Week
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Stories To Read From FNArena
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FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Depth Products Deliver Strong Outlook For REA

Brokers retain a positive outlook for REA Group's core online real estate classifieds in Australia and believe the offshore business will take a little time.

-Growth in depth listings should maintain revenue growth despite falling volumes -Tougher macro background in Asian developer business along with ongoing investment -Softer market for large apartment block developments

By Eva Brocklehurst

Online real estate business REA Group ((REA)) scored a solid first half result on broker cards, underpinned by its core Australian business. Momentum is expected to pick up in the second half.

Australian revenue was up 11.8%, despite lower listing volumes nationally. Listing depth revenues grew 16%, from price increases that were effective from July.

After adjusting for the divestments of Europe and inclusion of North American associate losses, net profit was below Credit Suisse forecasts. Normalised net profit growth of 5.6% was affected by the dilution from the iProperty acquisition.

The broker does not forecast a major bounce in listings but does expect volume headwinds will ease in the second half. Credit Suisse remains positive on the medium to longer term online property opportunity, driven by price rises and depth penetration.

The main disappointment for brokers was the performance of Asian assets because of a tougher macro background, strong competitive activity and ongoing investment in the business.

Yield Growth

Macquarie expects revenue growth to pick up modestly in the second half. Against this cost growth should moderate. The broker envisages scope for operational earnings (EBITDA) growth to exceed 20% and margins to expand across the year.

Citi also expects continued yield growth in depth listings, which should maintain mid-teens revenue growth in Australia despite volumes falling. The broker notes the company has three yield levers to pull including price, mix and rising penetration rates. Earnings are currently subdued because of low cyclical advertising volumes but there is scope for significant upgrades if the market recovers.

Morgan Stanley is also happy with the first half results in the core Australian business. Moreover, the broker notes listings in January have apparently turned to positive although it is too early to call a recovery. Asian numbers also disappointed Morgan Stanley and the broker expects scrutiny on capital allocation in this region to intensify.

Deutsche Bank concurs that January suggests some growth may be returning to listings and believes the next couple of months will be critical in order to gauge underlying trends. The broker currently expects flat volumes in the second half.

Pricing and the introduction of new products are expected to be key drivers in the shift to depth products and Deutsche Bank expects price increases of 7.5 % will be put in place at the start of FY18.

Asia/US In Slow Lane

Morgans believes the results are stronger than they appear on the surface. This reflects the power of the company's franchise with consumers and real estate agents. The broker acknowledges parts of the business are weak, such as developer display ads and Asia, but these are all dwarfed by the Australian residential strength.

Developer advertising spending was weak because the market for the launch of large apartment blocks has cooled . The company acknowledges the weakness will continue as a glut in apartments unfolds. This affects Asia, with a dearth of new apartment launches in both Hong Kong and Kuala Lumpur.

Morgans observes Asia is stuck in the slow lane but the upside in this is that REA will pay less to buy out the minorities in iProperty next year. The company has booked a $10m gain on deferred consideration.

The main risks to the company's outlook are further steep falls in Australian residential listing volumes, which cause a commensurate fall in depth listings, and the failure of new product initiatives to gain widespread acceptance.

Almost all of Morgans valuation stems from the Australian business, where an opportunity is envisaged for 4-5 more years of strong growth. Should the Asian and/or the US business provide substantial earnings growth over time, the broker acknowledges its current valuation would be too conservative. Still, it remains too early to make a judgement call on offshore business.

The main risk in UBS estimates is with the listing volume outcomes in FY17. That said, the outlook appears brighter to the broker given that both Premiere I and II agents both roll off existing discounts on June 2017. UBS also remains wary of slowing developer growth.

FNArena's database shows six Buy ratings and one Hold (Deutsche Bank). The consensus target is $59.25, suggesting 10.8% upside to the last share price. Targets range from $51 (Deutsche Bank) to $65 (Morgan Stanley).

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Stellar Growth For Blue Sky Alternative

Confidence in the near-term prospects for Blue Sky Alternative Investments is supported by strong growth in institutional clients.

-Targeted assets under management increased to $3.1-3.3bn for FY17 -Despite fee compression, expected to leverage cost base and expand margins -Further strength in the share price expected, although volatility anticipated

By Eva Brocklehurst

Blue Sky Alternative Investments ((BLA)) produced a stellar first half, driven by institutional investment across several classes. Confidence in the near-term growth prospects for growth assets under management (AUM) is supported by existing mandates, with the company offering an attractive proposition for institutional clients.

The business is still relatively immature but Morgans believes, despite this, it is delivering on some ambitious targets. Management/transaction fee growth of 37% lagged growth in average AUM of 57%, probably because institutional fees increased to 37% of the base from 11% in the prior corresponding half.

Management fees also fell versus the second half of FY16, which Morgans believes was mostly driven by the type of deal transacted over the half year. Performance fees were up 13% and the broker estimates $6m in cash was realised from prior performance fees in the half year.

Management has clear visibility on its outlook, based on deal flow and current mandates, and has increased its targeted AUM for FY17 to $3.1-3.3bn. Morgans expects growth in institutional AUM to continue to outpace retail/wholesale growth in the near term. This is leading to further fee compression but the company can leverage its cost base and achieve margin expansion over FY17-19. The broker's price target is $8.50 with an Add rating.

After factoring in a lower revenue margin, option issue and higher costs, Ord Minnett downgrades FY17 and FY18 forecasts for earnings per share by 6% and 7% respectively. The broker upgrades FY19 forecast for AUM to $4.8bn, closer to the company's target of $5bn.

Management Fee Margin May Fall

The broker notes the implied management fee margin for the half year was 23 basis points lower than the prior corresponding half because of higher institutional money in the mix and also because of the recognition of the company's 38% interest in the New York property venture, Cove, for which management fees are not recognised in the accounts.

Ord Minnett concurs that management fee margins may come down as the institutional mix increases but operating leveraged should provide continued profit growth and expansion of the earnings margin. The broker upgrades to Buy from Hold, noting the stock is trading on a price/earnings ratio for FY18, ex cash and investments, of 14.4x and is growing earnings per share by around 40%. The broker's target is $7.87.

Canaccord Genuity believes the company is in a sound position to deliver on FY17 guidance for net profit of $24-26m. The broker takes into account some decline in reported margins but acknowledges higher levels of AUM, which are up $1bn over the past 12 months.

In terms of performance fees, the broker notes these tend to be skewed to the second half, where valuations are more prevalent leading into the end of the financial year and the deal flow is greater. The broker, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $9.45 target.

Despite marginally missing estimates for the half year, Shaw and Partners retains a bullish view. The main aspect for the broker was the upgraded guidance in AUM. Performance fees of $9.3m exceeded the broker's expectations.

Although absolute returns have been down on historical levels, the broker believes investors need to be aware that performance fees are generated on an asset-by-asset basis, which differs with a typical asset management business, which generates fees at the fund level, The broker notes the company invests in a number of income assets with risk/return profiles which are different to that of private equity investments, hence the 10-year track record of 16.4% masks a divergence in the performance of underlying assets.

Long-term performance across the units is still at lofty levels, although private equity returns have been relatively subdued while the private real estate business remains hot. Shaw and Partners believes the current share prices further to run although volatility is anticipated along the way. The broker, not one of the eight monitored on the database, retains a Buy rating and $10 target.

Clouds Gather Over Aurizon

Brokers brushed aside a robust first half result for Aurizon, instead looking at the issues which cloud the outlook beyond FY17.

-No significant impact on volumes despite improvements in coal and iron ore markets -Reduced capital expenditure and re-pricing bulk contracts expected to improve confidence -As additional capital management options are canvassed over time

By Eva Brocklehurst

Bulks and freight haulage business Aurizon ((AZJ)) may have beat many forecasts in its first half result but numerous favourable and non-sustainable items took the gloss off the beat. While there have been improvements across the key commodity markets of coal and iron ore, the company has not yet witnessed a significant impact on volume.

The main benefit of the improved commodity outlook, in Deutsche Bank's view, is that commodity customers are all operating at positive cash margins and this should alleviate some of the pressure. The coal business currently has an average contract life of 10.1 years and new-form contracts account for 96% of volumes.

The network division benefited from higher-than-expected recoveries and around $33m in benefits will not be repeated into the next half. Deutsche Bank forecasts the Aurizon network to deliver operational earnings (EBIT) for FY17 of around $550m but, given the $132m in benefits flowing in that year, FY18 will likely be lower and the broker's current forecast is $505.9m.

At this stage there appears to be some earnings headwinds into FY18 and Deutsche Bank downgrades its recommendation to Hold from Buy, given the shares are now trading at a premium to the broker's $5.10 share price target.

The company remains committed to its transformation program, targeting $380m in savings by FY18. The company has also indicated all investment proposals will be assessed against share buy-backs as a use of capital. Aurizon's network division submitted its draft access undertaking for the regulatory period commencing July 1, 2017, in November (UT5). Further dialogue with the Queensland Competition Authority is expected and a draft response from the regulator is due in the next six months.

Bulk Freight/Intermodal Division Challenged

While the coal division is on track to haul between 200-212m tonnes, the bulk freight/intermodal division remains challenged, brokers believe. The intermodal segment is currently being assessed and a decision on its future structure is expected mid-year.

Macquarie expects the intermodal business, which is losing money, will be sold and this provides an immediate area of leverage in pre-tax profit of around 2%. Bulk freight divisions are more significant, with $400-450m in assets employed. Successful re-pricing and transformation of these should add around $60-70m to pre-tax profit.

Any clarity around a change to fundamental strategy is not expected before mid-year, although the company will act ahead of this and execute on reducing capital expenditure and re-pricing bulk contracts. The broker believes such activity will improve investor confidence around the structural changes. Nevertheless, the fundamental issue remains that the coal boom is over and system volume growth is likely to be only modest going forward.

Macquarie downgrades to Neutral from Outperform, noting the new management team is making changes which are welcome but the fundamentals are challenging given limited revenue growth. Moreover, the current share price more than captures a new management premium and expectations of improvement.

The second phase of the company's freight review, following the first stage of write-downs announced in January, will be unveiled mid-year with decisions expected around intermodal and refining of the bulk business asset values. Macquarie expects further asset write-downs and potentially onerous contract provisions.

Little Room For Upside

UBS downgrades FY18 estimates by -3-4% as revenue one-offs booked in FY17 make for a challenge in following year. The broker acknowledges there is possible upside with the execution of an early exit, or turnaround, in the loss-making freight divisions. Nonetheless, the UT5 regulatory review is unlikely to be completed in time and the broker takes a cautious view on the company's application.

Cash flow is the company's strong point, brokers contend, and long-run capital expenditure guidance continues to decline. UBS forecasts gearing to remain at around 2.0-2.5 times EBITDA and in the absence of asset sales this makes capital management over the near term challenging. Based on the dividend pay-our ratio and free cash flow yield, UBS believes the stock is fully valued at present.

Morgan Stanley also envisages little room for positive revisions to consensus earnings expectations, particularly as UT5 is yet to be fully incorporated into estimates. Nevertheless, with robust cash being generated and further declines in capital expenditure likely, additional capital management options are likely to be considered in time.

In line with the existing conservative gearing policy, the broker suspects at least $400m could be returned to shareholders by FY20. Until the final UT5 outcome is known, Morgan Stanley expects positive news around capital management will support both valuation and sentiment. While constructive on the FY17 outlook, beyond that the broker is cautious as it remains unclear whether the recovery in coal prices will translate into higher above-rail volumes.

Ord Minnett was surprised by the positive reaction in the share price as it considers there were enough one-off items to cast a cloud over the performance. The broker highlights several risks including a possible outcome for UT5 that is 14% below the company's proposal.

Also, pricing pressure evident in iron ore continues to make Ord Minnett wonder about the long-term profitability of the company's two relatively high-cost customers. Finally, the broker worries that the above-rail coal volumes and margins may suffer from increasing competition in the years to come.

FNArena's database shows six Hold ratings and two Sell. The consensus target is $4.75, suggesting 7.9% downside to the last share price. Targets range from $4.20 (Ord Minnett) to $5.10 (Deutsche Bank). The dividend yield on FY17 and FY18 estimates is 5.1% and 5.2% respectively.

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JB Hi-Fi Reliant On Good Guys

Several brokers question whether electronics retailer JB Hi-Fi is too reliant on a smooth integration of The Good Guys in its outlook.

-Near-term outlook supported by strong housing but how long will the tailwind last? -Closure of Dick Smith provided benefits in the first half which will dissipate -Positioned well to compete with any potential offshore entrant

By Eva Brocklehurst

Electronics retailer JB Hi-Fi ((JBH)) posted a strong first half result, but several brokers question whether there is too much reliance on the successful integration of The Good Guys and synergy targets in the outlook.

Like-for-like sales rose 9% in the Australian business, supported by market share gains and margin improvement. The Good Guys, in JB Hi-Fi hands since November, delivered sales growth of 1%, a result lauded by brokers given the disruption from the acquisition and transition. The main disappointment was the New Zealand business, although UBS notes the impact was relatively light.

The broker upgrades forecast by 6-9% for FY17-19 to reflect the results and the industry consolidation. A more rational competitive backdrop is expected, given the closure of Masters and Dick Smith. The broker's forecasts are now in line with revised revenue guidance and slightly ahead of the top end of net profit guidance of $200-206m.

Uncertainty Over The Good Guys

The near-term outlook is supported by tailwinds from housing, market consolidation and potential upside to synergy targets from the integration of The Good Guys. UBS believes earnings risk remains to the upside and reiterates a Buy rating. The main risk on the downside is a sharp correction in housing, an aggressive new entrant in the market such as Amazon, or a hiccup in the integration of The Good Guys.

These are the very uncertainties that Credit Suisse highlights. Concerns centre on the extent to which the closure of Dick Smith provided benefits in the first half, the magnitude and potential longevity of the recent housing tailwind and the profitability of The Good Guys on a sustainable basis. The broker suspects it will take some time to become confident in the earnings trajectory for The Good Guys.

FY17 guidance is for $5.58m in sales, with a strong start observed in the second half, as January like-for-like sales are up 7.2% for JB Hi-Fi and up 3.5% for The Good Guys. Morgans is unconcerned about the integration of The Good Guys, or that like-for-like sales growth may moderate as the demise of Dick Smith is cycled.

Ord Minnett, too, has few qualms. The broker cites upgraded sales guidance and upside risks to FY17 net profit guidance. The acquisition of The Good Guys provides valuation support for the stock and earnings growth is forecast to be strong in the medium term as synergies are realised. Despite execution risks, especially with a significant number of joint-venture partners that are leaving the business, Ord Minnett is confident the transition can be well managed and retains an Accumulate rating.

Morgan Stanley is not so sure that the numbers for The Good Guys add up. Analysis of the metrics on a per-day basis shows costs have likely been pulled forward. JB Hi-Fi has indicated no synergies were booked during the period of ownership and the broker believes this will be an issue in 12-18 months time when this period is lapped.

Valuation Considered Full

The company's sales guidance implies that comparable store sales growth slows to 5.5% on average in the second half and Credit Suisse moderates its growth estimates further, to 2.6% and 2.0% for FY18 and FY19 respectively. Given recent share price appreciation, the broker downgrades to Underperform from Neutral.

Morgans believes the company's low-cost model and the increased power of the combined group positions it well to compete domestically against any potential offshore entrant. Hence, the broker finds nothing to fault in the stock's performance and downgrades to Hold from Add simply on valuation.

Citi suspects growth will be challenging to match in the second half and FY18, as the benefit from Dick Smith fades. The broker suspects the first half was the likely peak in like-for-like sales growth and believes this rate will halve for JB Hi-Fi Australia in the second half, to around 4.4% on its calculations.

The broker also expects the uplift in gross margins will not be repeated in the second half. The lift in gross margin was the largest first half increase since the first half of FY11 and gross margin stands at the highest level since the first half of FY06.

Morgan Stanley is another that believes the stock's valuation is full as margins are approaching the peak of the cycle. The broker compares JB Hi-Fi's operations with world class retailers and believes it will take a long time for this business to be usurped. There is little concern, therefore, about any entry by Amazon into Australia, although the broker acknowledges consumer electronics changes can happen quickly.

Macquarie expects The Good Guys should begin to contribute to the longer term earnings outlook from mid-year and forecasts JB Hi-Fi to deliver three-year compound growth in earnings per share of 11.8% to FY19. Evidence of strong ongoing sales growth has partially dampened concerns about the sustainability of growth as the benefits from Dick Smith are cycled, although the broker accepts this will not be confirmed until the fourth quarter of FY17.

Moreover, comparable store sales growth and growth in January suggest additional sources of growth are there beyond the closure of a competitor. Online sales continue to experience strong growth in the first half, up 40.4% and now represent 3.8% of total sales for JB Hi-Fi Australia. This is up from 3.0% in the first half, Macquarie observes.

FNArena's database shows three Buy ratings, four Hold and one Sell (Credit Suisse). For consensus target is $30.76, suggesting 7.1% upside to the last share price. Targets range from $26.49 (Credit Suisse) to $32.80 (Macquarie). Week what The dividend yield on FY17 and FY18 forecasts is 4.1% and 4.6% respectively.

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Will Challenger Require More Equity?

Wealth manager Challenger's first half results mark a shift to longer duration annuities and brokers mull whether the company requires more equity.

-Reduction in the capital position of the life business considered the main negative -New business strain may require more capital, or more growth assets -Peak passed in maturities, increasing proportion of longer-term annuities

By Eva Brocklehurst

Wealth manager Challenger's ((CGF)) first half result marks a shift to longer duration annuities, supported by the company's new relationship with Mitsui Sumitomo Primary Life to sell Australian dollar-denominated securities in Japan, amid the company's expanding distribution partnerships domestically. Guidance for cash operating earnings (COE) in life has been re-affirmed for FY17 in a range of $620-640m.

Nevertheless, while positive for growth in assets under management, spread margins and profits, this also comes with a capital cost, the size of which is unclear to UBS. The company is expected to maintain its dividend pay-out ratio and this, along with rising asset risk charges, may require future injections of equity to fund growth, constraining value upside.

As a result, UBS maintains a Neutral rating. First half normalised net profit of $197m was 2.7% ahead of the broker's estimates, the beat entirely due to funds management which enjoyed strong flows and a post-Brexit UK revenue rebound.

Concerns Over Capital Intensity

The company's tier one capital ratio fell to 1.02 in the half, close to the 1.0 level UBS envisages as a minimum. At current capital intensity the company requires $225 in CET1 (1.0), and with new business strain from longer-term annuity growth the gap is likely to widen over the next 2-3 years, in the broker's opinion.

Macquarie suggests the company has a number of levers to support growth in its life investment assets, as well as continuing to invest in the funds management division, before the growth rate will require additional equity capital. Furthermore, the broker does not expect the company will push capital to the limit, noting the regulator assesses capital on a medium-term view.

Given a focus on earnings per share and returns, Macquarie expects the company to use at least some of its levers to manage its capital position before adding more equity to support growth beyond 18-24 months.

Unchanged FY17 guidance surprised Ord Minnett, although this probably reflected some modest pressure on margins. The broker also did not expect the sharp deterioration in capital coverage. The growth story in FY18 could offer some reasonable upside, the broker acknowledges, while those worried about risks could point to margin declines and the reduction in capital coverage.

Ord Minnett also recognises Challenger has levers to alleviate any tightness in its capital position but believes spread profits are reasonably volatile and a higher discount rate is needed to reflect the risk, including the risk of forced liquidation in stressed scenarios.

The broker notes new business strain may limit normalised growth to around 7.5% per annum in the absence of external capital funding initiatives. Nevertheless, Ord Minnett's main concern is with valuation, which leads to a Lighten rating. Another potential risk on the horizon is that the Australian government may adversely change the social security effectiveness of annuities for policy holders, as it is currently undertaking a review.

Fully valued?

The noticeably weaker capital metrics took the gloss off an otherwise solid result, in Morgan Stanley's view. The broker believes, with the peak of rising maturities now behind the business and the tenor of new business increasing, Challenger no longer needs "record" sales to drive growth in its book. The stock is not cheap and, while maturities have peaked, Morgan Stanley notes product margins are soft.

Credit Suisse believes margin contraction is overplayed and having absorbed interest-rate reductions, the company is in a good position to address any concerns around margin pressure. The broker also highlights that the company has the ability to fund over 20% growth in its net book in a single year before it would require additional equity.

The first half result confirms the broker's view that volatility in its capital position is not well understood by the market. Because of lumpiness in asset purchases and sales in the company's property asset class, capital intensity can move around from half-year to half-year.

While the capital position appears soft, after the debt raisings - Credit Suisse expects multiple - the issue is expected to be addressed. Credit Suisse is confident earnings growth will come through, noting expectations were high going into the results.

Citi simply considers the stock expensive and retains a Sell rating. While the relationship with Mitsui Sumitomo has started on a strong note, the broker's analysis suggests momentum is slowing elsewhere, although acknowledges this may reflect the company becoming more discerning about where it allocates capital, or it may indicate that capital is now being rationed. Over time Citi believes this should be good for book growth and margins.

Regulatory and industry tailwinds remain positive for the medium to longer term and maturities should also decline in later periods, suggesting to the broker more of the sales growth could turn into earnings growth.

Morgans also likes the story for the longer term and believes an excellent job has been done opening up growth opportunities for the business. Average new annuity tenor improved to 8.7 years, with longer term annuities now representing 31% of total sales compared with the prior corresponding half at just 14%. Nevertheless, as the stock has re-rated strongly over the past 12 months, the broker considers fully valued.

FNArena's database shows two Buy ratings, four Hold and two Sell. The consensus target is $10.69, suggesting -7.0% downside to the last share price. Targets range from $8.75 (Deutsche Bank, yet to update on the result) to $12.34 (Macquarie).

Brokers Not Chicken About Ingham's Outlook

Poultry producer Ingham's posted a robust maiden first half and brokers suspect prospectus forecasts may be beaten.

-Investors should be mindful of the potential drop in volume growth in the second half -Cost reductions to drive earnings growth as revenue slows in the second half -Leading position in a rational Australian industry with high barriers to entry

By Eva Brocklehurst

Strong volumes characterised the maiden first half for chicken producer, Ingham's ((ING)). Brokers suspect, given the split in the first half:second half in the prospectus that the company is on track to exceed FY17 forecasts.

First half operating earnings (EBITDA) of $95.2m were up 9%, and 48% of FY17 prospectus forecasts. Poultry volumes were very strong, increasing 12.9%. Volume growth is expected to moderate in the second half with the cycling of EDLP (every day low prices) initiatives in the major supermarket channels.

Cost Reductions To Drive Earnings Growth

While there is upside to FY17 prospectus estimates of around 2%, Citi advises investors to be mindful of a second half drop-off in volume growth, and the competitive environment in New Zealand. The main drivers of a good second half result, in the broker's view, will be more cost savings and operating leverage from higher volumes.

Citi notes the poultry supply chain is sensitive to changes in demand and the initial spike in pricing in early 2016 produced some pressures that will ease over time. This results in the benefit being delayed to the second half of FY17, While poultry volumes were up 10% excluding ingredients, Citi estimates prices fell -5-7% in Australia.

In New Zealand. on the other hand. while there was a decline in poultry volumes a better sales mix led to pricing growth. Citi believes evidence of a successful lowering of costs is the key driver of the share price.

Earnings are envisaged tracking 4-11% ahead of prospectus forecasts and 2-9% of Morgan Stanley's estimates. The broker also expects cost reductions will drive earnings growth, as revenue growth slows in the second half. Management expects Australian volumes will be in line with prospectus forecasts, which implies growth will slow in the second half to zero from 15% in the first half.

Macquarie believes the company is well on the way to achieving, if not modestly exceeding, prospectus forecasts. Valuation is undemanding and the broker expects confirmation of the sustainability of margin improvements will provide a catalyst for the stock to re-rate. Australian earnings margins increased 50 basis points to 7.4% in the half.

Macquarie notes the company also appears to have managed the fall-out from strong demand in key lines. The company is reported to be still in negotiations with one key QSR (quick service restaurant) customer. Industry feedback suggests this is McDonald's. The outcome of negotiations are not expected to impact the second half but Macquarie expects it might impact FY18.

NZ Conditions Remain Tough

Macquarie also believes the challenging conditions in New Zealand will remain a drag on the second half. Nevertheless delivery on prospectus forecasts is not predicated on a material turnaround in NZ operations.

UBS notes market concerns around the risk of rising imports for New Zealand were somewhat alleviated, as exports to Australia were down year-on-year. The broker likes the stock as the company has a leading market position in a rational industry that has high barriers to entry and attractive returns. There is margin upside as well. The broker believes the current share price is undervaluing the medium-term earnings opportunity.

Credit Suisse notes the competitive dynamics are very different between Australia and New Zealand. Oversupply is the main problem in New Zealand, while Australia is a more meaningful business because of its larger size and being the major beneficiary of the company's efficiency programs. The company's major competitor is also following a similar strategic path, such as increasing automation and focusing production on certain states while rationalising it in others.

The strong result has increased the broker's conviction that surprises could be on the upside. Results also affirmed the broker's view of the longevity of earnings growth beyond FY17. Although mindful of the supply chain challenges and some increasing seasonality, Credit Suisse suspects there is enough benefit from the higher volume base and efficiencies to enable FY17 prospectus forecasts to be beaten.

While the broker suspects some may view comments such as "Australian volume growth is expected to moderate" somewhat negatively, this comment needs to be taken in context of the strong first half. There are some reasons for caution but Credit Suisse believes there are enough drivers of growth to mitigate concerns.

FNArena's database shows five Buy ratings and one Hold (Morgan Stanley). The consensus target is $3.72, suggesting 12.3% upside to the last share price. Targets range from $3.40 (Morgan Stanley) to $4.00 (Morgans, yet to update on the results). The dividend yield on FY17 and FY18 forecasts is 4.0 % and 6.0% respectively.

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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 February 6 to Friday February 10, 2017 Total Upgrades: 9 Total Downgrades: 15 Net Ratings Breakdown: Buy 43.58%; Hold 42.40%; Sell 14.02%

For the week ending Friday, 10th February 2017, FNArena registered more downgrades in stockbroker ratings for individual ASX-listed stocks and this should not surprise. The share market is in rally mode and share prices seem solidly in an up-trend. FNArena registered 15 downgrades and nine upgrades.

The numbers seem artificially biased, a little bit, because only one company (Premier Investments) received more than one upgrade, while Regis Resources and Royal Wolf Holdings attracted two and three downgrades during the week respectively.

Others receiving upgrades include a2 Milk, Sims Metal and Independence Group while AMP, Bank of Queensland, OceanaGold and Transurban received downgrades.

Cimic Group tops the week's table for receiving upgrades to price targets with a consensus gain of no less than 42% post a rather divisive profit report. Alumina Ltd, AMP, CSR, Kathmandu and Shopping Centres Australasia all enjoyed at least 3% increases to their consensus target.

Negative adjustments to price targets were far more benign. Seven West Media tops the week's table with a -3.80% change, followed by Tabcorp and AWE Ltd.

The earnings estimates table quickly fired up as earnings reports hit pc terminals and iPads. Orocobre tops the week's table, folled by AMP, Rio Tinto, AWE Ltd and Cimic Group. Downward adjustments to forecasts were prevalent for Alacer Gold, Royal Wolf Holdings, Iluka Resources, Virgin Australia and Transurban.

The local reporting season steps up a notch this week.

Upgrade

THE A2 MILK COMPANY LIMITED ((A2M)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/1/1

The latest survey of pregnant women in China conducted by UBS has found being a premium and trusted brand remains of importance, but this year has seen a big increase in the importance of being sourced from a trusted country, especially online.

New Zealand clearly gets a nod given A2 is rising rapidly up the charts on brand awareness and performance. A2 now rates sixth on "bought most often" and the broker sees this as highly encouraging as the company rolls out physical stores.

Encouraging enough to upgrade to Buy, despite the obvious regulatory risks in China. Target is raised to NZ$2.75 from NZ$2.38.

ARB CORPORATION LIMITED ((ARB)) Upgrade to Neutral from Sell by Citi .B/H/S: 0/3/0

Citi had earlier slapped a Sell rating on the stock as it was deemed well overcooked, but now the share price has fallen -16% since the start of the year, the analysts think it's time to upgrade to Neutral.

Ahead of the upcoming interim report, forecasts have been left largely unchanged.

ALUMINA LIMITED ((AWC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/4

Improved disclosure from Alcoa has translated to upgrades to Macquarie's earnings and dividend expectations.

Potential supply-side restrictions in Chinese alumina later this year have increased the risk that Macquarie's above-consensus call on alumina pricing in 2017 could extend beyond this year.

AWAC's emerging bauxite export business also presents upside risk to the base case forecasts. Rating is upgraded to Outperform from Neutral. Target rises to $2.30.

CIMIC GROUP LIMITED ((CIM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/0/3

2016 net profit was above Macquarie's estimates and at the top end of guidance. FY17 net profit guidance is 14% ahead of the broker's previous estimates, at $640-700m.

The broker notes the company has now hit the upper end of guidance in each of the last two years, which provides a template for 2017. The project pipeline is robust with $100bn in relevant projects coming on stream in 2017.

The broker upgrades to Outperform from Neutral and raises the target to $42.50 from $35.02. 2017 and 2018 earnings per share estimates are upgraded by 17% and 15% respectively.

INDEPENDENCE GROUP NL ((IGO)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 1/4/1

In the swings and roundabouts of global nickel export bans, the Philippines has shut down various mines for environmental reasons including 16 nickel mines to be closed and two to be suspended, given six months to improve. The move means Credit Suisse has restored its assumption of the nickel market reaching supply-demand balance by December.

The broker had already assumed such a balance before Indonesia lifted its exports bans, so the Philippines has provided the offset. The result is an increase in Credit Suisse's target for Independence to $4.40 from $4.00. Given the stock had been sold down heavily on the prior Indonesian news, the broker upgrades to Outperform.

OIL SEARCH LIMITED ((OSH)) Upgrade to Outperform from Underperform by Credit Suisse .B/H/S: 5/3/0

Oil Search now appears to Credit Suisse to be the best play on oil and the stock is upgraded to Outperform from Underperform. When growth matters in the sector again, the broker believes this is a stock that potentially has value upside.

The broker believes a trading opportunity exists on the potential for reserves to be upgraded with the results. The broker cautions that the upgrade in recommendation should not be mistaken for a belief that 2017 will be plain sailing for the company.

Target is raised to $7.25 from $5.90.

PREMIER INVESTMENTS LIMITED ((PMV)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Buy from Neutral by UBS .B/H/S: 2/4/0

The company has released unaudited results for its retail business following speculation the first half was weak. The first half is not as bad as feared, in Macquarie's view, with the headline numbers largely in line.

The broker had previously believed there was downside risk to forecasts, as the company was cycling a strong previous corresponding half as well as currency headwinds, and there has been mixed feedback regarding the apparel sector over Christmas.

With the perceived earnings risk subsiding, the broker takes the opportunity to upgrade to Outperform from Neutral. Target is raised to $16.84 from $16.43.

Pre-announced first half numbers from Premier show sales in line with UBS' expectation and earnings exceeding. The broker had previously warned of downside risk from lagged A$ hedges.

With the result offering relief, investors can now focus on gross margin improvement and the Smiggle rollout, UBS suggests. Aside from more stores, Smiggle is looking at new geographies as well. With Premier now out of danger, the broker upgrades to Buy.

Target rises to $16.85 from $16.60.

SIMS METAL MANAGEMENT LIMITED ((SGM)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/2/2

Increased confidence about the potential for a positive surprise at the upcoming interim report release has triggered an upgrade to Buy from Neutral at Citi. The analysts mention increased confidence around the company's near term volume outlook.

Citi analysts are currently positioned 10% ahead of consensus for FY17 EBIT forecast. Target remains $13.70.

Downgrade

AMP LIMITED ((AMP)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/4/0

Citi analysts had been praying for the absence of any further negative surprises beforehand, and they got what they were hoping for, but still the decision was made to downgrade to Neutral from Buy.

Citi now thinks significant headwinds for the company's Wealth Management business will weigh on the share price. They see no real value and prefer QBE Insurance ((QBE)) in the sector instead. Target $5.60.

AWE LIMITED ((AWE)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/2/3

Macquarie has reduced its oil and gas price forecasts with tighter balances in 2017 anticipated to cause a return to market surpluses in 2018 and 2019.

AWE Ltd is the sole stock to receive a downgrade in Australia on the back of the move. Rating reduced to Underperform from Neutral. Target drops to 55c from 60c supported by some hefty reductions to forecasts.

BANK OF QUEENSLAND LIMITED ((BOQ)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 1/6/1

Despite being the preferred regional bank, with sound credit quality, strong capital and dividend yield, Morgan Stanley downgrades to Equal-weight from Overweight. Home loan growth is shrinking and deposit margins are still under pressure, the broker observes.

The broker now forecasts cash earnings per share to fall -3% in FY17. The combination of downgrades to earnings per share and reduced likelihood of a bull case outcome reduces the broker's price target to $11 from $12.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 6/1/0

The Australian mining sector continues to make improvements in costs, with 75% of companies beating Deutsche Bank's cost estimates the December quarter. The gold sector led the way.

The broker's preference remains with the gold sector and Evolution Mining is downgraded to Hold from Buy on valuation. Target is $2.40.

GRAINCORP LIMITED ((GNC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/4/0

Credit Suisse has updated forecasts to reflect Graincorp's divestment of Allied Mills. The broker believes there is little point in owning a downstream flour mill business within an increasingly competitive domestic grain market and sees no downside to the divestment.

Rather, a sound financial return has resulted allowing for greater balance sheet flexibility. Target rises to $9.87 from $9.58. The stock has nevertheless had a solid run on increasingly positive crop reports, and as such Credit Suisse pulls back to Neutral.

NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 1/3/1

Deutsche Bank expects the weakness in the TV market in the second half of FY16 has continued into the first half of FY17.

Discussions with advertisers and media buyers suggest no immediate improvement should be expected and the broker lowers its forecast for the metro TV market to a -2.5% decline for FY17.

With the stock trading close to the revised price target, Deutsche Bank downgrades to Hold from Buy. Target falls to $1.10 from $1.35.

OCEANAGOLD CORPORATION ((OGC)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 3/1/1

The Australian mining sector continues to make improvements in costs, with 75% of companies beating Deutsche Bank's cost estimates the December quarter. The gold sector led the way.

The broker's preference remains with the gold sector and OceanaGold is downgraded to Hold from Buy on valuation. Targets slips to $4.10 from $4.20.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Sell from Hold by Deutsche Bank and Downgrade to Neutral from Buy by UBS .B/H/S: 2/5/1

The Australian mining sector continues to make improvements in costs, with 75% of companies beating Deutsche Bank's cost estimates the December quarter. The gold sector led the way.

The broker's preference remains with the gold sector and Regis Resources is downgraded to Sell from Hold on valuation. Target is $2.80.

A general sector update on base metals and gold has triggered changes to valuations and forecasts across the spectrum. UBS sides with the gold bulls, anticipating US$1300/oz in 2017.

Only one stock has received a downgrade in recommendation, and it is Regis Resources. Downgrade to Neutral from Buy. Price target lifts to $3.44 from $3.08.

ROYAL WOLF HOLDINGS LIMITED ((RWH)) Downgrade to Hold from Buy by Deutsche Bank and Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/3/0

First half results highlight an ongoing tough operational environment. Deutsche Bank notes, while the company has increased its share of the construction sector, the resources sector decline has largely offset it.

Additionally, there is increased competition in the container sales business, resulting in reduced volumes.

The broker reduces the target to $1.45 from $1.70 and downgrades the rating to Hold from Buy, as the stock is trading close to valuation.

The first half result slightly beat Credit Suisse estimates. The broker continues to believe the company is close to a trough in earnings but there are timing risks and growth appears hard to find in many areas.

Following the share price appreciation since the FY16 result and negative revisions to earnings per share, the broker believes the valuation is fair at this juncture and downgrades to Neutral from Outperform. Target is raised to $1.45 from $1.40.

Royal Wolf's result was slightly ahead of expectation thanks to a one-off payment from Titan. Growth in leasing revenues was a positive, Macquaire notes, offset by limited progress in disposing of surplus camp assets.

The market remains challenging, hence asset disposal is required to accelerate profit growth and timing here is uncertain, Macquarie suggests. Target rises to $1.45 from $1.40 but as the share price is closing in, rating downgraded to Neutral.

SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP ((SCP)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/2/4

The first half result signalled an unexpected slowdown in specialty store sales growth relative to the company's strong performance over the last few years, Ord Minnett observes.

The broker is not sure whether this is because of a slower sales environment in the business geographies or a maturing of the relatively young portfolio.

As the broker awaits further clarity on the drivers of this slowdown, the rating is downgraded to Hold from Accumulate. Target falls to $2.30 from $2.36.

SEVEN WEST MEDIA LIMITED ((SWM)) Downgrade to Sell from Hold by Deutsche Bank .B/H/S: 0/3/2

Deutsche Bank believes weakness in the TV market has continued into the first half of FY17 and discussions with advertisers and media buyers suggest no immediate improvement.

The broker lowers its forecast for the metro TV market to a decline of -2.5% in FY17.

With the stock trading ahead of the broker's updated valuation it is downgraded to Sell from Hold. Target falls to $0.70 from $0.85.

TRANSURBAN GROUP ((TCL)) Downgrade to Hold from Add by Morgans .B/H/S: 4/3/0

Stockbroker Morgans has downgraded to Hold from Add while revising its price target downwards to $11.16. The result beat expectations, but it's the subsequent rally in the share price that is responsible for the downgrade.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ALUMINA LIMITED Buy Neutral Macquarie 2 ARB CORPORATION LIMITED Neutral Sell Citi 3 CIMIC GROUP LIMITED Buy N/A Macquarie 4 INDEPENDENCE GROUP NL Buy Neutral Credit Suisse 5 OIL SEARCH LIMITED Buy Sell Credit Suisse 6 PREMIER INVESTMENTS LIMITED Buy Neutral Macquarie 7 PREMIER INVESTMENTS LIMITED Buy Neutral UBS 8 SIMS METAL MANAGEMENT LIMITED Buy Neutral Citi 9 THE A2 MILK COMPANY LIMITED Buy Neutral UBS Downgrade 10 AMP LIMITED Neutral Buy Citi 11 AWE LIMITED Sell Neutral Macquarie 12 BANK OF QUEENSLAND LIMITED Neutral Buy Morgan Stanley 13 EVOLUTION MINING LIMITED Neutral Buy Deutsche Bank 14 GRAINCORP LIMITED Neutral Buy Credit Suisse 15 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Neutral Buy Deutsche Bank 16 OCEANAGOLD CORPORATION Neutral Buy Deutsche Bank 17 REGIS RESOURCES LIMITED Neutral Buy UBS 18 REGIS RESOURCES LIMITED Sell Neutral Deutsche Bank 19 ROYAL WOLF HOLDINGS LIMITED Neutral Buy Macquarie 20 ROYAL WOLF HOLDINGS LIMITED Neutral Buy Credit Suisse 21 ROYAL WOLF HOLDINGS LIMITED Neutral Buy Deutsche Bank 22 SEVEN WEST MEDIA LIMITED Sell Neutral Deutsche Bank 23 SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP Neutral Buy Ord Minnett 24 TRANSURBAN GROUP Neutral Buy Morgans Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 CIM CIMIC GROUP LIMITED -50.0% -100.0% 50.0% 4 2 ARB ARB CORPORATION LIMITED -13.0% -38.0% 25.0% 4 3 OSH OIL SEARCH LIMITED 56.0% 31.0% 25.0% 8 4 CSR CSR LIMITED -8.0% -25.0% 17.0% 6 5 AWC ALUMINA LIMITED -36.0% -50.0% 14.0% 7 6 BXB BRAMBLES LIMITED 57.0% 43.0% 14.0% 7 7 SGM SIMS METAL MANAGEMENT LIMITED 7.0% -7.0% 14.0% 7 8 SUN SUNCORP GROUP LIMITED 44.0% 31.0% 13.0% 8 9 KMD KATHMANDU HOLDINGS LIMITED 50.0% 40.0% 10.0% 4 10 TLS TELSTRA CORPORATION LIMITED -31.0% -38.0% 7.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 RWH ROYAL WOLF HOLDINGS LIMITED 13.0% 88.0% -75.0% 4 2 RRL REGIS RESOURCES LIMITED 6.0% 31.0% -25.0% 8 3 OGC OCEANAGOLD CORPORATION 40.0% 60.0% -20.0% 5 4 SWM SEVEN WEST MEDIA LIMITED -40.0% -20.0% -20.0% 5 5 GNC GRAINCORP LIMITED 33.0% 50.0% -17.0% 6 6 AWE AWE LIMITED -33.0% -17.0% -16.0% 6 7 EVN EVOLUTION MINING LIMITED 86.0% 100.0% -14.0% 7 8 TCL TRANSURBAN GROUP 57.0% 71.0% -14.0% 7 9 AMP AMP LIMITED 44.0% 56.0% -12.0% 8 10 CBA COMMONWEALTH BANK OF AUSTRALIA -25.0% -13.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 CIM CIMIC GROUP LIMITED 28.503 19.867 43.47% 4 2 AWC ALUMINA LIMITED 1.814 1.729 4.92% 7 3 AMP AMP LIMITED 5.610 5.361 4.64% 8 4 CSR CSR LIMITED 4.062 3.895 4.29% 6 5 KMD KATHMANDU HOLDINGS LIMITED 2.050 1.980 3.54% 4 6 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP 2.158 2.095 3.01% 6 7 RRL REGIS RESOURCES LIMITED 3.233 3.188 1.41% 8 8 CBA COMMONWEALTH BANK OF AUSTRALIA 79.088 78.063 1.31% 8 9 SUN SUNCORP GROUP LIMITED 13.735 13.601 0.99% 8 10 OSH OIL SEARCH LIMITED 8.069 8.000 0.86% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SWM SEVEN WEST MEDIA LIMITED 0.760 0.790 -3.80% 5 2 TAH TABCORP HOLDINGS LIMITED 4.650 4.833 -3.79% 5 3 AWE AWE LIMITED 0.623 0.632 -1.42% 6 4 RWH ROYAL WOLF HOLDINGS LIMITED 1.513 1.525 -0.79% 4 5 ARB ARB CORPORATION LIMITED 16.480 16.553 -0.44% 4 6 OGC OCEANAGOLD CORPORATION 4.604 4.624 -0.43% 5 7 BXB BRAMBLES LIMITED 11.790 11.833 -0.36% 7 8 TLS TELSTRA CORPORATION LIMITED 5.024 5.025 -0.02% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 ORE OROCOBRE LIMITED 1.950 -2.450 179.59% 4 2 AMP AMP LIMITED 34.888 13.714 154.40% 8 3 RIO RIO TINTO LIMITED 557.660 364.854 52.84% 8 4 AWE AWE LIMITED -1.040 -1.550 32.90% 6 5 CIM CIMIC GROUP LIMITED 190.680 152.625 24.93% 4 6 HGG HENDERSON GROUP PLC. 29.560 28.149 5.01% 5 7 FMG FORTESCUE METALS GROUP LTD 94.621 92.088 2.75% 8 8 NCM NEWCREST MINING LIMITED 83.382 81.891 1.82% 8 9 TPM TPG TELECOM LIMITED 45.420 44.660 1.70% 7 10 AGL AGL ENERGY LIMITED 118.457 117.086 1.17% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AQG ALACER GOLD CORP 5.632 11.879 -52.59% 5 2 RWH ROYAL WOLF HOLDINGS LIMITED 9.403 11.250 -16.42% 4 3 ILU ILUKA RESOURCES LIMITED -7.631 -6.631 -15.08% 7 4 VAH VIRGIN AUSTRALIA HOLDINGS LIMITED 0.486 0.551 -11.80% 7 5 TCL TRANSURBAN GROUP 20.182 22.312 -9.55% 7 6 AWC ALUMINA LIMITED 4.580 4.905 -6.63% 7 7 SFR SANDFIRE RESOURCES NL 49.906 53.220 -6.23% 8 8 PRU PERSEUS MINING LIMITED -4.070 -3.903 -4.28% 5 9 SUN SUNCORP GROUP LIMITED 92.038 95.213 -3.33% 8 10 TAH TABCORP HOLDINGS LIMITED 23.022 23.658 -2.69% 5 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: Steadily Upward

By Greg Peel

The US Energy Information Agency reported last week total US-based production was 2.2mlbs in 2016, down -13% on 2015 and the lowest level since 2005. Currently there are six facilities operating in the US, with three on standby. Seven are in the planning/development stage as owners assess future conditions.

North of the border, Cameco reported a -US$47m loss for 2016, impacted by impairments from the shutdown of its Rabbit Lake mill and the full write-off its Kintyre project in Australia. Cameco also curtailed its ongoing production last year.

The global uranium industry is now at an interesting point.

In what industry consultant TradeTech describes as a “routine” week last week, six spot transactions were concluded totalling 800,000lbs U3O8 equivalent. Trade Tech’s weekly spot price indicator rose US$1.00 to US$26.50/lb.

While that price is still some -60% below pre-Fukushima levels, it is 49% above the December low. While production curtailments from the likes of Cameco and Australia’s Paladin Energy ((PDN)), operating in Africa, have helped to tighten the supply side, it is Kazakhstan’s decision to cut 2017 production by -10% that is providing ongoing price support, TradeTech suggests.

Which begs the obvious question. While a level of global production has been shut down for good and planned developments have been abandoned, most of the incumbent players, including Kazakhstan’s state-owned miner, have simply put operations into care and maintenance or reduced output levels, pending a return to economically viable prices. If the uranium price continues to rise, each project will pass its trigger point at which management will consider production restarts or increases.

And then the price will fall again, if there is no corresponding increase in demand. It is the perennial commodity market dilemma – higher prices eventually lead to increased production which leads to lower prices which leads to reduced production…

Aside from the possibility of legacy US reactors being saved from shutting down thanks to supportive legislation changes, China has now passed its peak in stockpiling (at low prices) for its reactor building program, Japanese reactor restarts will be held up in court from here to eternity, and programs in the likes of India and South Africa while supportive, are a long way off. Meanwhile, governments in Europe are moving away from nuclear energy.

In other words, the uranium price will most likely be supply-side dominated in 2017, and price-wise that implies a negative feedback loop.

There were no transactions reported in term markets last week. TradeTech’s term price indicators remain unchanged at US$27.75/lb (mid) and US$35.00/lb (long).

The Short Report

Guide:

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

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

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

Summary:

Week ending February 9, 2017

Last week saw the ASX200 take off from the 5600 level on its way to 5800, fuelled by Trump fairy dust, solid Chinese trade data and some positive local earnings reports. Earnings season only began to ramp up.

To that end, we note some interesting activity at the low end of the 5% plus table last week.

Domino's Pizza ((DMP)) has been jumping in and out of the bottom end of the table for weeks, and last week reappeared ahead of posting a miss this week and a 14% share price drop.

Genworth Mortgage Insurance ((GMA)) copped a share price sell-off the week before after posting a miss, and has appeared in the 5% bracket for the first time.

Other new debutants into the 5% bracket, all with results pending and thus worth keeping an eye on, are Automotive Holdings ((AHG)), Impedimed ((IPD)) and Collection House ((CLH)).

Further up the table there were couple of clear movers & shakers last week. OxForex jumped to 8.2% shorted from 6.5% and Mayne Pharma ((MYX)) to 10.1% from 8.3%, to debut in the elite 10% plus shorted club.

We might also note that despite Aconex' ((ACX)) spectacular share price plunge the week before, shorts have increased to 15.4% from 14.9%.

Weekly short positions as a percentage of market cap:

10%+

MYR 16.8 ACX 15.4 WSA 13.2 TFC 11.8 VOC 11.2 NEC 10.9 WOR 10.1 MYX 10.1

In: MYX

9.0-9.9%

SYR, MTS, NWS In: NWS

8.0-8.9%

FLT, ISD, OFX, MND, DOW

In: OFX, DOW Out: MYX, NWS, HSO, NXT, BAL

7.0-7.9%

ORE, RWC, BAL, HSO, NXT, EHE, BEN, GTY

In: BAL, HSO, NXT, GTY Out: DOW, MTR

6.0-6.9%

MTR, SGH, SRX, IVC, AAD, MYO, BGA, TGR, CSR, CSV, PRU, SEK, AWC, IFL

In: MTR, CSR, IFL Out: OFX, GTY, JHC

5.0-5.9%

GXL, PDN, IGO, MSB, GEM, GMA, JHC, A2M, OSH, DMP, IPH, WOW, IPD, AAC, KAR, CLH, CTD, ILU, RIO, AHG

In: JHC, GMA, DMP, IPD, CLH, ILU, AHG Out: CSR, IFL, VRT, BKL, AWE, CAB

Movers and Shakers

Forex and money transfer facilitator Ozforex ((OFX)) suffered a dive in share price earlier this month after posting its third guidance downgrade in 18 months. A new CEO was announced.

If that CEO can't turn the ship around, given brokers see longer term upside potential, then the company will be in trouble. Ozforex doesn't report earnings until May. Last week Ozforex shorts rose to 8.2% from 6.5%.

Mayne Pharma ((MYX)) shares shot up last week as pressure eased over allegations of drug price fixing in the US, into which Mayne has been swept. But a regulatory cloud continues to hang over the US drug sector given if there was one thing both Trump and Clinton agreed upon pre-election (other than the TPP), it was that US drug prices are way too high.

On that share price recovery Mayne also saw a big jump in short positions, to 10.1% from 8.3%.

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: Health, Housing And US/China Trade

Weekly Broker Wrap: health insurance data; Morgan Stanley's lead housing indicator; global industrial recovery; and the potential for a US/China trade dispute.

-Health insurer gross margins should be achievable in the upcoming results -Weaker fundamentals surfacing in Australian housing construction -Global industrial recovery underpins rebound in metals markets -Market not pricing in any risk in US/China trade of a "hard versus asymmetrical" conflict

By Eva Brocklehurst

Health Insurance

Private health insurance data and hospital statistics from APRA for the December quarter signalled growth in policy holders slowed to its lowest rate since 2004, while benefit growth is stabilising. Compositionally, benefits growth of 5.3% was driven by episodic growth of 3.3%. The proportion of the population covered by hospital private health insurance fell to 46.6%.

Goldman Sachs finds the data consistent with comments from Medibank Private ((MPL)) and suggests that insurance gross margins should be broadly in line with the second half of FY16 in the upcoming results. Thereafter, the broker expects margins will be more difficult to sustain into the second half and FY18. Goldman has Neutral ratings on both Medibank Private and nib ((NHF)).

Industry feedback suggests to Macquarie that a number of hospital groups are accelerating their invoicing process, which is pulling forward claims. As the APRA data is provided on a cash rather than accruals basis, the broker suspects that part of the rebound in claims growth is a one-off adjustment rather than an underlying shift in trends.

Claims data is materially below long-term averages, nonetheless. If both Medibank Private and nib do not recognise the change in payment patterns, and effectively over-reserve at the first half results, this will not be evident until the second half, Macquarie contends. The broker rates both stocks Outperform.

Credit Suisse observes the government has passed through another large premium rate increase and, while the current trends raise concerns for the industry, the earnings risk remains skewed in favour of insurers. The broker believes the slowing in policy-holder growth reflects the weakening economy, low wage growth and an industry that has reached its natural saturation point under the current regulatory setting.

The noteworthy feature of the statistics from a private health insurance perspective is the sixth consecutive drop in the population covered by private health insurance, UBS suggests. The price increase of 4.84%, to be implemented from April 1, is only likely to weigh further on this key metric for funding sustainability. The broker expects better execution on claims management relative to the industry should underpin FY17 net margins for Medibank Private. The broker retains a Neutral stance on the stock.

Housing

Morgan Stanley's housing lead indicator flags further weakness for Australian housing construction over 2017. The sub-components of the survey paint a weaker picture of the fundamentals such as supply/demand, rental conditions and accessibility. This is offset somewhat by looser credit conditions and stronger sentiment, particularly among investors.

While investors appear to be taking leadership of the housing market, the broker expects APRA and the Council of Financial Regulators will step up supervisory actions to manage financial stability risks. The broker believes red flags will be raised by any material increase in household leverage.

The broker notes, recently, Commonwealth Bank ((CBA)) has taken steps to slow investor loan growth, including stripping investor tax benefits out of serviceability tests, which targets stretched investors and could be more broadly applied across the industry.

The broker notes weaker trends are materialising for the apartment cycle in Sydney and Melbourne, although detached price growth remains strong. The broker expects development activities will slow earlier than consensus expects, given tighter credit for developers and investors.

Commodities

The recovery in global industry accelerated into the end of 2016 and Macquarie believes this underpins a rebound in the metals markets. While suspecting, year-on-year, the growth rate is near its peak, the broker envisages a number of downside risks further out.

Industrial output rose a modest 0.12% in December, but this followed a strong jump in November. Over the fourth quarter output grew by 0.96% quarter on quarter, the best such performance since the fourth quarter of of 2013, the broker calculates.

China remains, by far, the largest contributor to global growth but the actual acceleration has been due to an improvement in other developing economies as well as developed economies. The broker notes in some cases, especially Brazil and Russia but also in the US, it is the simple fact that these industrial sectors have stopped contracting. In the EU growth accelerated at while Japan swung from contraction to solid growth.

The wild card in industrial production is the new US administration. President Trump has been vocal in supporting US-based manufacturing and energy production. Macquarie observes, so far, he has concentrated on persuading manufacturing firms to keep production in the US and more recently talked down the US dollar. Trade and tax policy is also likely to have an impact as the year progresses, especially if a border-adjusted cash flow tax is enacted.

Over the long term, the broker expects these factors will move the locale of global industrial production rather than the extent of it.

In China industrial production growth has been "eerily smooth" at around 6%, Macquarie observes. Mining output continues to shrink modestly. Manufacturing growth in December was higher, at 6.3% year-on-year, but has been falling slowly, offset by much-improved utility output.

With mixed features and variables in China, the broker, on balance, expects manufacturing growth to slowly decelerate over the coming year. One key sector is expected to be much weaker this year, automotive manufacturing. The broker forecasts production growth of just 2-3% versus nearly 5% last year.

US/China Trade

it is likely to be only a matter of time before US/China trade relations appear at the top of President Trump's agenda, Citi believes. The broker defines a "soft" approach is one governed by World Trade Organisation rules and which aims to achieve a re-negotiation of the trading relationship. A "hard" approach is one that would not hesitate to seek a re-balancing of the trade outside a WTO framework.

The central question about China's response to a more hostile US approach to trade is whether Beijing will respond in a tit-for-tat (symmetrical) way or whether its reaction might range across the whole spectrum of the US/China bilateral relationship (asymmetrical).

Hence, Citi believes a trade dispute would be less disruptive globally if the conflict is characterised by a soft US administration approach and a symmetric Chinese response. The broker finds reason to be cautious, given the effects that such a conflict might have on risk appetite and expectations for growth in the largest and second largest economies. Citi does not believe the market is currently pricing in any risk of a hard versus asymmetrical conflict.

Acquisition Prospects Floated For SeaLink

Ferry, barge and cruise business, SeaLink, is managing the transition from the construction phase at Gladstone and broker attention now turns to acquisitions.

-Growth supported by recent acquisitions, potential in New Zealand -Strong operating cash flow, with benefit of working capital release from Gladstone roll off -Fuel costs increasing, which could result in lower margins

By Eva Brocklehurst

Ferry, barge and cruise business, SeaLink ((SLK)), expects to report improved profit in FY17, assuming seasonal conditions remains stable over the remainder of the year. Nevertheless, the stock was sold off after the first half results, as Gladstone and south-east Queensland missed forecasts with the winding back of ferry and barge requirements for the construction phase of the Gladstone operation.

Ord Minnett believes the sell-off was overdone. While trimming forecast by around -3%, the broker believes the impact is isolated to FY17 and relates to the transition in earnings at Gladstone. The broker upgrades FY18 forecasts and believes the balance sheet is flexible enough to fund acquisitions, opportunities for which abound.

Earnings in FY17 are expected to provide a foundation from which growth can be achieved through various means. Ord Minnett retains a Buy rating and $5.00 target.

Kangaroo Island revenue was up 4% but was affected heavily in the first half by strong wind conditions. This resulted in around 15 days being cancelled. Looking forward, Morgans anticipates margins should improve with four more coaches to be deployed on the island. This should also reduce sub-contracting costs.

Of note, the broker points to fuel prices creeping higher, having increased by 32% in the half year. While some of this growth in costs can be attributed to a larger fleet, the broker suspects and increasing fuel price will result in lower margins. The company does have some ability to pass this through and find savings by moving suppliers.

The Captain Cook Cruise business in New South Wales and Western Australia benefitted from a first full half contribution for the WA branch, resulting in revenue being up 46%. This was also supported by a 12% uplift from lunch and dinner cruises as well as a stronger charter market.

North Queensland and Northern Territory business delivered 4% revenue growth, with higher contributions from Magnetic Island and Mandorah services being the main drivers. The company has further penetrated the cruise ship market, with improvement in its charter services, up 60% on the prior corresponding half.

Potential Lies In Acquisitions

Morgans considers the stock a clean way to play the in-bound and domestic tourism segment. Nevertheless, SeaLink is trading on a price/earnings ratio for FY17 estimates of 18x and offers 6% growth on the broker's forecasts, suggesting it is fair value. First half operational earnings (EBITDA) were up 38% and imply margins of 25%, in line with expectations.

While the skewing capital expenditure to the first half was higher than Morgans expected, the company has stated there are no major capital expenditure plans in the second half. No specific guidance was offered for FY17, although the company expects profitability to be higher than the prior year.

The broker believes the outlook is robust and sustainable, as international tourism numbers are growing by around 11% per annum and local tourism is solid. Benefits should accrue from the additional commuter routes which are opening up, and the re-deployment of the five Capricornian vessels (Gladstone).

With construction contracts now finalised and a roll-off of earnings of around $2m anticipated in FY17, the company reveals it has been able to add services and extend both hours and vessels for both operating contracts in Gladstone.

In the broker's opinion the largest driver of outperformance will be accretive acquisitions and the company is expected to seek these out both domestically and offshore. Of note, the company's non-compete clause in New Zealand expired late last year. Given the proximity and ease in which vessels can move around these waters, Morgans believes it logical for the company to re-enter the NZ market.

Bell Potter notes the business in Sydney Harbour is delivering improving returns as the company changes its strategy. The Captain Cook Cruises division (NSW and WA) reported an 88% increase in operating earnings. Sydney has reported a 12% increase in sales, attributable to the higher yielding lunch and dinner cruise markets. The broker considers this of major significance, as the turnaround vindicates the company's strategy to move away from in-bound tour groups to free independent travellers.

Meanwhile, as construction work in Gladstone is rolling off, the broker expects declines revenue to be partly offset by continued strength in south-east Queensland. Bell Potter rates the stock Buy, with a target of $4.97. The outlook is underpinned by the company's sole operator status in a number of key markets and exposure to growth in international visitors.

SeaLink has traditionally operated a fleet of 27 ferries in South Australia, NSW, Queensland and the Northern Territory, offering a range of passenger, freight, dining and charter services. The company also owns a paddle wheeler which cruises along the Murray River. The TSM division, which owns 33 vessels, provides passenger and vehicular barge services across south-east Queensland and in Gladstone, and was acquired in 2015. The company acquired Captain Cook Cruises Western Australia in February last year.

ASX200: Uptrend

By Craig Parker, asset manager, Moat Capital

Risk is back on and the technical stars are aligning with the short, medium and long term trends all in an uptrend. You can see on the ASX 200 daily chart that today was a clear breakout around the 60-day moving average up through the short-term downtrend line which suggests the recent counter trend has run its course. This was all on the back of the S&P 500 breaking out overnight. It seemed the US market was just waiting for any sort of good news to be able to move higher and we were happy to follow.

A close eye will need to be on the 5800 level where the most recent daily peak had formed. A break through the 5800 level and it is clear sky up to the 6000 level. If you look at our monthly chart we are consolidating above a recent 60 and 200 moving average crossover. Another positive for our market is the continuation of the uptrend in the Chinese market as can be seen in the below Shanghai Composite chart.

The only negative is that the S&P 500 weekly chart is technically getting into the overbought territory however, history has shown it can stay overbought for some time before a significant correction. Currently the trend is your friend.

ASX200 daily

ASX200 weekly

ASX200 monthly

S&P500 daily

Shanghai Composite

Authorised Representative Sentinel Private Wealth AFSL 344762

www.moatcapital.com.au

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Trend Spotting: Natural Skin Care

In this week's Weekly Insights:

-Trend Spotting: Natural Skin Care -Gold And Trading Opportunities -Conspiracy: China & Miners' Debt -FNArena's New Website: Take A Walk On The Walk Side -Who's Afraid Of The Big Bad Bear? -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Trend Spotting: Natural Skin Care

By Rudi Filapek-Vandyck, Editor FNArena

Is it possible the next narrative to entice investors into jumping on board is "natural skin care"?

Melbourne headquartered BWX Ltd ((BWX)) certainly knows how to make an entrance. Upon listing on the ASX in mid-November 2015 the shares gained 51% on the first day of trading. The IPO, priced at $1.50, raised $39.3m to assist in further expansion for the company's suite of natural skin and hair products, of which Sukin attracts most attention.

Sukin is already a top five brand selling through pharmacies in Australia. Admittedly, the more bathrooms I visit these days, the more Sukin bottles I encounter. The marketing machine clearly is working. Both in the real world as well as in the share market.

After rising from $1.50 (IPO) to $2.26 on the first day of trading, BWX shares continued on a rally that didn't stop until August 1 last year. By that time the share price had reached $5.63. Needless to say, by then it had landed on many an investor's radar.

Then came the Big Switch that saw funds managers selling out of small and medium cap industrials to jump on board resources and banks and BWX tanked together with ARB Corp, NextDC, and just about every single popular midcap growth stock that had up until that point suited its shareholders well. By December the share price was struggling to stay above $4.

Fast forward to last week and BWX, whose share price had recovered to below $4.50, reported a strong financial performance for both domestic (+48.7%) and international sales (+115.7%). The share price effectively "did a Carsales", jumping to $5 on the day, no doubt helped by management's guidance for FY17 operational growth (EBITDA) of 30%.

Unfortunately, none of the eight stockbrokers monitored daily by FNArena covers the stock, but several others do, and all seem quite enamoured by this little Melbourne Champion of the natural skin care cause. Moelis sees ongoing strong growth potential for the next 3-5 years. This "accelerated growth" will facilitate robust increases in dividend payouts, though yield is not something that is adding to the allure of owning BWX equity. The shares are trading on Price Earnings multiples of 26.5x (FY17) and 22.0x (FY18) so the yield on offer is more like CSL's (less than 2%) rather than challenging Telstra or the banks.

What pleased Moelis is that domestic Sukin sales grew 48.7% on the pcp to $24.3m, higher than the “underlying” growth rate of 42% in FY16. Sukin's offshore sales are projected to double in FY17 to $14m on the back of UK penetration. Moelis rates the stock a Buy with a $5.45 price target (twelve months).

Analysts at Canaccord Genuity have been equally impressed, but they foresee pressure on margins on the back of higher marketing costs in Canada and China. Canaccord's price target sits at $5.28, good for a Hold rating.

Bell Potter is on Moelis' side, arguing BWX has an opportunity waiting to be explored with its Sukin products in the UK, China and Canada. If management is able to genuinely make inroads in only one of these three markets, it'll change the dial significantly, argues Bell Potter. Bell Potter also rates the shares a Buy with a price target of $5.75.

All brokers are banking on double digit growth for the years ahead. Don't be surprised if you hear/read a lot more about BWX and natural skin care from here onwards. Moreover, I think there's potential for a new popular narrative given the combination of "natural", "high growth" and some meaty share price gains to date.

Within this context it's probably worth pointing out conglomerate-in-restructuring McPherson's ((MCP)) is also active in skin care products and so is New Zealand's Trilogy International ((TIL)), since three months listed on the ASX. Trilogy's share price has gone in the opposite direction. Clearly, investors are taking the view that BWX's success is inflicting pain on competitors such as Trilogy.

Moelis last week initiated coverage on Trilogy with a Buy rating and a 12-month target of NZ$2.90, implying upside potential of circa 15%. Equally important, Moelis believes Trilogy trades at a 48% discount relative to BWX. Trilogy also has the largest exposure to offshore markets where its opportunity awaits in countries such as Canada and Germany, where consumers demand affordable, organic skincare, says Moelis.

Admittedly, Trilogy's FY17 forecast on Moelis' projections is nothing to write home about, certainly not when compared to BWX's release from last week, but its time to shine should come at a twelve months' delay. That is, if current projections don't have to be reset between now and FY18.

Assuming Moelis' assumptions prove correct and Trilogy's share price starts to catch up in the months ahead, while McPherson's might do a great job in highlighting its own presence in skin care, we might just be witnessing the birth of a new narrative in the local share market. Of course, all companies involved are on the smaller side and recent history shows popular themes such as infant formula, honey and vitamins can (and will) run into serious bumps alongside long term growth potential.

Investors should never forget that small cap growth stories come with a significantly higher risk profile. In case anyone needs reminding, look up Nearmap ((NEA)), Impedimed ((IPD)) or Capilano Honey ((CZZ)). These were companies that not so long ago could do no wrong.

Treat accordingly.

Gold And Trading Opportunities

I remain of the view that gold's outlook is overshadowed by the prospect of successive Federal Reserve interest rate hikes in the second half of 2017. But, of course, while the Federal Reserve, or the US bond market for that matter, are lingering somewhere in the background, gold is doing what gold does best: offering traders plenty of opportunity through above average volatility.

With this in mind, I stumbled upon an excellent gold sector report released by Shaw and Partners. I use the term "excellent" because it doesn't contain all the quasi-religious clap trap many a gold bug uses to drag interested investors into their church community. This whole idea that one buys gold as protection against inflation will be put to a real test when US bond yields start moving higher, but this won't happen just yet.

In the meantime, Shaw and Partners lines up four reasons to jump on board the gold bandwagon this month:

1. Mergers & Acquisitions

Low prices or elevated prices, it doesn't really matter for the global gold sector which in recent years has proved to be among the more prolific when it comes to divestments, mergers and acquisitions.

2. Corporate Leverage

Share prices in listed gold producers tend to move much higher during an up-trend, and fall much deeper in a correction phase. On Shaw's calculations, share prices historically move between 4-6x fluctuations in the price of gold. Based on historical numbers, Shaw is of the view gold equities look significantly undervalued (but don't forget my opening sentence).

3. Corrections Are Normal

Don't be put off by the sharp reversal that shows up when looking up Northern Star ((NST)), Evolution Mining ((EVN)), and others, between July-December last year. Gold price corrections typically run for 24-118 days and average -25-30% reports Shaw. Make sure you are on board when the tide has turned for the positive! The latter is by now the case, reports Shaw, implying the most recent correction lasted circa two months (58 days).

4. NPV Cycle

Gold equities' valuations move through cycles which tend to mimic the economic cycle. Assuming that correlation holds, and 2017 delivers better economic growth, gold equities should now move into a phase whereby share prices reflect a premium versus Net Present Valuations (NPVs) for the sector. The underlying suggestion here is that gold equities moved from low cycle discounts (December 2014) to high cycle premiums (July 2016), but also that, after the correction that is obvious on most price charts, the sector should see higher share prices ahead.

Shaw seems to have a preference for Northern Star and Evolution Mining, but there are plenty of other gold stocks listed on the ASX. This is also an ideal opportunity to guide all subscribers to FNArena Windows on the freshly launched new FNArena Website. Start with "Commodities" then select "Mining", "Precious Metals" and "Gold & Silver" for the opportunity to analyse and compare 22 small and large corporate gold exposures on the ASX.

Alternatively, I note there's a discussion raging among economists whether US inflation is merely a mirage in the absence of real fiscal stimulus from the new president and his administration? In that case, irony oh irony, one would like to own some gold because of the lack of sustainable inflation and the subsequent deflation in US bond yields. Not that this will stop many gold groupies from touting bullion's inflation protective characteristic.... but hey, who cares as long as the price moves into the right direction...

Conspiracy: China & Miners' Debt

Investors love a good conspiracy theory and I have a strong suspicion four years of The Donald at the White House is going to deliver us plenty.

But let's stick to financial markets. One year ago, global miners, smelters and oil and gas producers were left staring into the abyss. Five long years of down trending prices had exhausted room for further cost reductions and efficiency measures. Debt levels were too high for many but supply remained plentiful and thus the outlook remained dour, or so it seemed.

Australian investors like to think back about the situation back then for Whitehaven Coal ((WHC)), Fortescue Metals ((FMG)), and the like, but the situation looked arguably much worse for their peers inside China where corporate debt levels even today remain too high for many. But they do look a lot better than twelve months ago. It's literally a world of difference post the rally in prices throughout most of 2016.

Macquarie's China watchers on the ground, who collect their own data on corporate China's debt, have noticed significant improvement in corporate China's ability to service outstanding debt, albeit with the observation the situation in general is still worse than in 2014, not to mention the years prior. All in all, Macquarie's data suggest deterioration kicked in from 2011 onwards and started to become genuinely worrisome in 2015.

Of course, it's all pure coincidence the situation turned around so quickly in February last year on the back of significant liquidity injections by Chinese authorities.

The way things are trending, China's debt-to-GDP may well rise above 300% in a few years but Macquarie doesn't think there's a crisis building. Most of this debt sits with the central government or with controlled businesses and there is no need to address non-performing loans on balance sheets of Chinese banks.

The problem lies more with the fact all this debt makes for lazy and non-efficient allocation of capital, and Beijing is finding it increasingly difficult to stimulate domestic demand by simply re-opening the liquidity tap, as should be expected given circumstances.

China is trying to restructure its economy and alleviating domestic industries from companies carrying too much debt is part of the plan. It's probably a fair assumption that corporate mergers, debt-for-equity swaps, and the likes are much easier to instigate when things seem a lot less dire than they were this time last year.

As far as the actual numbers are concerned, Macquarie believes the size of accumulated debt inside China's corporate sector increased by nearly four times over the ten year period from 2007 to 2016. Back in 2007, only 7.3% of companies surveyed was believed to be unable to cover its debt because operational cash flows seemed insufficient. This percentage grew to 13.1% by 2010, and to 17.5% by late 2015. By then, so suggest Macquarie's data analysis, EBIT uncovered debt for the coal mining sector in China had exploded to 65%, to 66% for the steel sector, and to 92% for base materials.

These numbers have all improved considerably over the first nine months of 2016, with exception of the steel sector where, apparently, 63% of total debt is still not covered by operational cash flows. Given the noticeable improvement in general sector dynamics, that seemingly stagnant percentage is expected to drop a lot lower in the year ahead.

In case anyone is wondering: total debt not covered by cash flows from normal operations for the base metals sector in China had dropped to 45% by September last year. Still high, but way, way, way below that astronomical percentage Macquarie recorded for late 2015.

Judging from the rapid improvements in debt/cash flows and profits for Whitehaven, Rio Tinto ((RIO)), and others in Australia, the above numbers should decline a lot further from here onwards, on the general premise that commodity prices are not about to collapse back to where they came from.

FNArena's New Website: Take A Walk On The Walk Side

Well, we launched the new website and everything is working.

Not everyone is as enthusiastic as we are, but it's only fair to report most feedback has been positive, with responses received overwhelmingly supportive, with here and there a compliment or two, plus some handy tips and ideas to add next.

Your appreciation/disapproval/ideas for further improvement remain welcome at info@fnarena.com

My best advice to all subscribers is to live dangerously this week and take a tour through what is available and immerse yourself into the many new and refreshed tools, data and applications that are on display on the new website. I am sure you are going to discover new and exciting things.

To all who have tried our service in the past and would like to have another peek post new website launch: send an email and we'll facilitate. It's a time for celebration. You might as well be part of it too.

Who's Afraid Of The Big Bad Bear?

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

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

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

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

All-Weather Model Portfolio

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

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

Rudi On TV

This week my appearances on the Sky Business channel are limited to:

- Tuesday around 11.15am, Skype-link to discuss broker calls - Friday around 11.10am, Skype-link to discuss broker calls - Friday 7-8pm, guest on Your Money, Your Call Fixed Interest

Rudi On Tour

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

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

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

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

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

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