09, which the broker notes was ended only by a significant increase in US unemployment, which accelerated collection growth and pushed many collection centres to capacity.

On UBS estimates, net output of IVIG (intravenous immunoglobulin) was above demand from 2010 and thereafter the market sought to restrict collections, a factor which may have reduced the visibility around the needs of future collection centres.

Exacerbating the current short supply, the opening of new US collection centres, while accelerating, will take over two years before they make a meaningful contribution to the collection pool. The bottlenecks will, therefore, persist for over two years, the broker asserts, in part reflecting competitor inability to plan and allocate capital ahead of rising regulatory requirements. UBS believes global demand can sustain 5% volume growth for around seven years in both IVIG and albumin.

The company's site visits hosted in Germany and Switzerland highlighted regulatory restrictions and capacity constraints are now easing. At the 2013 visit to Switzerland, Credit Suisse noted management's intention to open 10 plasma centres that year and 30-40 centres per year over 10 years if the business continues to grow at a compound 6-8%.

The broker believes growth for the IG product has run ahead of expectations, while competitors have expanded plasma collection at a slower pace. Credit Suisse's feedback also suggests the market for raw plasma is tight and fractionators are selling IG as quickly as it can be produced.

While agreeing CSL is in the best position across the industry to respond to opportunities to gain share, Morgan Stanley notes that US collection centre numbers increased around 20% in the December quarter and this could result in a material bump up in supply in 2018.

The broker also observes a material jump in capital expenditure in FY17 to US\$800m, which is driven partly by the establishing of the Lengnau recombinant manufacturing facility which is to be ramped up in 2020/21. This will be used to manufacture both Idelvion and Afstyla as well as products in the developmental phases. For the broker this demonstrates a partial move away from relying solely on plasma, although it indicates the arrangement for producing Idelvion/Afstyla may detract from margin for a little longer.

### Outlook

Morgan Stanley believes out-sized growth, driven by the prior regulatory issues and capacity constraints, will drive FY17 earnings towards the top end of growth guidance at 18-20%, but create a 7% headwind for FY18 net profit.

The company's Seqirus flu vaccine can achieve profitability in FY18, UBS suggests, and the company could reach its original guidance of US\$1bn in sales by FY20, at a 20% EBITDA margin.

CSL launched two key long-acting haemophilia products in 2016 and this is envisaged adding upside to the business. Despite competitive price pressures on the recombinant FVIII (rFVIII) product the broker expects CSL to make gains in both earnings and margin.

The company's Afstylar rFVIII is considered to be less well differentiated, although it appears to be retaining over 25% of former Helixate patients. Meanwhile, US feedback suggests to the broker that Idelvion, the company's long-acting rFIX, is gaining share while the two-week long-acting product is being recognised as the best in its class.

UBS has found that markets tend to ignore forecasts for drug company earnings in the forward years 4-5. In fact, the broker contends that drug industry earnings are predictable, given relatively stable pricing along product life cycles. Therefore, consensus forecasts for the out years contain unexploited information. The broker believes favourable trading terms for CSL should persist into the longer term and raw plasma collections can sustain high-single digit compound annual growth.

FNArena's database shows four Buy ratings, and two Hold. The consensus target is \$128.14, suggesting 2.9% upside to the last share price. Targets range from \$112.00 (Morgan Stanley) to \$136.40 (Citi).

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## ACCC Fuels Acquisition Debate For Caltex

The ACCC has raised some issues for petrol distributor/retailer, Caltex regarding the Milemaker acquisition. Brokers also contemplate what this means for the Woolworths/BP transaction.

-If Caltex cannot assuage ACCC concerns UBS envisages a -1.5% impact on EPS -Implications for the Woolworths/BP transaction are considered more significant -If both transactions end up being blocked, Deutsche Bank suspects a net positive for Caltex

By Eva Brocklehurst

Australia's competition overlord, the Australian Competition and Consumer Commission, has observers of petrol distributor and retailer Caltex Australia ((CTX)) in a quandary. Not only is the company's acquisition of retail chain Milemaker in the regulator's sights but there is also the implications for the other Caltex-supplied business which is up for grabs; the sale of the Woolworths ((WOW)) branded fuel outlets to the UK's BP.

The ACCC has released an initial statement expressing concerns that the proposed acquisition of 46 service stations in Victoria from Milemaker will substantially lessen competition. Further submissions have been invited from interested parties by March 30, with a final decision to be announced on April 20.

Milemaker currently sells Caltex-branded petrol and sets its own price for the fuel sold. The ACCC estimates that Caltex currently controls retail fuel prices in 7% of Melbourne metro areas and the acquisition is forecast to increase this to 11%. Caltex is confident it can address the issues.

In determining competition in the Melbourne metro area, the ACCC has divided Caltex sites into two categories: those where the company can set the retail fuel price, 59 sites; and those Caltex-branded sites, 35, where it does not set the retail fuel price.

UBS estimates the acquisition would add around \$12m to Caltex earnings in 2018. While forecasts include the acquisition, if Caltex is unsuccessful in meeting the ACCC concerns the broker believes there would be a negative -1.5% impact on earnings per share in 2018.

The ACCC has indicated that Milemaker has average prices that are generally below Caltex. Moreover, Milemaker is quick to discount and slow to respond to large price increases during the retail petrol cycle. An acquisition by Caltex could therefore lead Melbourne motorists to pay more for their fuel.

On this basis, Macquarie does not discount the ACCC concerns but does note that, in the statement, the issue has been classified as one that "may" raise concern rather than being an issue "of concern". Therefore, it is likely in the broker's opinion that the sites already supplied by Caltex should be able to appease the ACCC concerns about pricing policy.

### Implications For Woolworths/BP

Of greater significance, brokers believe, is implication for the BP transaction surrounding Woolworths fuel sites. The competitive impact of this is likely to be far broader and of greater concern to the regulator. Macquarie highlights the thoroughness by which the ACCC assessed the competitive impact of acquiring Milemaker, and suspects this could lead to significant conditions being imposed on the BP/Woolworths transaction as well as possible store divestments.

UBS highlights the challenges ahead for BP in gaining approval for its proposed acquisition of the Woolworths fuel division and 527 sites. The broker estimates a -\$100m earnings impact on Caltex from the potential loss of the Woolworths fuel volumes in 2018. BP is calculated to have approximately 37% market share in Australia, post its acquisition.

Some site divestments are anticipated, but the nub of the Milemaker announcement suggests to the broker that further areas of concern relate to whether the ACCC defines the Woolworths fuel business as a "vigorous and effective competitor" to BP, and how BP addresses these issues. The ACCC has confirmed it has received submissions from both BP and Woolworths on BP's \$1.78bn proposal.

If the final decision is unchanged, Deutsche Bank believes such a scenario could ultimately end up being a net positive for Caltex. If the ACCC were to prevent an increase in its market share in Melbourne to 11% from 7%, it



raises the risk that the BP acquisition of Woolworths sites, which would raise that company's national market share to 12% from 5%, could be blocked.

Under such a scenario the loss of Milemaker earnings would be more than offset by the retention of Caltex earnings from wholesale fuel sales to Woolworths sites, in the broker's opinion.

Credit Suisse agrees, if the ACCC has issues with the Milemaker deal in Melbourne, the acquisition by a premium brand such as BP of a well-known discounter such as Woolworths must surely, at the very least, face similar scrutiny. Nevertheless, the broker believes the reaction in the Caltex share price is strange.

Credit Suisse is baffled by both the emergence of concern that the Caltex earnings are potentially at risk from not consummating the Milemaker acquisition and an inevitable conclusion that, if the ACCC were to block Caltex buying Milemaker, it would be very hard to allow the BP/Woolworths transaction.

Credit Suisse expects, on the balance of probabilities, that both transactions will go ahead. The broker continues to believe the BP is paying a high multiple for Woolworths fuel but, if more details were provided on the synergies targeted, perhaps it would avoid the conclusion that some of the synergies are coming from plans to institute higher prices at Woolworths sites.

On FNArena's database, there are five Buy ratings, one Hold (Morgan Stanley, yet to update on the statement) and one Sell (Ord Minnett, yet to update on the statement). The consensus target is \$33.78, signalling 19.2% upside to the last share price, and targets range from \$27.50 (Ord Minnett) to \$39.70 (Credit Suisse). The dividend yield on 2017 and 2018 forecasts is 4.0% and 4.2% respectively.

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## Material Matters: Iron, Aluminium, Nickel & Oil

A glance through the latest expert views and predictions about commodities. Asian investor briefing; iron ore prices; aluminium outlook; nickel uncertainty; subdued oil.

-Asian investors appear more constructive on the Australian mining sector -As most iron ore miners make cash, swing supply is returning -China appearing oversupplied with aluminium -Growth in nickel use likely to be soft while uncertainty reigns -Should OPEC-Russia deal hold, gradual up-trend in oil price expected

By Eva Brocklehurst

### Australian Mining

Ord Minnett has reviewed Australian mining from an Asian perspective following meetings with a number of investors and notes they appear more constructive at current levels in the market. With probable pent-up buying interest, attractive valuations and a positive macro-economic backdrop, the broker has become more bullish on the sector.

Most investors who are still selling have been doing this as a tactical trade rather than because of any structural concerns. The most interest, the broker found, is in Fortescue Metals ((FMG)), followed by Rio Tinto ((RIO)) and BHP Billiton ((BHP)).

There was broad agreement that the sector is cheap on net present value measures, earnings multiples and free cash flow yields. The main concern appears to be that miner stocks will fall with any correction in commodities. This is particularly the case with iron ore, as a price above US\$90/tonne is considered a headwind for marginal buyers.

The majority of investors Ord Minnett met believe that iron ore will struggle to trade much higher over the near term. On the other hand, there is no strong conviction as to why iron ore should trade materially lower in the near term, as Chinese steel margins are at multi-year highs and cuts to capacity are supporting steel prices. Expectations centre on iron ore finishing 2017 in a range of US\$60-90/t.

### Iron Ore

At current prices, Deutsche Bank calculates that only a handful of small miners are losing cash. With the bounce in FX and oil in the second half of 2016, 14% of supply is now estimated to lose cash at US\$60/t.

Nevertheless, swing supply is returning at US\$90/t, with the broker observing Chinese domestic production is now operating at a 280mtpa run rate, up from an average of 220mtpa in the first half of 2016. Although Chinese steel demand is robust, the broker suspects more low-cost supply in 2017 will result in a retracement in the price to US\$60-70/t by mid year.

Macquarie observes China's preliminary commodity data in February revealed both iron ore and coal imports were strong. While this side of the Chinese commodity business model appears normal, with plenty of appetite to soak up raw materials, the other side, exporting finished products, was very weak in February.

Macquarie notes annualised steel and aluminium export volumes were the lowest since early 2014. Often such anomalies can be put down to Chinese holidays but the broker observes, in most cases, February was just an extension of a trend seen over January. Macquarie reiterates its view that the peak of China's growth cycle is passing and headwinds are likely to arise over the second quarter.

### Aluminium

Macquarie observes the London Metal Exchange's biggest metal market by volume, aluminium, is showing a gain in the year to date of 10.5% as the price continues to rebound. Nevertheless, other data suggest the production is rising strongly in China. In the first two months of the year production is an annualised 5mtpa above that of a year ago, at around 35mtpa.

China appears oversupplied and the physical metal premiums have fallen to a steep discount to spot prices, pointing to a softer ingot market. It is small wonder, in Macquarie's view, that China paints a much more bearish picture. The broker believes strong sentiment, coupled with confusion over the timing of the cuts to winter

smelting, has been the main support for prices recently, but in the last few days prices have moved lower as speculator expectations begin to confront consumer reality.

Macquarie continues to believe prices will fade from this point on soft physical conditions before reductions as the Chinese winter comes to bear drive seasonally higher prices over the fourth quarter of this year and into the first quarter of next.

## Nickel

in 2017 the key to the global market for the supply of nickel ore is Indonesia and the Philippines. Based on Macquarie's assessment of the current situation those investors seeking clarity are likely to be disappointed.

There is little concrete information emerging from Indonesia since January, with unconfirmed speculation that exports may be capped at 5m wet tonnes, just below 50,000 tonnes of recoverable nickel. The broker notes at this point no export licenses have been issued and it is unclear how much can be exported.

In the Philippines some doubts have begun to emerge about whether the mines minister, Gina Lopez, will maintain her hard line through the appeals process. Apart from nickel ore, the Chinese nickel pig iron industry has also started using other feed sources.

Given the large range of potential outcomes for the nickel industry, Macquarie assumes, in its base case, that nickel use grows only 2% this year compared with 7.8% in 2016. A similar market deficit to 2016 is projected at 50,000t.

Bell Potter observes the mixed news has hit nickel miners, with Western Areas ((WSA)) and Independence Group ((IGO)) being sold off heavily since early January when a partial relaxation of Indonesia's nickel or export ban was heralded.

In the broker's view an opportunity has emerged to increase exposure and both stocks carry a Buy rating. This is because both have high-quality, low-cost production assets which make money at current prices.

Robust balance sheets also provide the ability to withstand lower nickel prices. While the immediate outlook for the nickel price is cramped by uncertainty, Bell Potter still envisages a supply deficit over 2017 and maintains a view for a rising nickel price over 2017.

## Oil And LNG

Steep falls in the oil price over the last couple of days amid a build up in US inventory suggests to analysts at National Australia Bank the market is concerned about the balance in supply/demand. Should data continue to confirm the OPEC-Russia deal to cut production is holding up, the analysts expect a gradual up-trend in the oil price over this year, although if inventory remains elevated a rally will be less likely.

The analysts' central case is for oil prices to average around the mid to high US\$50/bbl range in the second quarter before reaching the low US\$60/bbl range by the end of 2017, and stabilising at these levels in 2018.

Approaching 2020 there may be some upside, they contend, as lower investment flows through to lower production capacity, although this is far from clear at the present time. Another major consideration for Australia is the effect of oil market developments on LNG exports.

Australia is ramping up production to the extent that it should have the world's largest LNG production capacity, at over 20% of global capacity, the analysts calculate. As much of Australia's LNG is priced against Japan's crude import price, a recovery in the oil price represents upside for the value of Australian LNG exports.

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## Oil Price Collapse Risk

By Anatole Kaletsky of GavekalDragonomics

The Best Macro Trade of 2017

What has been the world's most crowded macro trade of the year to date? No, it has not been buying dollars, shorting US bonds or selling French OATs or sterling, at least relative to the size of these huge markets. The most over-extended speculative position in the world by historic standards has been the bullish exposure to crude oil. This speculation began to reverse last week, and the -7% correction in Brent could soon turn into an avalanche.

Net long positions peaked on February 21 at the highest level on record, 20% higher than their previous record in June 2014, just before the start of the oil price collapse from US\$115 per barrel to US\$38. This wild speculation has occurred against a background of record-breaking inventory levels, rapidly rising US shale production and a collapse of long-term futures prices to the point where a barrel of oil for delivery in 2020, which was priced in November at a US\$10 contango premium to the spot price, is now trading at a discount.

There is an obvious explanation both for the record level of speculative buying and for its failure to drive the price of oil significantly higher. Traders have overestimated the importance of OPEC as a driving force in the oil market, a blunder which the markets keep on making every time a Middle Eastern oil minister opens his mouth. As I have argued repeatedly since late 2014, the OPEC oligopoly has been decisively broken by a combination of supply- and demand-side factors—the shale revolution and the impact on long-term demand of clean energy technologies and regulations. As a result, oil now trades just like any other commodity, such as copper, pork bellies or iron ore.

Even if the Saudi, Russian and Iranian governments can continue to reach production restraint agreements, these will have no more lasting success in driving up the oil price than would similar agreements between Rio Tinto, BHP Billiton and Vale on boosting the price of iron ore. (Incidentally, all of OPEC plus Russia only control about 50% of global oil supplies, compared with a market share of around 70% for the top three iron ore producers.)

The fact is that far more oil has already been discovered than the world will ever burn, as BP has now explicitly predicted. The managements of Exxon and Shell have implicitly conceded this by cutting back on exploration, selling off oil producing assets and abandoning the obsession with reserve replacement, which used to be considered a symbol of success for oil producers. And now the Trump administration appears intent on aggravating long-term over-supply of fossil fuels even more by further deregulating US oil and gas development and even by subsidizing coal.

The upshot of all these influences is that the model of oil price regimes that we proposed in late 2014 seems to be working: US\$50/bbl or thereabouts for WTI, which is the marginal cost of shale production, has been confirmed again as a long-term ceiling and the next major move will almost certainly be a big fall in the oil price, the exact opposite of what so many speculators seem to expect.

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## Material Matters: Mining And Miner Outlook

A glance through the latest expert views and predictions about commodities. Mining outlook; price and equity upgrades; coal and lithium.

- Signs of an aggressive supply response, yet upside for miners if prices retrace at a slower-than-expected rates
- First phase of increased capex usually favours explosives, contractors and services companies
- Mining companies moving away from emphasis on debt reduction

By Eva Brocklehurst

### Mining Overview

2017 started strongly for material commodities, with a maturing industrial recovery, rising inflation expectations and a degree of economic confidence that surprised Macquarie. Nevertheless, some cracks are emerging in the bullishness, notably in China as the government continues to tighten monetary policy at the edges.

The broker believes current indicators are not showing the aggressive improvement in demand that was expected. Also, there are signs of a supply response and inventory is already elevated. That said, the broker raises 2017 forecasts across the majority of metals and bulk commodities.

Ord Minnett has lifted its mining sector coverage to an Overweight position. The broker believes the recent pull-back, particularly in European-listed names, has opened up an opportunity. The broker's global commodities team is confident that the hawkish comments by US Federal Reserve officials probably only triggered a temporary correction in metals prices during the recent sell-off.

As a US interest rate hike appeared a certainty, the broker also upgrades its emerging markets rating to Overweight, with the preferred country exposures being China and Brazil.

### Mining Capex

On the subject of mining capital expenditure, Goldman Sachs believes global reductions are over after four years of declines. Strong prices have driven a rise in cash flow that it is signalling rising expenditure. The broker has raised forecasts for capital expenditure in 2017 by US\$5bn, or 8%, and now expects this year will show the first year-on-year expenditure increase since 2012.

The first phase of an increased capital expenditure budget is usually put to rectifying the liabilities that have been generated in recent years. This includes normalisation of strip ratios, maintenance expenditure and exploration. The broker believes this is a positive phase for explosives, contractors and services companies.

Goldman Sachs observes miners are now spending almost as much on dividends as they are on capital expenditure. This may signal a period of improved returns for shareholders but the sustainability of only limited investment in medium-term growth is questionable. New greenfield project growth, whilst not yet on the mining radar, is expected to return over the next two years, reducing the potential for additional capital returns from miners in coming years, in the broker's view.

### Upside For Miners?

While commodities may be moving lower, many are still priced above Morgan Stanley's forecasts. The broker believes there is still upside for miners if prices retrace at a slower-than-projected rate. Mark-to-market upside is intact for most of the key commodities versus the broker's price deck. Morgan Stanley believes the industry is now giving up some of its gains, which reflects momentum-style investment re-positioning.

The sector has also moved towards utilising excess cash and away from the debt reduction emphasis witnessed 12 months ago. The broker does not believe that cash accumulation or potential re-investment is being factored into many equities at this point.

In view of the revisions, Morgan Stanley upgrades Fortescue Metals ((FMG)) to Equal-weight and Resolute Mining ((RSG)) to Overweight. Morgan Stanley has contrarian views to consensus on BHP Billiton ((BHP)), Newcrest Mining ((NCM)), Sandfire Resources ((SFR)) and Syrah Resources ((SYR)).

## Key Commodity Upgrades

Macquarie's updates feature upgrades of 29% to cobalt estimates, 21% for alumina and, the only material downgrade, a -9% cut to coking coal. The broker's upgrades and downgrades to relevant stocks are driven by supply-side fundamentals, amid concerns over cobalt sourced in the Democratic Republic Congo and the proposed winter curtailment for alumina, along with a lack of favourable Chinese intervention on coking coal supply.

The broker observes downside risk continues for nickel, although upgrades have been made to estimates, while the spot price upside risk has largely been removed for all commodities with the exception of iron ore and cobalt.

The broker believes upside risk remains in place for iron ore, and this is significant for BHP Billiton, Rio Tinto ((RIO)) and, particularly, Fortescue Metals. Emerging supply constraints for both aluminium and alumina drive material upside risk for the earnings outlook for South32 ((S32)) and Alumina Ltd ((AWC)).

Macquarie also believes the price decline in manganese is close to a bottom, given the supply-side response to soaring prices late last year was significant, and lower-grade prices are now below break-even for many higher-cost South African producers.

Macquarie upgrades Oz Minerals ((OZL)) and Western Areas ((WSA)) to Outperform after incorporating commodity price changes. The broker prefers Western Areas over Independence Group ((IGO)) for nickel exposure and expects the supply outlook to become clearer in coming months.

Nickel prices have been volatile, falling on the back of the partial lifting of the nickel ore export ban in Indonesia. Macquarie believes the risk of large closures from the Philippines mine audit is rising, and upgrades nickel price forecasts for 2017 by 12% and 2018 and 2019 by 6% and 4% respectively. Other base metals are relatively unchanged.

Meanwhile CleanTeQ Holdings ((CLQ)) offers a unique exposure to the improving outlook for cobalt. The broker observes cobalt pricing has been strong in 2017, rising to US\$25/lb.

In the gold segment, volatility in equities continues, as expected. Macquarie upgrades St Barbara ((SBM)) and Alacer Gold ((AOG)) to Outperform on valuation grounds and downgrades Beadell Resources ((BDR)) and Troy Resources ((TRY)) to Neutral because of emerging operating risks.

## Coal

The decline in spot coking coal prices has been more aggressive than Macquarie was anticipating. The quarterly contract price for the June quarter is expected to come in around US\$175/t, -24% lower than previously forecast. Macquarie re-bases forecasts for the remainder of the year and for next year as a result.

The broker believes that with Chinese thermal coal prices around RMB630/t, an immediate resumption of the 276-day policy is less likely, although this is still expected to occur should thermal coal prices fall back towards RMB500/t.

## Lithium

The broker is also upgrading its near-term outlook for lithium, reflecting recent moves in the spot price. The broker highlights that most of the hard rock lithium producers have fixed-price agreements. Hence, they are not overly affected by price upgrades.

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## Australian Banks: Risks And Valuations

Housing bubble bursts? Fed hikes rapidly? Australia loses its AAA rating? Regulators tighten the screws? With all that is potentially facing Australia's major banks, are they overvalued?

- Historically high PEs - Low earnings growth - Numerous risks - Relative support

By Greg Peel

"Macquarie pulled its sector view back to Neutral. UBS is currently maintaining a 'relatively neutral view'. Deutsche Bank suggests the brighter outlook is 'largely in the price'. Morgan Stanley notes Australian bank valuation metrics look elevated compared to history. Last week Citi declared quite boldly 'sun to set on bank share price rally'."

This is an excerpt from FNArena's last update on Australia's major banks published in January (Australian Banks: Valuations Stretched). As can be concluded from this selection of broker views, a further rally in bank share prices was not deemed likely.

On a simple price average basis (not cap-weighted), bank share prices are now 3% higher.

What has happened in the meantime? Well not much more than a first half earnings report from Commonwealth Bank ((CBA)) and first quarter updates from ANZ Bank ((ANZ)), National Bank ((NAB)) and Westpac ((WBC)). The Trump effect had already pretty much been priced in back in January, leaving the mildly better than expected bank results in February, and no dividend cuts or talk of capital raisings, as reasons investors saw fit to ignore brokers.

Probably the biggest difference is that brokers have now been forced to temper prior views about increasing bad debts - these proved to be benign. There was also much wailing and gnashing of teeth over the potential for an apartment-led bursting of the housing bubble, but so far that hasn't happened. But we have seen the regulators again becoming concerned over house prices, and a renewed growth spurt in investor mortgages and overall household debt. And Standard & Poor's stands ready to downgrade Australia's sovereign rating from AAA, which implies a flow-on downgrade to bank credit ratings.

On the other side of the equation, banks continue to face little more than a subdued earnings growth environment. With so many risks in the offing, are bank valuations now even more overstretched?

### Apartment Boom

It's hard to escape the constant headlines. Given a prior undersupply of housing in Australia, strong immigration-assisted population growth, a stampede of foreign buyers, mostly Chinese, unquenched investor interest in property, and soaring house prices, property developers have been madly throwing up apartment blocks like there's no tomorrow, mostly in Sydney and Melbourne. Surely this boom cannot continue?

It can't continue forever. Indeed, there are already signs of cooling with only Sydney still in an upswing, according to analysts, and then not for too much longer. The real question is whether "cooling" implies "bust", and if so, what are the ramifications for those institutions lending the money to both the developers and the buyers of apartments?

Over the last twelve months, note the bank analysts at Citi, the major banks have tightened liquidity, meaning successive new apartment projects are finding it more and more difficult to access finance. Many have turned to other sources of finance and funding structures, which should offer bank shareholders better loan loss protection in future years, Citi suggests.

If we were about to face any sort of apartment bust, this would be showing up by now in increasing settlement defaults from buyers. This is what the market has been expecting, perhaps best evidenced by the example of leading apartment developer Lend Lease's ((LLC)) share price underperformance from the new year, when "bust" fears were rife, through to the company's earnings result release. That result highlighted negligible defaults to date - basically as many as one might expect on average. Lend Lease's share price has done nothing but rise ever since.

Of course, Lend Lease is not the only player in town, and as Citi notes, there has been anecdotal evidence of

isolated projects with stressed levels of defaults, and often times-to-settlement have been extended. However, all the analysts can go on to date are anecdotes. There is nothing concerning coming through in the data as yet.

Then there's the question of just how bad things have to get before investors should start dumping their shares in the banks that lend money to both the developers and the buyers. On that note, Citi's analysis suggests that a "very high level" [Citi's emphasis] of defaults is required to have any meaningful impact on the banks. The majors are protected to an extent by other capital providers who, in exchange for very lucrative internal rates of return, take on board the majority of settlement risk.

Citi may be not overly worried but the regulator, APRA, is again having trouble sleeping at night. The source of insomnia is a return to growth in investor mortgages.

When "housing bubble" concerns began building last year, APRA enforced a 10% growth cap on bank investor loan books. Banks responded by tightening their lending requirements, thus reducing demand and slowing growth. It worked. Investor loan growth slowed, APRA was happy, and the RBA also let out a sigh of relief.

But they're back.

Investor loan growth may have slowed for a few months but house prices did not stop rising. Recently the Trump rally has revived the stock market to some extent but realistically the Australian stock market on a net basis has gone nowhere in the past several years. Within the stock market, those stocks previously popular with investors for their high yields were unceremoniously dumped towards the end of last year on fears of rising global rates (Fed-led) and a switch back into the resource sector.

Where does a retiree put one's money? Property looks good.

APRA Circling?

Earlier in the month, APRA chairman declared "Strong competitive pressures are producing higher rates of lending growth again...We therefore see no room for complacency". The implication is the banks have loosened the purse strings once more. To that end, Morgan Stanley's bank analysts would not be surprised if APRA were to readdress the 10% loan growth cap.

What if APRA reduced the cap to 5% growth for investor loans? Morgan Stanley calculates the majors would actually have to reduce their investor loan growth to around 4% to offset around 6% in owner-occupier loan growth. Total housing loan growth could fall to 5%, the analysts suggest, from a current 6.5%.

Looking at the past sixth months' data, CBA's and Westpac's investor loans are currently growing in excess of 5%, Morgan Stanley observes, NAB is at about 5% and ANZ is below.

Were the banks forced to scale back their lending further, the offset from an earnings perspective would be to again reprice their mortgage rates. Since the beginning of 2016, the majors have collectively repriced owner-occupier rates by 15 basis points and investor rates by 28 basis points, Morgan Stanley notes, or 20bps net across loan books. With little opportunity to expand net interest margins elsewhere, and loan demand remaining strong, the banks are likely to continue repricing in 2017, the analysts believe.

But it's fine line. Reprice too far and the risk is demand will reduce and loan growth will slow.

Not So Bad

The long-running cyclical downturn in banks' bad and doubtful debts (BDD), following from the GFC, ended a couple of years ago. Since then bank analysts have been forecasting a cyclical swing back up in BDDs, particularly as areas of the Australian economy are under pressure and relevant states are still suffering from the end of the mining investment boom. But so far, the upswing has been mild.

This hasn't stopped analysts assuming that BDDs must cycle back towards a long running average and as such each reporting season this view is reflected in forecasts. Yet as CBA reported last month, and the other three provided updates, still there is no sign of such an increase. Bad debt expenses were much lower than expected in the December quarter, Deutsche Bank notes.

There are a couple of individual explanations. A year ago, commodity prices and the price of milk were collapsing. This led to specific loan risk in the areas of direct mining, being the ones using the shovels, indirect mining, being the ones providing the shovels and other services, and New Zealand dairy. We must not forget the NZ in ANZ along with the presence of the other three across the Ditch. A year on, things are different.

Commodity prices have rebounded strongly and milk has bottomed out and stabilised. Improvements have been seen in direct mining and NZ dairy and while indirect mining remains under pressure, Deutsche Bank sees these



loans as manageable at this stage. Deutsche's analysts have reduced their BDD assumptions in the near term but continue to maintain an assumption of a gradual increase to FY19.

Yet it was not just bad debts that were surprisingly low in the period, it was doubtful debts, being those borrowers in arrears or at risk. Doubtful is a step towards bad. Both Westpac and NAB saw a reduction in stressed NZ dairy loans. Westpac saw a significant reduction in stressed loans to direct mining. Indirect mining nevertheless remains stressful for Westpac, including the flow-on to WA mortgages.

Despite the relatively benign scenario for BDDs, ratings agency Standard & Poor's continues to warn that rising imbalances in the Australian economy could pose a risk to bank credit ratings. A ratings downgrade implies a risk upgrade, meaning wholesale lenders require a higher risk premium. The banks would have to pay more for funds.

Bank credit ratings are at risk on two fronts - individually, and in connection to Australia's sovereign rating. S&P has also sounded warning bells with regard Australia's AAA rating, one of few in the world (the US is AA+, the UK AA), citing rising debt levels and the lack of any fiscal policy effort to address it. Given the Little Shop of Horrors we call parliament is unlikely to find common ground on any policy reform, if only for the sake of being adversarial, change seems unlikely on that front. Fortunately the commodity price rebound has bought the government some time.

It is a general rule, albeit not mandatory, that if a country's credit rating is downgraded the ratings of its major banks are also downgraded by default. However, Deutsche sees the possibility of the banks avoiding downgrades even if the country loses a notch. It all comes down to S&P's measure of risk-adjusted capital (RAC), which includes both tier one capital (equity) and hybrids (convertibles) and applies different risk adjustment metrics to those of APRA.

Deutsche notes that the line in the sand is 10%. Above this level, it would be possible for a bank to avoid a downgrade even in the event of a sovereign downgrade. Currently the majors are sitting on S&P RACs of 7-10%. Westpac is very close to 10%. All the banks are slowly growing their capital.

It then becomes a matter of timing. If S&P holds off on a sovereign downgrade, then one or more of the majors could sneak across the line in the meantime, Deutsche suggests.

That said, the analysts also suggest a one notch tick down in credit rating is not the end of the world. The additional funding cost imposed would amount to a -1.6% loss of profit on average for the majors. And that loss would be spread across ten years.

#### The Case For

Over the past six months, the banks' average share price to one-year forecast earnings ratio (forward PE) has risen from a long-run average of around 12x to around 13.5x. Thus one might say, in absolute terms, the banks are overvalued.

However, the market PE is also running above average, and indeed the banks are trading at a -5% discount to industrials. This would make them cheap on a relative basis.

A relative basis is important for fund managers who must own stocks. Passive fund managers simply own the index by market cap weighting, whereas active fund managers can choose to overweight and underweight certain sectors or stocks. If the banks are indeed undervalued, they are thus attractive compared to other sectors of the market.

An absolute basis is more relevant to the individual investor, who chooses to own stocks or not own stocks, perhaps preferring term deposits as an investment alternative or, dare we say, investment property. If the banks are indeed overvalued, then perhaps now is not the best time for individual investors to be buying them. Except, of course, if fund managers are buying them, in which case you might as well get on board.

But should you?

Deutsche Bank says yes, and has raised its rating on the sector to Overweight from Neutral. The Deutsche equity strategists cite six reasons for their call.

The first is the above-noted PE discount to market.

The second is that after two years of underperformance versus industrials, bank earnings appear to have bottomed. It is true earnings growth is much lower than the historical average, Deutsche admits, but the same is true for the rest of the market. (Hence a relative call.)

Thirdly, the prospect of higher global interest rates (the market expects a Fed hike tonight) should be supportive

for Australian banks on two fronts: Australian bank valuations tend to ride on the coat tails of US bank valuations, which benefit from rising rates; and rising rates make Australia's high yield plays (utilities, telcos etc) less attractive as alternatives to solid bank yields.

Fourthly, as has been discussed, bad debts are subdued and will likely remain so for the time being, Deutsche believes, given market earnings are improving rather than declining.

Fifthly, these five reasons are being offered by Deutsche Bank's strategists, or "top-down" evaluators, as opposed to Deutsche's bank analysts, or "bottom-up" evaluators. These two tribes in any stockbroking firm get on about as well as The Cove and the Red & Black Block. The strategists note that across all brokers, there are currently far fewer Buy ratings and many more Holds and Sells on the banks than usual.

Historically, the strategists note, "this has been positive for share price performance". For the record, Deutsche's own analysts have two Buys and two Holds.

Finally, regulatory risk is easing. Given no agreement has yet been reached, Basel IV capital requirements will likely be both watered down and the compliance timeframe pushed further out. APRA will still potentially add its own additional buffer requirement, but even APRA has more recently played down likely extent and timeframe.

This means the risk of the banks needing to raise more capital is diminished on two fronts - actual extent of requirement and the time banks would have to meet new requirements anyway. This further suggests less risk of required cuts to dividends, and to the banks having to engage in another deposit war.

### The Case Against

Morgan Stanley agrees the regulatory factor has meant pressure has eased on bank valuations.

Morgan Stanley's analysts also note higher house prices have supported loan growth, mortgage repricing has offset margin pressures in other areas of banking, the commodity price rebound had eased BDD risks in that sector, and the global "reflation trade" (See: Donald Trump) has boosted banks' trading income.

But Morgan Stanley suggests these positives have led the banks only to a "fragile equilibrium". There are a number of challenges on the horizon.

They might be benign right now but there remains a risk of rising BDDs. The battle to attract deposits continues, squeezing margins. As house prices rise, there is a greater risk APRA will tighten the screws once more, leading to reduced loan demand. Any move to reprice mortgages in order to slow loan growth in compliance with APRA's requirements would boost margins but also impact on demand. As noted, the banks are facing a possible credit rating downgrade. Weak wages growth across the economy, largely reflecting the balance of part-time to full-time employment, offers up the risk of deteriorating credit quality, which brings us back around to BDDs once more.

At the current forward PE of 13.5x, Morgan Stanley believes the banks are "priced for a sweet spot". By any other measure they are not cheap either - earnings growth is low, return on equity measures are falling, and dividend payout ratios are stretched. On the analysts' calculation, to restore bank valuations to long-run average PE levels would require some 13% average upgrade to FY18 earnings forecasts.

To achieve this would require increased net interest margins, stable BDDs and the neutralisation of dividend reinvestment plans for the next three dividends. (DRPs increase a bank's share count and thus dilute earnings per share. The bank can "neutralise" dilution with a corresponding share buyback).

Higher margins and stable BDDs would require a "much improved economic outlook", the analysts suggest, leading to rising interest rates, stable home loan growth, lower-for-longer loan losses and no further capital requirements.

Plausible, Morgan Stanley admits, but still unlikely.

### Targeting Downside

Deutsche Bank's strategists point out the ratio of Buy ratings to Holds and sells among bank analysts is historically low, suggesting share price upside on a contrarian basis. While FN Arena is very familiar with the concept that if everyone is bearish on a stock it will likely rise (and vice versa), as suggested by analyst ratings, when it comes to banks there's a contrasting rule with regard analyst price targets.

As is evident on the table below, the eight major broking houses on the FN Arena database have between them nine Buy ratings across the four banks, nineteen Holds and four Sells. Back in January, prior to result season when bank share prices were lower, that ratio was 10/18/4. Not a lot of difference.

But what is most notable is that back in January, share prices and consensus target prices were all but matched for all of ANZ, NAB and Westpac. CBA was trading 4% above target but then CBA perennial carries a premium that bank analysts to this day struggle to justify, despite the fact it is as good as set in stone.

Now we see every bank trading above target, by 4-6%. That is why analysts ratings lean to Hold rather than Buy. In FNArena's experience, bank share prices never remain above target for very long. Either analysts have to lift their targets or share prices have to pull back.

Lifting targets would require an improved earnings outlook, which would require a stronger economic outlook and/or a reduction in the various risks outlined above: regulatory, credit rating, bad debts, housing bubble and so forth.

But then there's those 5-6% fully franked yields.

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## 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 March 6 to Friday March 10, 2017 Total Upgrades: 8 Total Downgrades: 6 Net Ratings Breakdown: Buy 43.30%; Hold 42.71%; Sell 13.99%

As is usually the case, overall activity among stockbroking analysts has quietened down considerably now the February reporting season is history. FNArena still registered eight upgrades in recommendations for individual ASX-listed stocks against six downgrades.

Nickel miner Western Areas received both one upgrade and one downgrade, but otherwise all rating changes were single-step moves. Resources stocks represent four of the eight upgrades, with building materials providers Boral and CSR adding two further cyclicals.

Changes to valuations/target prices were a benign affair. Alacer Gold tops the table for positive changes (containing only four stocks by end of the week) with a rather unremarkable 2.6% gain. On the negative side, Navitas commands pole position with a decline of -5.8%.

The table for positive amendments to earnings estimates is dominated by resources stocks. Mt Gibson enjoyed the largest increase, up 19%, followed by Rio Tinto (+11%), Fortescue (+8%) and BHP Billiton (+3%).

Western Areas suffered the largest hit to estimates, with its consensus estimate dropping by -10% during the week. There follows Tassal (-3.7%), then Suncorp (-2.3%).

Total Buy ratings for the eight stockbrokers FNArena monitors daily still outnumber total Neutral/Hold ratings, indicating the Australian share market remains in multi-speed mode, to put it mildly. It's still a bear market for large segments if you want the blunt assessment.

Upgrade

**BORAL LIMITED ((BLD)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/1/0**

Ord Minnett perceives a broad view that approvals and commencements activity has peaked. Nevertheless, with a full pipeline of work, the eventual impact on building products and heavy construction materials demand may not be seen until the end of the year, particularly in the eastern states.

The broker expects Boral to be a key beneficiary of the market dynamics, in addition to continued growth in the US residential sector. Hence, rating is upgraded to Accumulate from Hold. Target is \$6.50.

**CAPITOL HEALTH LIMITED ((CAJ)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 1/0/0**

The company has proposed a \$40m equity raising, effectively removing gearing concerns. Credit Suisse observes, under a new team, cost savings and radiologist re-engagement seem to be the priority and the valuation is undemanding.

Against a backdrop of improving market dynamics, the broker suspects an equity re-rating is garnering momentum. Credit Suisse upgrades to Outperform from Neutral. Target is raised to \$0.21 from \$0.15.

CSR LIMITED ((CSR)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/4/1

Aluminium prices have continued to rise, up 10% since the start of the year. Ord Minnett still expects a slight surplus in 2017, but notes increased expectations of environment-led curtailment in China keeps the market sentiment constructive.

The broker raises quarterly aluminium price forecast by 5-25% over 2017-20. Incorporating the revised estimates into calculations leads to an upgrade to Hold from Lighten. Target rises to \$4.15 from \$3.80.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/4/1

Credit Suisse expects the current level of iron ore prices to contract late this year but still considers the company's valuation and prospective 12-month dividend warrants an Outperform rating, upgrading from Neutral. Target is \$7.35.

Chinese steel consumption has surprise to the upside, as have Chinese steel prices. The broker does not expect steel prices to give way just yet and believes these can support a iron ore price above US\$90/t throughout the first half of the year.

A slowing in infrastructure projects may cut steel demand by -1-2%, which does not suggest a price collapse for either steel or iron ore to the broker, but does indicate 2018 will be weaker than 2017, says Credit Suisse.

INDEPENDENCE GROUP NL ((IGO)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 2/3/1

The company has outperformed Western Areas ((WSA)) over the past year, Morgan Stanley observes, and it scores better on various financial metrics. On a relative basis, Independence Group is favoured as the Nova project adds both mine life and higher production.

The broker also expects catalysts for Independence Group are more likely to occur at current commodity prices. Rating is upgraded to Overweight from Equal-weight. Target is raised to \$4.50 from \$3.70. Attractive sector view retained.

NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/2/1

Macquarie believes improved early-season ratings set a good platform for monetisation, offsetting headwinds in the industry.

The broker expects underlying cash conversion will be weak over the next few years but this is offset by other working capital adjustments and the sale of Willoughby.

A high percentage of earnings is still expected to be distributed to shareholders via dividends. Rating is upgraded to Outperform from Neutral. Target rises to \$1.25 from \$1.10.

SANDFIRE RESOURCES NL ((SFR)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 5/2/1

Ord Minnett's commodities team has raised its near-term base metal prices on the back of positive sentiment, supply disruptions and strong growth in demand.

The most meaningful changes are increases of 15% and 26% for copper prices in 2017 and 2018 respectively, as well as increases in aluminium pricing of 21% and 15% for the same respective periods.

The broker raises its rating for Sandfire Resources to Speculative Buy from Hold and the target to \$7.30 from \$6.80.

WESTERN AREAS NL ((WSA)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/5/2

Ord Minnett's commodities team has raised its near-term base metal prices on the back of positive sentiment, supply disruptions and strong growth in demand.

The most meaningful changes are increases of 15% and 26% for copper prices in 2017 and 2018 respectively, as well as increases in aluminium pricing of 21% and 15% for the same respective periods.

The broker raises the target to Hold from Lighten. Target is \$2.40.

See also WSA downgrade.

Downgrade

AUSTOCK GROUP LIMITED ((ACK)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

First half underlying net profit was up 7%. The main positive was the growth in life funds under management, Morgans observes.

The negatives were slowing sales growth and higher near-term costs. The broker downgrades to Hold from Add on valuation grounds, and because of some uncertainty regarding the board structure going forward.

Overall, the broker believes future growth prospects for the investment bond market are solid. The tax effective nature of the company's products is relevant to high income earners and for estate planning. Target is reduced to \$0.53 from \$0.55.

ASTRO JAPAN PROPERTY TRUST ((AJA)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/1/0

Astro Japan has confirmed that Lone Star Real Estate made a proposal to acquire its assets at book value and this proposal was reiterated on February 28. The board has rejected the proposal on both occasions.

Ord Minnett envisages a scenario where the company can maintain the status quo but considers this less likely now. The latest news is considered to be a probable catalyst for Astro Japan to pursue a sale, either with Lone Star or another party.

Rating is downgraded to Hold from Accumulate and target is reduced to \$6.75 from \$7.50.

AP EAGERS LIMITED ((APE)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/4/0

Credit Suisse observes growth stocks tend to require constant high growth to maintain their multiple. Growth is still expected for AP Eagers, but at a slower pace than previously forecast.

The broker retains a belief that Carzoos is an excellent strategy and consolidation a long-term theme which should benefit the company. Nevertheless, the automotive industry faces some challenges, including the slowing of new car sales and a likely end to flex commissions.

The broker does not envisage a short-term catalyst for a re-rating and downgrades to Neutral from Outperform. Target is reduced to \$9.90 from \$13.15.

NAVITAS LIMITED ((NVT)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 2/2/1

The company has sustained another contract loss, announcing its Adult English Migrant Program for the Department of Education & Training will not be renewed in most regions upon expiry. This will result in a permanent reduction in EBITDA of \$12-14m from FY18.

Credit Suisse was surprised at the news as, although the tendering process had been flagged at the first half result, no changes were expected to be material at a group level. Growth expectations had been raised, with the rolling off of the loss of the university program contract with Macquarie University.

A return to growth now appears unlikely in FY18. Credit Suisse downgrades to Underperform from Neutral. Target is reduced to \$4.00 from \$4.40.

WESTFIELD CORPORATION ((WFD)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/2/1

Credit Suisse notes its recent history with the stock has been characterised by frequent disappointments as asset disposals, invasive developments, intensive retailer re-mixing and technology spending have all conspired to dampen earnings growth.

The stock may be cheap but the broker expects it to stay that way, and further asset disposals are likely to drive another year of soft growth. The broker also has concerns that the company's small stake in Hammerson will ultimately lead to dilutive - in the case of earnings - M&A activity.

Rating is downgraded to Neutral from Outperform. Target is reduced to \$9.25 from \$10.25.

WESTERN AREAS NL ((WSA)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 0/5/2

Independence Group ((IGO)) scores better on various financial metrics and Morgan Stanley expects there are more catalysts for that stock.

At current prices, Independence Group's Nova project adds both mine life and production that are higher than Western Areas' current producing assets.

Rating is downgraded to Underweight from Overweight. Attractive sector view retained. Target is reduced to \$2.15 from \$2.90.

See also WSA upgrade.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 BORAL LIMITED Buy Neutral Ord Minnett 2 CAPITOL HEALTH LIMITED Buy Neutral Credit Suisse 3 CSR LIMITED Neutral Sell Ord Minnett 4 FORTECUE METALS GROUP LTD Buy Neutral Credit Suisse 5 INDEPENDENCE GROUP NL Buy Neutral Morgan Stanley 6 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Buy Neutral Macquarie 7 SANDFIRE RESOURCES NL Buy Neutral Ord Minnett 8 WESTERN AREAS NL Neutral Sell Ord Minnett Downgrade 9 AP EAGERS LIMITED Neutral Buy Credit Suisse 10 ASTRO JAPAN PROPERTY TRUST Neutral Buy Ord Minnett 11 AUSTOCK GROUP LIMITED Neutral Buy Morgans 12 NAVITAS LIMITED Sell Neutral Credit Suisse 13 WESTERN AREAS NL Sell Buy Morgan Stanley 14 WESTFIELD CORPORATION Neutral Buy Credit Suisse

Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 AQG ALACER GOLD CORP 75.0% 60.0% 15.0% 4 2 S32 SOUTH32 LIMITED 86.0% 71.0% 15.0% 7 3 BLD BORAL LIMITED 63.0% 50.0% 13.0% 4 4 FMG FORTECUE METALS GROUP LTD 19.0% 6.0% 13.0% 8 5 SFR SANDFIRE RESOURCES NL 50.0% 38.0% 12.0% 8 6 VAH VIRGIN AUSTRALIA HOLDINGS LIMITED -42.0% -50.0% 8.0% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 NVT NAVITAS LIMITED 20.0% 40.0% -20.0% 5 2 COH COCHLEAR LIMITED -33.0% -14.0% -19.0% 6 3 CIM CIMIC GROUP LIMITED -50.0% -33.0% -17.0% 4 4 WFD WESTFIELD CORPORATION 25.0% 42.0% -17.0% 6 5 NHF NIB HOLDINGS LIMITED 7.0% 21.0% -14.0% 7 6 MPL MEDIBANK PRIVATE LIMITED -25.0% -13.0% -12.0% 8 7 SWM SEVEN WEST MEDIA LIMITED -50.0% -40.0% -10.0% 4 8 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 42.0% 50.0% -8.0% 6 9 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 42.0% 50.0% -8.0% 6 10 WSA WESTERN AREAS NL -29.0% -25.0% -4.0% 7 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 AQG ALACER GOLD CORP 4.300 4.190 2.63% 4 2 SFR SANDFIRE RESOURCES NL 6.879 6.816 0.92% 8 3 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 1.197 1.190 0.59% 6 4 S32 SOUTH32 LIMITED 3.146 3.131 0.48% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 NVT NAVITAS LIMITED 4.730 5.026 -5.89% 5 2 CIM CIMIC GROUP LIMITED 32.403 33.870 -4.33% 4 3 SWM SEVEN WEST MEDIA LIMITED 0.700 0.730 -4.11% 4 4 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 4.203 4.351 -3.40% 6 5 WFD WESTFIELD CORPORATION 9.782 9.948 -1.67% 6 6 COH COCHLEAR LIMITED 125.283 125.957 -0.54% 6 7 VAH VIRGIN AUSTRALIA HOLDINGS LIMITED 0.198 0.199 -0.50% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 MGX MOUNT GIBSON IRON LIMITED 4.167 3.500 19.06% 3 2 RIO RIO TINTO LIMITED 614.533 550.199 11.69% 8 3 FMG FORTECUE METALS GROUP LTD 105.852 97.529 8.53% 8 4 BHP BHP BILLITON LIMITED 198.764 192.387 3.31% 8 5 CIM CIMIC GROUP LIMITED 194.280 190.680 1.89% 4 6 HLO HELLOWORLD LIMITED 20.467 20.133 1.66% 3 7 WPL WOODSIDE PETROLEUM LIMITED 172.066 169.498 1.52% 8 8 PTM PLATINUM ASSET MANAGEMENT LIMITED 30.250 29.850 1.34% 4 9 IAG INSURANCE AUSTRALIA GROUP LIMITED 37.225 37.050 0.47% 8 10 VOC VOCUS COMMUNICATIONS LIMITED 30.768 30.643 0.41% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WSA WESTERN AREAS NL 3.681 4.110 -10.44% 7 2 TGR TASSAL GROUP LIMITED 29.343 30.470 -3.70% 4 3 SUN SUNCORP GROUP LIMITED 89.557 91.663 -2.30% 8 4 S32 SOUTH32 LIMITED 31.800 32.309 -1.58% 7 5 WHC WHITEHAVEN COAL LIMITED 45.724 45.974 -0.54% 8 6 CSL CSL LIMITED 396.116 397.490 -0.35% 6 7 NVT NAVITAS LIMITED 23.970 24.000 -0.13% 5 8 OGC OCEANAGOLD CORPORATION 42.759 42.782 -0.05% 5 9 AQG ALACER GOLD CORP 22.621 22.633 -0.05% 4 10 OSH OIL SEARCH LIMITED 26.818 26.831 -0.05% 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.

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## Uranium Week: See You In Court

By Greg Peel

To recap, three of 45 Japanese nuclear reactors are currently back in operation, six years after the Fukushima disaster, being Sendai units 1 and 2 and Ikata unit 3. Takahama units 3 and 4 also made it to restart, only to be shut down again by a district court injunction that remains in place. Twenty reactors are currently moving through the restart process.

To that end, the restart of Genkai units 3 and 4 received the approval of the local mayor last week. Sounds promising, except that restart also requires the approval of all municipalities within a 30km radius of the plant. No matter, there's only seven of them.

Tokyo Electric Power Company is not one of those among Japan's myriad of electricity providers that has an operational reactor at present. Perhaps TEPCO thought it likely would have by now, given only now has the company claimed force majeure in cancelling its supply contract with Canada's Cameco. Not a lot of point in continuing to stockpile more uranium.

Cameco has vowed to fight the cancellation hard in court. The company has to date suspended operations at Rabbit Lake in Canada and will shut down McArthur River for six weeks this summer. Cameco has also curtailed its US mining operations and last week declared that it may sell its assets in Wyoming and Nebraska, due to low uranium prices, unless clarity can be sought on Donald Trump's plans for nuclear power.

Funny how Trump just seems to make his way into every story.

It is perhaps no surprise the Senators of Wyoming and Nebraska were vocal in their strong support for reform of the US Nuclear Regulatory Commission's licencing framework at Senate Environment and Public Works committee meeting last week. A bipartisan bill introduced to the Senate aims to promote innovation in the US nuclear sector and bring transparency to Department of Energy's process of disposal of excess government uranium stockpiles.

We recall that last year the DoE came under fire for dumping such stockpiles into an already weak market.

And if all of the above isn't sufficient, news is that China's CNNC Overseas Holdings has requested Australian-listed Paladin Energy ((PDN)) begin the process of determining the fair market value of the company's Langer Heinrich operation in Namibia. CNNC acquired a 25% stake in Langer Heinrich in 2014 with, supposedly, an option to acquire the remaining 75%.

The fair value assessment is the first step in the process of exercising that option, if indeed that option proves to be valid. With the support of its bond holders, Paladin intends to fight the option's validity in an arbitration process in Singapore.

One wonders where uranium miners and consumers find the time for the normal course of business.

The uranium spot market was quiet last week after a burst of strength the week before. Industry consultant TradeTech reports five transactions concluded totalling 500,000lbs U3O8 equivalent. Traders and speculators dominated activity as prices dipped through the week. Trade Tech weekly spot price indicator is down -US1.00 at US\$24.00/lb.

TradeTech's term price indicators remain at US\$28.25/lb (mid) and US\$35.00/lb (long).

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## 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 March 9, 2017

Last week saw the ASX200 bounce off 5700 after a fairly sharp pullback before beginning a choppy rally back towards the 5800 resistance level. The prominent feature of the bounce was a swing from resource sector selling back to resource sector buying, as investors decided post result season profit-taking had run far enough.

In last week's Report I highlighted a sea of red, as short positions were built predominantly amongst the miners. This week sees a lot more green than red, and indeed a notable reduction in the total number of stocks shorted by 5% or more, but very few of the short position reductions involve miners.

On the contrary, two of the biggest movers up the table last week were Western Areas ((WSA)) and Independence Group ((IGO)), while Perseus Mining ((PRU)) also ticked higher.

I have extensively covered the issues dominating nickel mining in recent Reports, and specifically the delay to Independence' Nova project last week, so no need to go over all of that again. Western Areas shorts have increased to 15.8% from 14.1% and Independence has jumped to 11.1% from 8.7%.

Despite all the green below, only one short reduction reflected anything more than bracket creep, that is a full percentage point or more. Bendigo & Adelaide Bank ((BEN)) shorts dropped to 6.8% from 8.3%.

On the red side, troubled SaaS company iSentia ((ISD)) saw its shorts climb to 9.5% from 7.7% and dietary supplements supplier Blackmores ((BKL)) jumped to 7.0% from 5.7%.

While not a big move, it's worth noting Woolworths ((WOW)) shorts fell to 4.6% from 5.2%, taking the stock out our table after a long incumbency. That just leaves Rio Tinto ((RIO)) as the only ASX20 stock shorted by 5% or more.

Weekly short positions as a percentage of market cap:

10%+

ACX 17.2 WSA 15.8 ORE 15.6 MYR 15.5 TFC 13.8 SYR 12.1 VOC 11.7 NEC 11.7 IGO 11.1 MTS 10.2

In: IGO

9.0-9.9%

DMP, ISD, MYX In: ISD Out: WOR

8.0-8.9%

MND, AWC, AAD, WOR, SRX, PRU, BAL, FLT, NWS

In: WOR, PRU, FLT Out: IGO, BEN, OFX, DOW

7.0-7.9%

NXT, GTY, DOW, ILU, OFX, RIO, BKL

In: DOW, OFX, BKL Out: ISD, FLT, PRU, BGA, MTR, RWC

6.0-6.9%

RWC, A2M, BEN, BGA, MTR, IPD, HSO, SGH, SEK, EHE, IFL, PDN

In: BEN, RWC, BGA, MTR Out: CSV, IVC, SHV

5.0-5.9%

IVC, CTD, MYO, KAR, CSV, CSR, AAC, MSB, GXL, OSH, RFG, JHC

In: IVC, CSV, RFG Out: BKL, MDL, DCN, WOW, SPO, CAB, CQR

#### Movers and Shakers

Bendigo & Adelaide Bank has been a slow mover up the 5% plus shorted table over recent months. Bendelaide's share price has been weak since the bank posted a disappointing result last month.

Seven FNArena database brokers cover the stock and heading into the bank's earnings report release, five had Sell or equivalent ratings on the basis of perceived overvaluation. Following the weak result, the remaining two also downgraded, leaving Bendelaide with an unenviable full suite of Sell ratings.

Time to buy then? Maybe the shorters are wary of this contrarian play. Bendelaide shorts have fallen to 6.8% from 8.3%.

Media monitoring software company iSentia posted a sizeable profit warning before its result release and still managed to miss adjusted forecasts on release. Anything to do with software-as-a-service and clouds had been hot property in the market until reality began to bite. A major issue for iSentia is a lack of barriers to entry in the space.

The stock has been climbing quietly up the table and last week shorts jumped to 9.5% from 7.7%.

Blackmores has been jumping in and out of the low end of the table for some time, as the market tries to assess whether the same sort of issues impacting on the business of importing infant formula to China will stretch to this company's suite of vitamins, minerals, eye of newt etc. As is not the case in the now crowded infant formula market, Blackmores has no direct competitors listed on the ASX.

Blackmores posted a mildly weak result last month and its share price has been quietly declining since. With brokers warning of the potential for volatility due to the Chinese government's propensity to make hasty regulation changes, shorts have jumped to 7.0% from 5.7%.

#### 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.

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## The Wrap: Insurers, IP, China And Gas

Weekly Broker Wrap: Insurers and Youi; value in IP services; equity strategy: China outlook; and the issue of an east coast gas shortfall.

-Domestic majors deliver better GWP outcomes in first half versus Youi -IP services companies seen offering compelling value -Deutsche Bank moves to overweight on banks and miners -Solid outlook in China, Improved seasonal demand expected -Could a national oil company work for Australia?

By Eva Brocklehurst

### Insurers

UBS has taken a close look at Youi's first half result, the fastest growing and most visible challenger brand in the insurance sector to date. On the broker's estimates, gross written premium (GWP) only grew by 0.5% and, for the first time since Youi commenced operations in 2009, the domestic majors actually delivered better outcomes.

UBS does not believe other challenger brands have slowed to the same degree and Youi's brand proposition remains intact. Nevertheless, Insurance Australia Group ((IAG)) and Suncorp ((SUN)) are expected to face an easier operating environment over the medium term.

Macquarie believes Youi is still growing faster than the market, noting the first half results follow a poor result in the prior half for GWP. The company is also, as noted, addressing a couple of specific issues such as customer confidence in its brand and distribution constraints. While slower churn in the market is a headwind for challenger brands the company believes this will abate.

A lack of natural catastrophe events have resulted in a soft pricing environment and consumers are not shopping around for lower premiums. Macquarie believes the major challenger brands will continue to increase their market share and impact on the overall profitability of the incumbents.

UBS believes the worst of the cyclical margin squeeze since FY14/15 is now behind the sector. As in the past, the broker suspects recovery is likely to be underestimated. Commercial profitability is turning around earlier than expected. Suncorp's personal lines are running better than previously believed although New Zealand could become worse before it gets better.

Personal lines margins are expected to stabilise in the industry, if not rise in 2017, as insurers respond to claims inflation with containment measures. The broker believes there is a case to own all the insurers but retains a preference for Suncorp (Buy) over IAG (Neutral).

### IP Services

Bell Potter believes intellectual property services offer compelling value and are now trading materially below the market. The three companies IPH Ltd ((IPH)), QANTM IP ((QIP)) and Xenith IP ((XIP)), which form the ASX listed sector, are all trading at a discount to market price/earnings for FY17 to the tune of -1%, -11% and -27% respectively. While agreeing with the relative ratio ranking between the three, the broker believes the sector as a whole is materially undervalued.

The broker accepts there was merit for a de-rating of the sector, given stretched valuations a year ago. Yet, more recently the sector experienced a further downgrade with a number of company-specific issues weighing, such as IPH's slower growth in Asia, seasonality in regard to QANTM and investment by Xenith to support integration.

Bell Potter believes this is an attractive buying opportunity and prefers QANTM and IPH. Core fundamentals that are underpinning a positive outlook include diverse clients, relatively high revenue visibility, minimal work-in-progress, 90-100% cash flow conversion and solid balance sheets.

### Equity Strategy

Global equities may be vulnerable to a dip, Deutsche Bank suggests. The broker notes it has been a long time since the S&P500 dropped much and the US Federal Reserve rate hikes pose a risk. Beyond a dip, Australian equities appear well positioned. Earnings continue to be upgraded and the average price/earnings ratio of around

16 remains in line with the fair value model.

The main concern is that share prices of major miners may struggle when the iron ore price eventually falls, although the broker's analysis suggests the relevant stocks have already priced in a fall and share prices look low relative to firm Chinese growth.

Deutsche Bank moves to overweight on banks as well and asks the question whether it can work to be positioned in both of these heavyweight sectors. The answer is, yes, as it is not all that rare for both sectors to outperform and valuations are low versus the industrials.

The broker has cut back exposure to yield stocks as they have been in a holding pattern in recent months and now look vulnerable with Fed rate hikes finally on the way. Meanwhile, value stocks are attractive, with financials in this bracket.

Domestic conditions appear soft as, while nominal GDP growth is back to average, it is lacklustre relative to the move in commodity prices. The broker observes miners are not sharing the gains around, with revenues being up but expenditure on capital investment and other costs at a decade low. Meanwhile, the consumers spending impulse has softened. The housing cycle is still rolling on and this should benefit select stocks.

## China

Returning from China, Macquarie suggests further price gains for most bulk commodities are very unlikely. Demand conditions have been slightly disappointing post the Chinese New Year, although most observers maintain constructive expectations. Near-term demand weakness is being blamed on the central government meeting and ongoing environmental controls that are affecting many industries. Hence, many are hoping for an improvement in the second quarter via the usual seasonal trends.

In terms of macro demand, concerns over inflationary pressures appear to have eased and the economy is expected to be well supported by infrastructure spending ahead of the political reshuffle in October. Property sales are strong and the measures to cool the property market appears of affected only the most overheated tier 1 and tier 2 cities.

Downstream sectors such as automobile manufacturers expect sales to rise 5% this year, down from more than 13% growth in 2016, of which new-energy car sales are expected to increase to 800,000 units from 500,000 units last year.

Copper demand appears positive as cable manufacturers are buoyant, driven in particular by the demand for property. Nevertheless, on the supply side copper is plentiful and the physical market indicators imply the market is not tight. Macquarie believes Chinese copper supply is likely to be sufficient to meet demand.

The broker found aluminium interesting, with regard to ongoing uncertainty about proposals to cut smelter output in 28 northern cities over the winter to control pollution. Aluminium consultants estimate the lost primary aluminium output may only be around 1.1m tonnes and at least half of this could be made up by building up inventories ahead of closures, or smelters elsewhere increasing output.

Macquarie observes, in actual fact, aluminium ingot inventory has risen quickly in China, reaching more than 1m tonnes in March.

## East Coast Gas

Solutions to Australia's east coast gas shortage, which has reared into the spotlight recently, could take several paths, Credit Suisse contends. Third-party gas going through Curtis Island, largely from GLNG, could be diverted to the domestic market where needed. LNG could also be imported, or the government could do nothing and watch manufacturing in Australia rapidly disappear (an issue which the broker does not wish to contemplate).

The fourth path, the broker considers, is whether a national oil company, such as Kumul Petroleum in PNG, would work. Here the national oil and gas company participates in the project itself in the absence of a super profits tax. Instead of Australia's PRRT (petroleum resource rent tax) on future projects, could there be some form of state participation?

In a perfect model the fiscal take is exactly the same, but state participation has a number of benefits for the challenges faced today. These include internal rates of return being higher because of a lower tax take, and therefore easier to get by board rooms.

The government entity would also be able to have its equity entitlement of gas, effectively reserving if needed without mandating a reservation policy. Another supportive factor is that private sector funding requirements would be lower, potentially involving the government's ability to obtain concessional financing for key projects.

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## New Website: How Do I Find Stuff?

The launch of the new website is still generating positive feedback with many subscribers, new and old, reporting they very much enjoy the new features and improved lay-out.

Alas, not everybody has sufficient time and energy to explore the many new options, add-ons and tools. To assist them, and everybody else, with maximising their benefits from accessing the new website, FNArena will publish a weekly series aimed at highlighting new and valuable features.

This week we'll zoom in on the improved method to navigate the website.

It has been a constant feature since FNArena launched the new website in February: where can I find this? I don't know how I can find that? Subscribers relying on old reflexes to find their favourite tools and applications, can sometimes feel a bit off when dealing with the new and improved FNArena.

And yet, we feel we made life a lot simpler and easier. Underneath the company logo and the large banner advertisement near the top of the front page runs a grey-ish horizontal bar with three key items on it: the home symbol, followed by FINANCIAL NEWS and DATA & ANALYSIS.

Both FINANCIAL NEWS and DATA & ANALYSIS open up a drop down menu where subscribers and other users can find most of what they could possibly be looking for, including The Australian Broker Call Report, Calendar, All-Weather Performers, Stock Analysis, Rudi's Views and Special Reports.

Many of these also feature on the front page, when scrolling down, but it's probably best to concentrate on these two central drop down menus as the focal starting point from which to find other sections on the website. We have no doubt subscribers will navigate much faster and easier, once they incorporate the new system in their daily habits. They stand to discover a lot of extra items as well, making their personal experience much fuller and richer.

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## JV Paves Upside For Gold Road Resources

Western Australian junior Gold Road Resources has secured a well-funded JV on its Gruyere project and several brokers highlight the upside.

-Funding, development and execution risks largely mitigated -Stock could be substantially under-priced  
-Significant prospects in other areas of the Yamarna belt

By Eva Brocklehurst

Junior explorer Gold Road Resources ((GOR)) posted an envious first half report, featuring strong headline net profit and cash in the bank. The financial results reflect the sale of 50% of the company's Gruyere gold mine to Gold Fields, to develop the 6.2m ounces deposit under a joint venture.

The deal has significantly de-risked the project, Canaccord Genuity asserts, enabling Gold Road to return to its core competencies in exploration and project evaluation. The broker observes the share price has drifted around 27% lower since the deal was announced and now presents a value proposition.

Gold Road also joins Overweight-rated gold miners in Morgan Stanley's coverage. The broker believes delivery on Gruyere and further exploration potential are both capable of lifting the equity price. Encouragingly, there is plenty of funding for the Gruyere mine.

### Unique Position

Canaccord Genuity believes the company's position in the ASX gold sector is unique as its funding, development and execution risks are largely mitigated, while it has a sizeable production profile, long mine life and prospective tenements. The broker, not one of the eight monitored daily on the FNArena database, reiterates a Speculative Buy call and \$0.80 target.

After Gruyere capital expenditure, Gold Road should have more than \$150m in net cash. Its share of Gruyere cash flow is around \$420m, Morgan Stanley calculates, and just \$75m is attributed to the additional resource and exploration potential. This underpins the broker's positive view, as it focuses on the valuation uplift when the project comes into production in 2018.

The emphasis now is on execution, with bulk earthworks and processing plant construction beginning this year. Morgan Stanley will be on the look out for delays and revisions to capital expenditure, but notes these factors have less effect than gold prices and/or production and operating costs.

Gold Road's projected all-in sustainable costs (AISC) of \$945/oz, and based on the 13-year life of mine used in the feasibility study, should result in strong cash flow and margins, the broker believes. Morgan Stanley's cash-flow conclusion is based on a gold price forecast of US\$1220-1250/oz over the next five years.

The broker finds a good argument that the equity is under-priced by around 35% and, if the cash is incorporated at face value, then the Gruyere project is only being priced at half what the JV partner paid for its stake.

Applying a risk factor, as the project is still to be constructed and commissioned, suggest that the equity is 25% under priced. On further analysis, using spot prices instead of Morgan Stanley's forecast gold prices, the mispricing is still substantial, at 14%. The broker has a \$0.70 target.

### Yamarna Belt

The company has retained full interest in the majority of its North Yamarna tenements and is undertaking an ambitious exploration program. The Yamarna belt has been under explored relative to other Archean gold belts in Western Australia.

The company offers exposure to a fully funded 250,000-plus ozs per annum gold mine in Gruyere and its valuation implies no value to these other large tenements with multiple targets. Canaccord Genuity believes, given its prospectivity, that Gold Road's return to original exploration program could pay further dividends.

Sizeable shallow discoveries are possible, evident from the discovery of the Gruyere deposit. In November 2016 Gold Road sold the 50% to South African miner Gold Fields for \$350m. This price, in the broker's view, more than



covers Gold Road's share of capital expenditure, allowing it to remain debt free and fund further exploration.

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## ASX200: Cautious Week

By Craig Parker, asset manager, Moat Capital

All eyes on the 5800 level! Can we break the 5800-level next week which would send us towards the 6000 mark? Naturally a lot will depend on Janet Yellen and Fed policy. It remains to be seen whether the S&P 500 will take the news well or embrace the opportunity to have a break from the upward momentum since November last year. If so then our market could again see resistance at the 5800 level and possibly move back towards the 5600 level. Currently we are trading water with a sideways week albeit with a positive finish to the week today. The S&P 500 is currently sitting on a medium-term uptrend line and a break down through this line would mean an approximate 5% move down before any further support levels are reached. An index to watch if you are a Dow Theorist is the Dow Jones Transportation Index which you can see below has turned down with very clear bearish divergence. It will be interesting to see if the Dow Jones does the same and then the flow on effect to our market.

Closer to home I am watching the Shanghai Composite which is approaching some medium-term uptrend lines and as mentioned a couple of weeks ago, Iron Ore (which was illustrating bearish divergence on the RSI) could come back to around the 80 mark where this level could possibly provide some support for the materials sector and possibly the S&P/ASX 200. The 80 mark is a critical technical level as any break would see Iron Ore support levels around the 60 to 65 mark. Our financial sector which has been driving most of the upward momentum is nearing some resistance and has bearish divergence on the RSI. Something to keep an eye on. Looks like we are setting up for a possibly cautious week ahead.

ASX200 daily

S&P500 daily

Dow Jones Transportation Index weekly

Shanghai Composite weekly

Iron Ore weekly

ASX200 Financials ex-REITs weekly

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## The Bubble Is (Finally) Ready To Burst

The Bubble Is (Finally) Ready To Burst

By Rudi Filapek-Vandyck, Editor FNArena

In this week's Weekly Insights:

-Resources: Focus On Support -Conviction Calls: Morningstar, Wilsons and Credit Suisse -The Bubble Is (Finally) Ready To Burst -New Website: How Do I Find Stuff? -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Resources: Focus On Support

One of the "disadvantages", so to speak, of a strong bull market rally is that share prices can open up a sizeable gap with the 200 day moving average. This means that when profit taking takes over, and the market is looking for technical support at the 200 MA, share prices can pull back a lot. After a solid month of weakness, miners' share prices are still not enjoying solid buying support because that gap still hasn't closed.

Easy to say these things in hindsight, of course.

A simple observation: BHP Billiton ((BHP)) shares are now down -15% since late January, descending from \$28 to below \$24 in the process, and they still have a way to go before touching upon the 200 MA, currently running below \$23. The good news is, of course, that elusive 200 MA is approaching, finally.

Sector analysts had been calling for a pullback since late last year, since virtually nobody believes US\$95/tonne for high quality iron ore is sustainable, not even the most bullish producers, such as Fortescue ((FMG)), but markets had simply refused to pay attention. Now that markets are paying attention, general focus has shifted to how low before we can resume the uptrend?

CLSA analyst Laurence Balanco seems to have adopted the view that what started with bulk commodities iron ore and thermal coal first, is morphing into a general profit taking exercise for industrial minerals and metals. He singles out copper, zinc and aluminium as the next candidates for sizeable pullbacks.

As such, I note South32 ((S32)) shares have dropped from \$3 to below \$2.60 (-13.5%) with the 200 MA below \$2.40 (suggesting -7.70% more downside). Alumina Ltd ((AWC)) shares have deflated from \$2.04 to \$1.84 (-10%) with the 200 MA currently around \$1.60 (suggesting potential -15% further downside). Whitehaven Coal ((WHC)) shares lost -16% since November 8 in what has been a gradual, prolonged downtrend. The 200 MA sits at \$2.40, suggesting -10% more downside, potentially.

The underlying message here is nobody believes this is the end of the bull market for commodities producers, underlying earnings forecasts remain in a firm uptrend, but right now market confidence seems fragile, and share prices remain vulnerable to more downside. Assuming this is a genuine bull market for commodities, those 200 MAs should hold.

For those waiting on the sidelines, it's called a healthy correction. For those sitting on falling share prices, the key term is "test of faith".

Conviction Calls: Morningstar, Wilsons and Credit Suisse

Perennial market disappointment iSentia ((ISD)) continues to fall out of favour post its shock profit warning in February. Analysts at Huntleys, erm, I mean Morningstar, have decided the company is no longer of sufficient quality to be included in their Conviction Calls, otherwise known as Morningstar's Best Stock Ideas. In its place comes Santos ((STO)).

With balance sheet risk reduced, and a potential 40% upside in the share price, the analysts believe free cash flow is poised to reach \$1bn by end-2021. That'll be the end of the Santos debt story, by then.

Other names on the Best Stock Ideas list are DuluxGroup ((DLX)), Folkestone Education Trust ((FLK)), Platinum Asset Management ((PTM)), Ramsay Health Care ((RHC)), ResMed ((RMD)), Sonic Healthcare ((SHL)) and Vocus Group ((VOC)).

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The good folk at Wilsons Advisory and Stockbroking also released their Conviction Calls. Since Wilsons is widely recognised as a trusted expert in small cap industrials, and many in that segment have seen their share price drop significantly since August last year, one would think Wilsons' favourites attract extra attention.

The list contains twelve names: EML Payments ((EML)), Afterpay ((AFY)), TechnologyOne ((TNE)), Rural Funds Group ((RFF)), Collins Foods ((CFK)), ImpediMed ((IPD)), Nanosonics ((NAN)), SomnoMed ((SOM)), Class ((CL1)), SeaLink Travel ((SLK)), Whitehaven Coal ((WHC)) and Independence Group ((IGO)).

Believe it or not, but only ImpediMed and Class on that list have generated a negative return over the twelve months past (-18% and -9% respectively). Medical instruments manufacturer ImpediMed offers the most upside potential on Wilsons' assessment (+262%) - with the emphasis on "potential".

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Over at Credit Suisse, analyst Adnan Kucukalic runs a medley of both long and short Conviction Ideas, otherwise known as Australia Top Picks, otherwise known as Credit Suisse Top Investment Ideas.

Kucukalic has two key suggestions to go short (meaning: he's negative on the share price outlook): Brambles ((BXB)) and Sydney Airport ((SYD)).

Otherwise the list contains 18 "long" ideas; Ardent Leisure ((AAD)), AGL Energy ((AGL)), APN News & Media ((APN)), Boral ((BLD)), Challenger ((CGF)), Caltex ((CTX)), CYBG Ltd ((CYB)), Fairfax Media ((FXJ)), iSelect ((ISU)), Lend Lease ((LLC)), National Australia Bank ((NAB)), Nine Entertainment ((NEC)), Qantas ((QAN)), Rio Tinto ((RIO)), Speedcast International ((SDA)), The Star Entertainment Group ((SGR)), Transurban ((TCL)) and WPP AUNZ ((WPP)).

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Readers note: last week's Weekly Insights contained Conviction Stock Picks by CLSA and stockbroker Morgans (see your inbox or Rudi's Views on the new website).

### The Bubble Is (Finally) Ready To Burst

Does every bubble ultimately burst?

The question was asked by managing director Robert Mellor at the semi-annual Business Forecasting Conference from the company formerly known as Bis Shrapnel. Having recently agreed to become part of the international network of Oxford Economics, last week's Conference in Sydney was officially organised by the newly (e)merged Bis Oxford Economics.

In good tradition of internal debate, opinions are divided at Bis Oxford Economics. Mellor, himself a long standing believer in higher for longer house prices in Australia's major cities, has now switched to the dark side, but only in a gentle manner.

So is Australia finally ready to see the housing bubble burst?

Depends on one's definition, it appears. Mellor is ready to accept Australia is over-building, in particular in so-called High Density Dwellings (that's apartments to you and me). On Bis Oxford's projections, just about every major market in Australia will be over-supplied from mid-year onwards, except Sydney. Australia's premier city is still catching up on the massive deficiency created when Bob Car ruled over Martin Place and Circular Quay. It's going to take a few years still before Sydney can join the others, assuming today's projections prove accurate.

The impact of seeing Brisbane, Melbourne, Canberra and elsewhere offering up more accommodation than is required to satisfy natural demand locally is likely going to impact on prices, future building activity and domestic economic growth. But Mellor is not anticipating any major disaster scenarios. Which is why he asked the question whether every bubble ultimately has to burst?

Single digit percentage declines in prices, on average, and building activity levels partially being compensated through an up-tick in infrastructure construction and in maintenance of bulk commodities operations, should ensure the Australian economy is not heading for a downturn a la Spain or the USA less than ten years ago.

Although there will be pockets where investors might lose -15-20% on, say, off-the-plan purchases in the wrong place at the wrong time. It is Bis Oxford's observation such price falls have already occurred in WA on the back of the mining downturn, and despite historically low interest rates.

Clearly, it wasn't enough to elevate One Nation to be the winner of last weekend's state election, but what about the Coalition's landslide loss to a resurgent Labor?

Mellor's somewhat soothing predictions, backed by Chief Economist Frank Gelber, stood somewhat in contrast with the observations made by Kim Hawtrey, responsible for data gathering and prognostications regarding building activity throughout Australia. On Hawtrey's observation, Australian builders are now staring at the longest and biggest upswing ("bubble") in building activity in Australia - ever.

And the only way from here onwards is down, down, down.

For good measure: Hawtrey wasn't predicting Armageddon lies ahead, but he did seem a little less sanguine, openly asking the question what should be expected in terms of downturn given the preceding build-up has been unprecedented and out-of-proportion with the past?

I was promised a copy of Hawtrey's chart and two accompanying tables, showing just much this upswing has been out of sorts with the past, but the man in charge quickly abandoned his promise when other news services jumped on the occasion with titles such as "Historic boom will mean a historic reversal".

Clearly, Bis Oxford doesn't want to be seen as the messenger of doom and gloom for Australia. Those scary looking charts and tables would only do more damage to the central narrative.

That narrative remains that house prices, and building activity, are now peaking and the next phase will be a downturn, likely of relatively benign character overall, and concentrated in high density dwellings/apartments.

Whatever will unfold exactly, and how, is something we shall all be witnessing and observing from the second half of this year onwards. Only a few more months to go...

Note that banking analysts at Citi just released dedicated research on this matter and their prediction too is any damage to major banks shall remain limited, because the banks have been preparing, and because no GFC-style collapse is being considered.

New Website: How Do I Find Stuff?

The launch of the new website is still generating positive feedback with many subscribers, new and old, reporting they very much enjoy the new features and improved lay-out.

Alas, not everybody has sufficient time and energy to explore the many new options, add-ons and tools. To assist them, and everybody else, with maximising their benefits from accessing the new website, FNArena will publish a weekly series aimed at highlighting new and valuable features.

This week we'll zoom in on the improved method to navigate the website.

It has been a constant feature since FNArena launched the new website in February: where can I find this? I don't know how I can find that? Subscribers relying on old reflexes to find their favourite tools and applications, can sometimes feel a bit off when dealing with the new and improved FNArena.

And yet, we feel we made life a lot simpler and easier. Underneath the company logo and the large banner advertisement near the top of the front page runs a grey-ish horizontal bar with three key items on it: the home symbol, followed by FINANCIAL NEWS and DATA & ANALYSIS.

Both FINANCIAL NEWS and DATA & ANALYSIS open up a drop down menu where subscribers and other users can find most of what they could possibly be looking for, including The Australian Broker Call Report, Calendar, All-Weather Performers, Stock Analysis, Rudi's Views and Special Reports.

Many of these also feature on the front page, when scrolling down, but it's probably best to concentrate on these two central drop down menus as the focal starting point from which to find other sections on the website. We have no doubt subscribers will navigate much faster and easier, once they incorporate the new system in their daily habits. They stand to discover a lot of extra items as well, making their personal experience much fuller and richer.

2016 - L'Année Extraordinaire

It was quite the exceptional year, 2016, and I did grab the opportunity to write down my observations and offer investors today the opportunity to look back, relive the moments and draw some hard conclusions about investing in the world today.

If you are a paid subscriber to FNArena, and you still haven't downloaded your copy, all you have to do is visit the

website, look up "Special Reports" and download your very own copy of "Who's Afraid Of The Big Bad Bear. Chronicles of 2016, A Veritable Year Extraordinaire" (in PDF).

For all others who still haven't been convinced, eBook copies are for sale on Amazon and many other online channels. You'll have to visit a foreign Amazon website to also find the print book version.

#### 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](mailto:info@fnarena.com)

#### Rudi On TV

This week my appearances on the Sky Business channel are scheduled as follows:

-Tuesday around 11.15am, Skype-link to discuss broker calls -Thursday, 12.30-2.30pm, co-host in the studio  
-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](http://www.australianshareholders.com.au/conference-2017)

Speaker information - [www.australianshareholders.com.au/speakers](http://www.australianshareholders.com.au/speakers)

Program information - [www.australianshareholders.com.au/program](http://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 13th March 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](mailto:info@fnarena.com) or via the direct messaging system on the website).

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- 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](http://www.fnarena.com/index2.cfm?type=dsp_signup)

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