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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

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1 Australia

Flight Centre: Structural Or Cyclical?

Travel agency Flight Centre has overseen a decline in its earnings trajectory for several years. Brokers review the dominant themes in the outlook.

-Mixed expectations for whether a recovery in airfare pricing is underway -Could valuation be improved by the closure of 20% of the company's stores? -Online business development key, but further investment required

By Eva Brocklehurst

Is it structural or cyclical? For some time this question has prevailed in the analysis of travel agency Flight Centre ((FLT)) as the company has overseen a decline in its earnings trajectory.

Acknowledging structural issues persist, such as the change from store-front travel agencies to online bookings, Credit Suisse believes that the company's potential for near-term cyclical improvement warrants a more positive view.

Most of the deterioration in FY17 profit expectations is attributed to cyclically low airfares and, therefore, based on a view that prices will improve over the next six to 12 months the broker moved to a Outperform rating in the wake of the company's first half results.

Macquarie acknowledges its forecasts may be too bearish but disputes that the dominant issues are more cyclical than structural. The broker also disagrees with the timing regarding a cyclical upturn and does not expect a recovery in pricing until FY19.

The broker believes the Qantas ((QAN)) international unit is a reasonable proxy in terms of revenue growth and indicative of the direction in which prices are heading and, while not the only carrier engaged with Flight Centre, does reasonably represent the unit revenue performance of those airlines offering tickets for sale through Flight Centre.

Therefore, Macquarie's proprietary capacity data shows growth easing into the first half of FY18 and that the market still needs to absorb the 16% increase in capacity that has occurred over the last two years for Qantas. Accordingly, Macquarie does not expect a recovery in ticket prices until FY19 and transfers this expectation to Flight Centre.

CLSA takes a different tack, observing Flight Centre recognises revenue about three months ahead of the airlines. The company is one of the few in the top 100 with more than 10% of its market capitalisation net cash, the broker asserts, and it has a strong forecast free cash flow yield of 7.5-8.0% for the next two years which, when adjusted for net cash and investments, increases to more than 9%.

The broker, not one of the eight monitored daily on the FNArena database, has a Buy rating and $35 target, and believes the Australian business is structurally sound. Earnings are expected to stabilise in the current year.

CLSA acknowledges it is critical, as the pressure on revenue subsides, that Flight Centre demonstrates positive operating leverage. As the second half is seasonally stronger, the broker is looking for a rebound and believes earnings could show a recovery.

The risk to FY17 earnings may be reduced and there is an easier growth comparable now, with less FX headwinds, but the issues are structural, Morgan Stanley believes, as Flight Centre was once a stock that delivered superior earnings growth year-on-year and is now expected to report its third year of profit declines, despite making accretive acquisitions.

On this basis, the broker envisages ongoing pressure on margins, which will be driven by the continuation of lower airfare yields, growth in low-cost carriers and the headwinds from growing online transaction revenue, which is at a significantly lower margin.

Morgan Stanley is also sceptical regarding capital management, given earnings remain under pressure and the company continues on a path of making small acquisitions. The broker remains Underweight.

Store Closure?

Valuation could be improved, in Macquarie's opinion, by the closing of around 20% of the company's stores. Total transaction value (TTV) per store has not grown since 2013 and since that time around 20% of the current footprint has been added.

For sure, there would be one-off hits to earnings from lease obligations and redundancy costs associated with such closures but, under a scenario where the company invests $100m online and maintains its absolute level of TTV at FY16 levels, the broker's current valuation would increase.

This assumes a continued decline in income margins but enough transaction growth to provide the offset from an earnings perspective.

In particular, Macquarie highlights 18 store locations in the Sydney CBD that are a throwback to when the company wanted to have a store front in every city block, such that workers would come down from their offices and book travel arrangements.

Online Business

Hence, online business development is the nub of the structural problems. The launch of Aunt Betty last year has meant the company has attempted a very late catch-up in the online business and, despite being on track to hit $1bn in TTV this year, this will be achieved, in Macquarie's calculations, with margins of only 7-8%.

The broker's sources suggest that while BYO Jet, acquired in 2016, provided the online engine for the company, further investment is required and success is not guaranteed. Macquarie maintains a Underperform rating.

CLSA also envisages the company screening well for private equity, as its focus on costs and pulling back on international expansions are obvious opportunities. Nevertheless, the broker acknowledges that "insiders" account for 46% of the register and are unlikely to cede control. CLSA believes the stock is cheap on both an absolute and relative basis.

Acquisitions

Macquarie considers a scenario whereby Flight Centre acquires Webjet ((WEB)), given existing assets are not expected to deliver sustained organic growth.

Such an acquisition would would be accretive and Macquarie's base case under this scenario assumes 40% equity funding and $25m in synergies, which would deliver accretion to earnings per share of 2.0%. Were there to be an all-debt structure for the transaction, with the same level of synergies, the accretion would be 13.1%.

FNArena's database shows two Buy ratings, for Hold and two Sell on Flight Centre. The consensus target is $30.74, suggesting 6.6% upside to the last share price. Targets range from $25.00 (Morgan Stanley) to $36.10 (UBS). The dividend yield on FY17 and FY18 forecast is 4.5% and 4.8% respectively.

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Are Fletcher Building's Losses Under Control?

Fletcher Building has revealed further construction losses and downgraded FY17 guidance. Brokers believe the market will take time to be convinced the issues are under control.

-Management downplays further systemic issues in its work book -Other businesses appear to be tracking in line with expectations -Although Macquarie raises the spectre of further fixed-price risk

By Eva Brocklehurst

Fletcher Building ((FBU)) has revealed further construction losses after reviewing current contracts, downgrading FY17 estimates just four weeks after affirming prior guidance. Targets in other divisions remain in line with guidance provided at the first half results.

In the first half result a loss of -NZ$30m was realised on a major project and at the time management signalled the loss was very specific to that job. Now, a -NZ$110m downgrade to guidance is partly driven by further losses in this project as well as a loss on another current major project.

Risks of further downgrades in this division exist and it is difficult, in Morgan Stanley's opinion, to form a strong view because of the opaque nature of the business. Nevertheless, management has an incentive to hit FY18 targets and the broker suspects a worse outcome has been taken in FY17 to safeguard FY18 expectations.

The broker finds the value of the stock compelling and retains a Overweight rating. The company continues to be exposed to a recovery in the New Zealand housing market and is considered a leading player through its vertical construction offering.

Period Of Uncertainty

Several brokers expect a period of uncertainty until the market can be convinced that the company's construction problems are fully understood. RBC Capital Markets believes the current issue is a one-off and the impact over-represented in the share price, upgrading the stock to Outperform. The broker, not one of the eight monitored daily on the FNArena database, has a price target of NZ$9.50.

The company has announced a reduction in the FY17 EBIT guidance range to NZ$610-650m from NZ$720-760m. This equates to a downgrade of -15% at the mid point of the respective ranges. The broker estimates that roughly half of the downgrade relates to the problem contract that was flagged and accounted for at the first half result. One other project accounts for the majority of the remaining impact.

While this may raise questions around the company's tendering and project design methodology, management has downplayed any further systemic issues in its book. This broker also expects the issues to be contained in FY17 and therefore considers the impact on valuation limited.

Deutsche Bank agrees the risks are currently priced in and maintains a Buy recommendation, lowering the target to NZ$10.15 from NZ$11.67. The broker suspects the construction related losses largely relate to the Justice Precinct project in Canterbury and the Sky City development in Auckland. Assuming FY18 earnings estimates at global multiples the broker notes there remains 11% potential upside to the current share price.

The downgrade may be unwelcome but Credit Suisse is sufficiently comforted by the detail shared during the conference call. The broker observes occasional losses in the sector are unavoidable, but the company has assured investors a loss of this magnitude should not be repeated.

The broker believes the issue is not systemic, and entirely unrelated to cycle risk, but has brought the stock price to compelling levels where the rewards are worth the risks. Accordingly, the broker upgrades to Outperform from Neutral. Target is revised down to NZ$9.80 from NZ$10.10.

The company represents a broad-based exposure to the Australasian building and construction sector with approximately 66% of operating earnings sourced from New Zealand. Brokers project further earnings growth given the ongoing strength of the NZ building and construction sector.

Other Businesses

Credit Suisse notes, beyond the initial negative response to the announcement, the company has always been, and still is, a large manufacturer and distributor of building products with a relatively small construction business. Other businesses, including Higgins and South Pacific, within the construction division continue to track in line with expectations.

Citi also downgrades its target, to NZ$10.20 from NZ$11.40. The broker expects investor confidence will be dampened by the outcome of the review and the market may take a wait-and-see approach. Nonetheless, with the majority of the business portfolio operating in line with expectations and management's incentive to deliver NZ$820m in EBIT in FY18, the broker expects considerable negatives are already reflected in the share price.

UBS observes the main issues driving the over-run on costs were design complexity, higher subcontractor costs and time delays. Of the company's construction backlog of NZ$2.7bn around NZ$1.5bn is under a price guarantee, and the vast majority likely relates to the Sky City development.

UBS also believes the sell-off in the stock provides a favourable entry point, especially with construction losses most likely being one-off in nature, but concedes a re-rating may take time as investor confidence is re-built.

Further Risks?

Macquarie is one broker raining on the parade, with a Underperform rating. Macquarie's target is NZ$7.87. The broker retains a view that the loss identified back in February was not a "one-off". The company's construction backlog has grown to three times the level experienced at the previous cycle peak and the broker notes its presence as a builder had historically always been about exerting control over the channel to market for competing products.

Macquarie believes the review, being confined to one vertical segment, contains the inference that the horizontal businesses do not bear the same level of complexity or fixed-price risk. The broker is sceptical, observing that many public-private partnerships are fixed-price in nature and many road projects around New Zealand over the last few years have pushed into geotechnically challenging areas.

Macquarie believes the review should have covered the residential and land development division, given the company's ambitions are similarly large in the residential segment and there is fixed-price risk across some of this work. All up, there are additional downside risks around the horizontal work-in-progress and upstream margins that the broker takes into account.

FNArena's database shows five Buy ratings and one Sell (Macquarie). The dividend yield on FY17 and FY18 forecasts on present FX values is 4.8% and 5.1% respectively.

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Mobile Uncertainty Overshadows TPG Telecom

Several brokers remain concerned about the outlook for TPG Telecom, despite a fairly robust first half result.

-Growth in net profit and earnings per share may become hard to obtain -Margin crunch in NBN difficult to avoid and likely to materialise in the second half -Uncertainty over mobile strategies in Singapore and Australia weighs on outlook

By Eva Brocklehurst

Several brokers are troubled by the outlook for broadband services provider TPG Telecom ((TPM)), given the company's desire to muscle in on a very competitive mobile market. TPG Telecom posted robust revenue growth in its consumer businesses and stable growth in its corporate business in the first half.

Morgans estimates the company's stand-alone operating earnings (EBITDA) growth was 3.9% (ex recent acquisitions) over the first half and 98% of operating cash flow ended up in capital expenditure such as purchasing Singaporean spectrum, Vodafone fibre roll-out and the company's FTTB roll-out.

Given the substantial increase in capital expenditure, depreciation & amortisation is forecast to increase materially over the next few years. Combined with margin pressure from the National Broadband Network (NBN) this means, in the broker's view, that net profit and growth in earnings per share will be hard to come by. Morgans differs from many other brokers in that it expects forecast net profit and earnings per share to actually decline in FY18 and FY19.

On the other hand, the broker notes the company did an impressive job of expanding iiNet's earnings in the first half and has made progress in reducing iiNet costs as well as trying, where possible, to offset the margin crunch that is looming in the NBN. Yet Morgans believes this will be difficult to avoid and become evident in the second half. Consequently, the broker retains a Reduce recommendation.

TPG Telecom has flagged that in the first half its fibre-to-the-building (FTTB) helped offset NBN margin pressure but does not expect this to continue in the second half. Having recently won mobile spectrum in Singapore, the company is expected to expand into mobile in Australia at some stage and this may be as soon as the April 2017 auction for Australian mobile spectrum.

Ord Minnett found the first half results mixed and believes the FTTB opportunity is now at risk, while broadband margins should begin a decline from this point onwards as ii-Net-induced margin improvement has run its course.

The stock is observed trading at a significant premium to its peers on an enterprise value/EBITDA basis as well as on a free cash flow multiple as the company embarks on its Singapore mobile venture. While expecting the company will meet FY17 guidance the broker expects FY18-19 will be tough as the NBN migration accelerates. Ord Minnett's rating is downgraded to Lighten from Hold

Credit Suisse also has a bleaker outlook. While first half results were ahead of forecasts, the broker observes the company continues to lose share, calculating that TPG Telecom accounted for 14% of organic net additions across the market in the first half, which remains below its 25% overall broadband market share and the third consecutive period where share has been lost.

The stock may not be expensive but the risk around its mobile ambitions is significant, Credit Suisse contends. The broker believes the cost of entering the mobile market will be extremely high and the visibility on returns is limited.

The company would then have to build a network, which would require significant investment. Moreover, in the broker's view, TPG Telecom has indicated it is willing to increase leverage to fund any mobile investment. Hence, Credit Suisse downgrades to Underperform.

Morgan Stanley is more positive, keeping a Overweight rating. The broker believes the company is exhibiting best practice in both cost reductions from recent acquisitions and also growing new business. The broker does accept the second half will be more challenging, with accelerated NBN migrations and higher marketing expenses.

First half results beat Citi's estimates, largely because of the improving margins in iiNet. The broker believes corporate, FTTB and other key products which will drive earnings growth in the future as the NBN affects

consumers and iiNet.

The broker notes FY17 guidance is unchanged at $820-830m. This probably reflects some conservatism on the part of management, Citi believes, and also the fact that broadband access costs are in the early stages of a steep ramp up during the NBN roll-out.

FTTB

The company is slowing its roll out of the FTTB as it seeks to better understand the impact of the Commonwealth Government's prospective legislation. The reform legislation includes a clause that appears to limit the footprint for FTTB to 50m from its existing network. Credit Suisse believes this could mean that the FTTB strategy may no longer be viable if the addressable footprint is materially reduced.

Macquarie also notes management's concerns over the imposition of the broadband levy and the introduction of the 50m restriction, quoting management commentary that such technology-specific solutions will not solve the problem in question, given the strategies for wireless bypass being implemented elsewhere.

Catalysts

The main catalyst brokers observe is the decision by the ACCC on mobile roaming over the next month and the ACMA auction for the remainder of the 700MHz mobile spectrum scheduled for April 4. At the results briefing the company would not confirm whether it would be bidding at the auction but did indicate a desire not to raise capital to pursue an Australian mobile strategy.

While both Goldman Sachs and Citi expects TPG Telecom will bid for spectrum, their base case assumes that Optus and Vodafone secure the two available blocks.

UBS believes TPG is likely to participate and, if successful, estimates a metro-centric roll-out could cost $1.5bn and upwards, with cost dependent on how much spectrum is acquired and the extent to which the company builds the network rather than leases infrastructure. This is also dependent on whether TPG Telecom can roam onto other networks.

Corporate revenue growth picked up to 3.8% and Macquarie believes corporate is a key driver of earnings going forward, following the network expansion facilitated by the Vodafone roll-out. Cash conversion was also consistent with historical levels.

That said, the uncertain prospects surrounding the company's mobile strategies in Singapore and Australia overshadow the stock and this has implications for the earnings outlook, cash flow and risk profile, in the broker's opinion.

Capital expenditure was above the broker's expectations as the company starts to build a local team in Singapore. Capital expenditure guidance for Singapore mobiles in FY17 is $120-160m, which include spectrum payments and network capital expenditure for the year but excludes any potential spectrum payments from the Singaporean general spectrum auction early this year in the event the company is a successful bidder.

FNArena's database shows three Buy recommendations, two Hold and three Sell. The consensus target is $7.89, suggesting 16.1% upside to the last share price. This compares with $8.04 ahead of the results. Targets range from $6.03 (Morgans) to $10.75 (Morgan Stanley).

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Brokers Query Downer's Push On Spotless

Infrastructure and engineering services contractor Downer EDI has made a play for facilities manager Spotless Group and several brokers are unconvinced about the move.

-Likely to take time to turn Spotless around and integration risks high -Brokers question the raising of capital, lack of due diligence as a pre-condition -Downer may re-visit the sale of the Spotless laundry division

By Eva Brocklehurst

Infrastructure and engineering services contractor Downer EDI ((DOW)) has confirmed its interest in taking over facilities manager Spotless Group ((SPO)). Brokers appear unconvinced about this fork in the company's expansion strategy.

Deutsche Bank is wary of the proposed acquisition, given weak operations at Spotless and deteriorating market conditions. Moreover, no due diligence will be undertaken by Downer and the integration risks and cost synergies look high.

While Downer's management has had reasonable success in achieving cost reductions in other acquisitions, the broker notes Spotless has already been through a significant cost cutting exercise and, therefore, the potential for further reductions is low. From the Spotless perspective, Deutsche Bank considers the $1.15 cash offer an attractive exit price.

Credit Suisse also finds it hard to come to grips with the rationale for acquiring Spotless, as Downer acknowledges the acquisition is about growth rather than synergies, although $20-40m in cost synergies will be targeted over time. The broker is sceptical about growth for growth's sake and also questions the large premium in the bid, the lack of due diligence as a pre-condition and the raising of such a large amount of capital for the deal.

There are material and numerous risks in the broker's view, despite the conditions Downer has set for the deal to progress. The broker acknowledges an argument that management is moving on Spotless at a time when all bad news maybe incorporated into the price and there is a decent chance of turning the business around.

Yet, final judgement on whether the deal was right may only be forthcoming in years from now. Credit Suisse concludes it is fair to give management a chance to prove a difficult investment story can be turned around but remains less than enthusiastic. Hence, the broker sticks with an Underperform rating for Downer.

Downer's Intentions

The company intends to diversify into services and recurring revenue areas such as catering and facilities management and away from construction. Macquarie observes Downer has already started on this journey via its 2014 acquisition of Tenix. The move also enhances the company's government/public exposure and broadens services to existing government customers.

Macquarie downgrades to Neutral from Outperform as this looks to be an opportunistic diversification and the deal size is larger than expected. There is reasonable accretion for earnings per share and the acquisition is consistent with a increased emphasis on services, but the broker believes this needs to be balanced against the higher gearing and the execution risk regarding the turnaround of Spotless.

Macquarie acknowledges Downer has an excellent base business and good record of integrating acquisitions. Nevertheless, Spotless is larger in size and broader in scope and the uplift in earnings per share is expected to be accompanied by a de-rating for the combined business.

The main focus for the near term will be gaining comfort on the Spotless acquisition. Macquarie suspects Downer considers Spotless as a lower-risk play with a stretched balance sheet and little or no revenue growth. The broker envisages relatively low risk of another bidder emerging but believes it will take time to turn Spotless around.

Laundries

Spotless ran an indicative process to sell its laundry business last year but no sale eventuated. Laundries have been a deterrent to potential buyers from offshore and Macquarie suspects Downer is likely to revisit a potential sale of that division.

Business development investment is unlikely to bear fruit until FY18 and revenue remains under pressure in the near term, the broker suggests. The company has identified underperforming or low margin contracts but an exit is expected to take up to 2-3 years as contracts mature.

Macquarie downgrades Spotless to Underperform, after the share price rallied 49% in one day. The broker recommends investors sell into the bid, which is subject to conditions and has a relatively low risk of another bidder emerging.

In the wake of the bid, Ord Minnett upgrades Spotless to Hold from Lighten. Although the potential for higher bids is limited, the broker considers the current transaction has a good probability of proceeding. The main threat is any downgrade to Spotless' net profit guidance, the maintenance of which is a condition of the deal.

The Deal

Downer now owns 19.99% of Spotless, with 15% recently acquired at $1.15 per share. The company has made an all-cash offer to acquire 100% of the company at $1.15 per share, which is a 59% premium to the pre-bid closing price.

This is conditional on 90% minimum acceptance and no reduction in the Spotless FY17 earnings guidance of $80-90m. Spotless recommends shareholders take no action in relation to the bid at this stage. A definitive recommendation will be provided in due course.

Downer has also announced a fully underwritten $1bn equity raising to fund its potential acquisition. The renounceable entitlement offer has a price of $5.95 per share, around a 20% discount to the closing price on March 20.

There are two Hold ratings and one Sell rating on FNArena's database for Spotless. The consensus target is $0.89, which signals -15.2% in downside to the last share price. This compares with $0.74 ahead of the announcement. Targets range from $0.63 (Deutsche Bank) to $1.10 (Macquarie).

For Downer there are four Hold ratings and one Sell rating. The consensus target is $6.04, suggesting -18.6% in downside to the last share price. This compares with $6.33 ahead of the announcement. Targets range from $4.01 (Morgan Stanley, yet to comment on the bid) to $7.70 (Citi, also yet to comment on the bid).

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How Long Can Australia's Property Party Last?

By Craig Swanger, FIIG Securities

Australian residential property – 15 years of undersupply comes to an end

Australia's housing market has defied every doomsayer's forecast for the past 20 years, avoiding the massive housing market shakeup that hit most other western economies between 2007 and 2011. Can it last?

Australia's housing market has outperformed almost every other residential market in the world over the past twenty years. Doomsayers from The Economist to local lobbyists like LK Economics have called it a "bubble", yet the party continues. Residential property is a source of income for many investors, not to mention that their home is typically their largest single asset by value. In this article we look at some of the drivers for the past two decades plus the status of those drivers now, as a sign of what the near future might hold.

Outlook for the Australian residential property

There is no outlook for the Australian residential property market as there is no Australian property market. Other than tax, all the major drivers of property prices are state specific. For example, if there is an overall population growth in Australia, but no one wants to move to South Australia, the South Australian property market will suffer, but cities with increasing population will benefit.

So, you need to assess each of the states individually – more on that later.

Ten years of inadequate supply is coming to an end

In the late 1980s when the CGT tax system was introduced and negative gearing was reintroduced, rents and capital prices rose dramatically causing a boom in construction, ending with an oversupply that combined with the early 1990s economic slowdown to curb both prices and rents.

A significant shortfall in supply of dwellings over the last 10 years:

Figure 1 Source: RBA

By 1995, excess dwellings had been taken up, and rents started to rise again. Prices rose shortly after, kicking off the longest bull market in Australian residential property history. Then, in 2006, the impact of the Howard Government's increased legal migration programmes supported by the Rudd and Abbott governments – started to impact population growth. Rents rose steeply as the shortage in dwellings across Australia reached record highs, and the 2009 recession only served to slow construction further, leading to more price increases. By 2012 construction had picked up and rapidly reduced shortages. By 2015, construction exceeded demand for that year for the first time since 1999.

Supply has risen, demand from migrants has fallen, and rents are slowing

Supply has now picked up to meet demand, with a net surplus expected for the next three years at least. Population growth has also slowed dramatically since the end of the mining investment boom in 2011 and 2012, exacerbating over supply. Western Australia, South Australia and Queensland have experienced 60%, 40% and 35% declines in their net overseas migration respectively, contributing to a national drop in net migration of around 32%. New South Wales and Victoria are still experiencing near record high overseas migration.

This increase in supply, coupled with lower population growth, needs to be carefully monitored by investors as it will lead to more price volatility in local areas where this imbalance is more acute. At the moment, inner city Brisbane is the most vulnerable as supply is expected to remain high for the next two to three years, and population growth has slowed. However, rental data is providing a strong lead indicator that excess demand has already dropped far enough to push prices down.

Figure 2 shows the medium term rental and capital (price) growth rates for the Australian market as a whole. The shaded areas highlight periods of oversupply (red shading) and undersupply (blue shading), relative to population growth (demand). The chart data uses rolling three year periods to remove short term noise, but the change over the past year is just 0.6%pa; ie there are signs of an even faster slowdown.

Rental and capital growth rates for the Australian market (rolling three year):

Source: ABS Note: Green line is rental income growth, blue line is price growth

Sensitivity to population growth and density

As mentioned, population growth is a key driver of property price movements. For Australia, net immigration is particularly important as it is far more volatile than changes in the birth and death rates. When Australia's economy slid into recession in the 1990s, net immigration halved, putting further pressure on the economy and property prices in particular.

This sensitivity is exacerbated by the same point that has created such great performance to date – too many people wanting to live close to the cities, particularly Sydney and Melbourne. The most crowded city in the Western world is London at 5,100 people per square metre (sqm), followed by Athens, Barcelona, Berlin, Paris, Dublin, Rome, Los Angeles, Toronto and then Sydney at 2,200 people per sqm, remarkably ahead of New York and Chicago. Melbourne is 40% less dense than Sydney.

What's more, Sydney's density is growing three times faster than London's – driven by population growth, in turn driven by net immigration, which in turn is driving very steep rises in land values around our CBDs. Sydney's inner eastern and inner western suburbs have a population density of 8,800 people per sqm.

Quick word on "fake news"

The real estate and banking sectors point to the total shortfall in housing over several years. They claim the cumulative shortfall over the past 15 years justifies current prices. Markets simply don't work that way. For any year in which there is more supply than demand, excess demand shrinks and the pressure on prices subsides. If there are 120 properties for sale in an area and 100 buyers, it is a buyers' market and the desperate seller will need to sell at a lower price than the current market. Housing is no different than any other supply and demand market in the world, no matter how much property spruikers might wish it otherwise.

Conclusion

Residential property is an income producing asset, just like other types of property, bonds, equities and real assets. However, residential property captures far more of the headlines due to the enormous profit pools available when markets are strong – for example property developer margins, banking margins, mortgage brokers, and the media themselves. It is also one of the least regulated parts of financial services, so the potential for overzealous research is high. Forecasting property prices is challenging because of this zeal and the love of property as an asset class, particularly in Australia.

While Australia remains a residential address of choice for families in particular, there will be a natural floor under property prices. But from time to time, prices can and will fall particularly when they step too far from fundamentals, like the level of rent earned. Rent is not just about investment income, but the lower it gets relative to value, the more it encourages owners to sell and rent instead.

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Nufarm Potential In M&A And Omega-3

Despite a stronger-than-expected first half result, agricultural chemical supplier Nufarm has retained a cautious outlook. Brokers focus on omega-3 and M&A potential.

-Marketplace remains competitive, soft commodity prices are low -Improving margins and returns, but is this already in the share price? -Next catalyst expected to be potential acquisitions, to broaden exposure

By Eva Brocklehurst

Agricultural chemical supplier Nufarm ((NUF)) has offered what appears to be a softer outlook for the second half, after posting a robust first half result. The company has removed the word "solid" from full year guidance for underlying operating earnings (EBIT) growth, instead using the label "improved".

Average seasonal conditions in major markets are assumed, with pressure in Latin America continuing, given issues in Argentina and the later timing of sales in Brazil. Market conditions are expected to remain competitive, as prices for soft commodities are low because of high inventories and strong harvests.

The first half, which is usually the weaker half, was stronger than many brokers expected. Sales growth was 15% and earnings were up 19%, while net profit grew 67%. Nevertheless, brokers highlight a competitive Australian marketplace and the company's more cautious commentary regarding the outlook in Latin America. Strong results were recorded in North America, Europe and Asia. Seed technologies also materially improved, although still recorded a loss of -$200,000 versus -$4.4m in the prior corresponding half.

Earnings are highly skewed to the second half, in line with Australia's winter crop and the northern hemisphere's main cropping period. Nufarm generates around 70% of its earnings in the second half so the largest near-term risk will be weather conditions as the US, European and Australian growing seasons approach. The company's strength lies in its diversity of product and geography.

Morgans was pleased tha, for the first time in a while, there were no material one-off items. The broker expects the company to achieve its targeted $116m in net cost savings by FY18. The main negative in the half was a weaker-than-expected Australian performance. After strong share price appreciation, Morgans downgrades to Hold from Add. The broker would revisit its view on any material weakness.

Ord Minnett expects FY16-19 compound annual growth in earnings of 9.3%. While the broker notes the cautious tone and a tough global crop protection market, expectations for "improved" earnings are highlighted.

Nufarm may have removed the word "solid" from its FY17 earnings growth guidance but, on the basis that the company maintains its cost-saving program and will deliver around $20m in incremental benefits, Credit Suisse believes earnings of $308m are achievable.

Deutsche Bank considers the first half result, while above expectations, is mixed, as full year guidance appears to have softened. The company has made good progress on improving margins and returns and the broker believes this has already been incorporated into the share price. The broker retains a Sell rating, with the stock trading at a 47% premium to its valuation.

M&A

Potential asset divestments from global agricultural chemical deals provide the next potential catalyst for Nufarm, in Macquarie's opinion. These sorts of acquisitions should enable the company to broaden its portfolio and deepen exposure to existing regions. These scenarios are underpinned by a 50:50 debt-to-equity assumption.

Macquarie expects the company to be disciplined in this regard. As the company is already overweight in herbicide, at 63% of FY16 revenue, the broker ascertains the insecticide and fungicide segments should appeal more from an M&A angle.

Ord Minnett notes the company continues to express interest in acquiring forced divestments that may come to market and, while no specific targets have been flagged, believes opportunities in Europe or the US could arise.

Credit Suisse continues to factor in $1 per share in upside from M&A on the basis of a highly accretive acquisition and believes there are several large assets in play which complement the company's strength in herbicides.

Conversely, Deutsche Bank takes the view that Nufarm is not likely to participate in the current round of global crop protection industry consolidation, as Sumitomo has a 23% shareholding, and any divestments are likely to be sizeable and vigorously contested. Deutsche Bank estimates the company's balance sheet capacity to be $100-150m. Nufarm also warrants corporate appeal in its own right, Morgans contends.

Omega-3

Over coming years, the company's omega-3 canola product could be a game-changer but is unlikely to be a material earner until FY20, Morgans believes. Ord Minnett's focus is on the performance improvement program and the opportunity in the omega-3 platform. Management has submitted filings for regulatory approval in Australia and expects to do the same in the US and Canada this month. Commercialisation is expected to commence in 2018-19.

The platform comes from a research collaboration with CSIRO and the Grains Research and Development Corporation to develop canola which can produce long-chain omega-3 oil, which contains nutrients essential for human health. The project uses genetic technologies to transfer plant genes to canola from micro algae to produce the oil, which is similar to that found in fish and thus reduces pressure on wild fish stocks.

UBS also notes the sharpened focus on the omega-3 initiative. The broker now incorporates around $0.75 in valuation for this option. This assumes the company achieves 5% market share over 10 years with a 20-25% earnings margin. UBS ascribes around a 50% probability to the development, given the uncertainties associated with the project and its economics.

Credit Suisse also envisages the omega-3 project as an opportunity and it commands $10m in earnings in its models over FY19-20. Nufarm might be able to earn a profit margin of around US$250/t or more, Credit Suisse calculates, assuming that it is the producer of the omega-3 canola oil.

The company could simply be a canola seed seller or choose to grow, process and sell a high omega-3 oil further down the value chain. The company is not without competition in this regard, the broker notes. Grain processor Cargill has teamed up with BASF to develop a commercial omega-3 canola variety by 2020. Dow is also working on a variety.

The consensus target on FNArena's database is $9.64, signalling -0.4% in downside to the last share price. This compares with $9.07 ahead of the results. Targets range from $6.60 (Deutsche Bank) to $10.75 (UBS). There are three Buy ratings, three Hold and one Sell (Deutsche Bank).

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Other Revenue Sources Underpin Sigma

Given poor prospects for growth in PBS revenue, brokers expect Sigma Pharmaceuticals will need to rely more on its expansion into other revenue lines.

-Growth to come from Australia's hospital distribution market and OTC products -Yet, ramp up in capital investment required to stimulate growth -As ageing distribution centres are upgraded or replaced

By Eva Brocklehurst

Sigma Pharmaceuticals ((SIP)) is broadening its horizons amidst a challenging operating environment. The company will automate its distribution centres, expand relationships with generic manufacturers and extend its reach in China.

The company's FY17 results were in line with Citi's expectations and the underlying operating environment is forecast to remain challenging, given the poor prospect for improved Pharmaceutical Benefits Scheme (PBS) revenue and the end of working capital benefits from the pulling back of customer credit terms. The company has indicated there is limited scope to reduce terms to customers beyond this year.

Growth is expected to come from a share of the $3bn Australian hospital distribution market and fast-growing, high-margin over-the-counter (OTC) products, as well as the leveraging of existing and new infrastructure with third-party distribution. As the PBS market is flat the company is investing to maintain its margins and diversify its revenue sources.

The company is embarking on a multi-year capital expenditure program for new distribution centres with around $100m allocated in FY18 and around $65m in FY19. This excludes any investment in a new ERP (enterprise resource planning) system, which would allow the company to fully benefit from its investment in distribution centre automation. Management is yet to disclose the expected expenditure.

Sigma has also launched an Amcal website aimed at the Chinese market in partnership with a local operator. A deal with generics manufacture Arrow has also been signed. Citi believes these sorts of deals with third parties are a natural extension of the company's existing business and should allow it to leverage distribution infrastructure.

The category of other revenues, which include supplier rebates and merchandising income, is probably accounting for a large proportion of profits but Citi has very little visibility on this and remains wary of long-term sustainability.

The company has guided to earnings growth of at least 5% for FY18 and Citi suspects Sigma will improve guidance, as it upgraded guidance throughout FY17. The broker is confident in management's ability to deliver, given its history, and this could provide upside to forecasts. Meanwhile, the stock is considered fairly valued relative to the broader market.

While the company has maintained growth expectations for FY18-19 and organic growth trends are expected to improve across the business, a material ramp-up in capital expenditure is needed to invest in growth, Morgan Stanley observes. This will have implications for debt, depreciation and interest.

The broker believes there is little room for upside surprises and, while the company has maintained its momentum, the outlook is more than captured in the share price. Morgan Stanley retains an Underweight rating as, at current levels, longer term risk is not being reflected in the multiple. On a sector relative basis, the broker prefers to hold the IVF names.

Pharmaceutical Benefits Scheme

Citi observes the PBS base business is the largest component in the company's revenue (64%) and is generating very thin margins which are unlikely to get better over time. Australian government estimates for the PBS show a -7% year-on-year decline in FY17 to $10.4bn, which UBS notes was caused by the slowing take-up of hepatitis C drugs.

The PBS is expected to return to 1.9% growth in FY18 and 4.9% growth in FY19. The growth may be predominantly in hospitals, which the broker believes is a positive for Sigma's expansion strategy. That said, UBS acknowledges

non-PBS revenue will continue to be the main driver of revenue for the company, along with extending its presence in Asia.

New HCV drugs were listed on the PBS in the March quarter 2016 and the company benefited in terms of sales by around $687m in FY17, although Morgan Stanley observes this was considerably more modest at the earnings level. Management has indicated that peak sales for these drugs in other developed countries were reached at 12-18 months after launch.

The rise in the provision for doubtful debts disappointed Credit Suisse but additional costs are not expected to emerge in the near to medium term. The main highlight for the broker was a material decline in working capital.

With PBS revenue to remain under some pressure, higher growth of non-PBS revenue, as well as a potential winding back of remaining trade discounts to pharmacy, should sustain gross profit throughout FY18, the broker believes. Beyond this, Credit Suisse expects incremental wholesale opportunities in hospital pharmacy, as well as procurement cost savings, should underpin medium to long-term earnings growth.

An un-geared balance sheet and a focus on managing working capital has put the business in a strong position, the broker contends, to fund the first material step-up in capital investment over the next two years as ageing distribution centres are replaced. Credit Suisse retains a Outperform rating.

FNArena's database shows two Buy recommendations (Credit Suisse, UBS), one Hold (Citi) and one Sell (Morgan Stanley). The consensus target is $1.26, suggesting 1.7% upside to the last share price. Targets range from $1.15 (Morgan Stanley) to $1.40 (UBS). The dividend yield on FY18 and FY19 forecasts is 4.9% and 5.0% 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 March 13 to Friday March 17, 2017 Total Upgrades: 18 Total Downgrades: 9 Net Ratings Breakdown: Buy 43.67%; Hold 42.41%; Sell 13.92%

Commodities are back! After a long month of share price weakness, mining stocks in particular made a swift come-back on buyers' radar in the second full week of March and stockbroking analysts were partially responsible.

For the week ending on Friday, 17th March FNArena registered twice as many upgrades in recommendations for individual ASX-listed stocks than downgrades, and almost two-thirds of the upgrades went to mining and energy stocks, including Origin Energy (2x), BHP Billiton, Fortescue Metals and Rio Tinto.

These upgrades were issued alongside portfolio upgrades by top-down investment strategists. No wonder, the sector bounced back during the week.

FNArena registered 18 upgrades in total, 11 for commodity-related stocks, against nine downgrades, with only two resources stocks included on the negative side. Instead, the list of stocks hit by a downgrade is heavily populated by yield and property related stocks, including Vicinity Centres, Westfield and BWP Trust.

Note: GPT received two upgrades and both went to Buy. The market's state of mind is far from a full black-and-white division.

Positive changes to valuations and price targets remained few and far between, with Challenger demanding top spot for the week, enjoying a 4.6% increase, followed by Computershare (+2.7%) and CSL (+2.15%).

Negative changes have been more common and larger in size. Perseus Mining took the hardest blow: -12.7%. Then comes Myer (-3.7%), then follow OZ Minerals (-2.1%) and Westfield (-2%).

Resources' absolute dominance returns in the table for positive changes to profit estimates, with Syrah Resources on top (+26.3%), beating Alumina Ltd (+15.20%) and Fortescue Metals (+12.7%). Maybe reminding investors that not everyone in the sector is equally enjoying the wind in the back, the table for negative changes to profit estimates is also dominated by resources stocks, led by Perseus Mining (-18.8%), Independence Group (-8%) and Whitehaven Coal (-4%).

Note how the positive adjustments are much larger than the negative revisions.

Upgrade

ALACER GOLD CORP ((AQG)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/0/0

Macquarie observes gold equities continue to trade in a volatile way and this is expected to continue while gold prices are in the US$1150-1250/oz range. The broker believes share price volatility has opened up a value gap.

Macquarie upgrades to Outperform from Neutral on valuation grounds. Target is reduced to $2.80 from $2.90.

BHP BILLITON LIMITED ((BHP)) Upgrade to Add from Hold by Morgans .B/H/S: 3/5/0

Morgans believes the recent volatility in oil and iron ore is primarily driven by the US dollar swinging around, rather than any fundamental factors. Indeed, the broker believes the fundamentals are stronger than the market is accounting for.

The upgrade cycle for resources has a way to go, although miners are expected to remain disciplined in the short term after years of austerity. The broker does acknowledge there is room for some moderation in the iron ore price rally that may mean some additional short-term downside for share prices.

Morgans upgrades to Add from Hold, believing the share price is now back at attractive levels. Target is raised to $28.19 from $27.82.

CHALLENGER LIMITED ((CGF)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/4/0

Citi analysts remain of the view Challenger won't meet its own guidance for FY17 Life CoE performance, but they also believe the improved outlook for the future from the higher proportion of longer-dated sales suggests the shares are not as expensive as previously thought.

On the flipside, Citi is of the belief Challenger will have to raise additional capital, exact timing unknown. On the combination of all of the above, rating upgraded to Neutral from Sell. Target lifts to $11.90 from $10.35.

CHARTER HALL GROUP ((CHC)) Upgrade to Overweight from Underweight by Morgan Stanley .B/H/S: 3/2/1

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, the broker observes it has been too bearish on the growth outlook and the de-rating risk to Charter Hall. Despite the strong run in the stock, it is expected to deliver superior growth in free funds from operations and net tangible assets in the medium term.

Rating is upgraded to Overweight from Underweight. Target is raised to $5.65 from $4.45. Industry view is Cautious.

FLETCHER BUILDING LIMITED ((FBU)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/1

UBS observes the stock is now trading at a larger discount to the market than historically has been the case, having been sold off by -11% since the interim result.

The broker continues to forecast peak earnings in FY18 but still expects the New Zealand construction cycle to remain elevated over the medium to longer term.

The stock is not aggressively priced, in the broker's view, and the rating is upgraded to Buy from Neutral. Target is raised to NZ$9.85 from NZ$10.05.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 3/5/0

Throughout 2016, the company has benefited from stronger iron ore prices.This has allowed cash flow to facilitate early debt reduction. With the iron ore price falling back from recent highs, the equity has now moved back to fair value, in Morgan Stanley's view.

Incorporating the commodities team's latest forecasts Morgan Stanley upgrades to Equal-weight from Underweight, raising the target to $6.30 from $6.00.

The broker's thesis for the miners is supported by mark-to-market upside and ongoing efficiency gains. Industry view is Attractive.

GPT ((GPT)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Overweight from Underweight by Morgan Stanley .B/H/S: 3/3/0

The stock's recent underperformance can be attributed to both earnings and valuation risk associated with the GWSCF unit holder vote as well as depressed earnings growth, Credit Suisse believes.

Nevertheless, the broker is now more confident in the likelihood of the GWSCF being retained and, with greater visibility on the change-of-use upside, this makes it hard to ignore the valuation appeal.

Credit Suisse upgrades to Outperform from Neutral.. Target is raised to $5.35 from $5.21.

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, The broker notes GPT should experience an acceleration in growth profile as development and funds management earnings rise.

Rating is upgraded to Overweight from Underweight. Target is raised to $5.00 from $4.70. Industry view is Cautious.

MIRVAC GROUP ((MGR)) Upgrade to Overweight from Underweight by Morgan Stanley .B/H/S: 4/2/0

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, the broker notes Mirvac has shown it's less reliant on a growing residential cycle whilst its property trust is considered one of the best in the sector.

Rating is upgraded to Overweight from Underweight. Target is raised to $2.25 from $1.95. Industry view is Cautious.

MYER HOLDINGS LIMITED ((MYR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/4/0

The first half result was commendable, in Macquarie's view, although sales were a disappointing aspect. A reduced store footprint will exacerbate the sales decline over the next year. Cost reductions were a clear positive and more is envisaged.

Macquarie upgrades to Outperform from Neutral, as valuation support has materialised and a short term trading opportunity is apparent. Target is reduced to $1.21 from $1.29.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Accumulate from Hold by Ord Minnett and Upgrade to Outperform from Underperform by Credit Suisse .B/H/S: 4/2/1

Ord Minnett observes the stock price has declined -11% since the end of January, largely because of softness in both benchmark oil and spot LNG markets as well as slightly underwhelming first half result.

As the stock is now trading at a discount to the $7.10 target, the broker raises its rating to Accumulate from Hold.

Ord Minnett expects Origin Energy to benefit from the greater volatility in wholesale electricity markets through its flexible generation portfolio. An increasingly tight east coast gas market could result in a higher-than-expected value for the exploration and production business.

Credit Suisse finds some value at current levels despite a disappointing balance sheet. Rating is upgraded to Outperform from Underperform. Target is raised to $7.00 from $6.30.

The broker is mindful of the magnified risks on any downside in oil prices, caused by the company's excessive leverage, and acknowledges it would be considerably easier owning the stock if this balance sheet issue did not exist.

The broker believes Ironbark should be separated out of the planned divestments. Credit Suisse calculates it could ultimately contribute 40-50% in debt reduction as the entirety of a new business that is spun out. The broker believes Origin does not have the capital to develop Ironbark for some time.

Credit Suisse also struggles with the question of why the company has not raised equity as it is currently spending $60-120m on hedging.

OZ MINERALS LIMITED ((OZL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/1/4

Macquarie upgrades to Outperform from Neutral. The company is set to release its final feasibility study in the next few weeks on Carrapateena and the broker expects improved financial metrics, including reduced capital expenditure.

Target is reduced to $9.60 from $10.40.

RIO TINTO LIMITED ((RIO)) Upgrade to Add from Hold by Morgans .B/H/S: 7/1/0

Morgans believes recent share price weakness, based on volatility in the US dollar, has created an opportunity to add the stock at lower levels.

The broker upgrades to Add from Hold following a further upward revision to its final forecasts. Strength in the iron ore and aluminium markets, and potential upside for copper, has provided exceptional earning strength for Rio Tinto at a time of low capital expenditure.

Target is raised to $65.57 from $62.85.

RESOLUTE MINING LIMITED ((RSG)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 2/0/0

Resolute Mining was the best performer in the ASX 200 throughout the first three quarters of 2016, Morgan Stanley observes, but gave up half the gains as gold miners moved lower in the wake of the US election.

Morgan Stanley believes the stock is undervalued, as the equity continues to perform like a highly leveraged stock, even though it is now net cash and has lowered its all-in sustaining costs.

Rating is upgraded to Overweight from Equal-weight. Target is reduced to $2.30 from $2.40. Industry view is Attractive.

ST BARBARA LIMITED ((SBM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/0/0

Macquarie observes gold equities continue to trade in volatile way and this is expected to continue while gold prices are in the US$1150-1250/oz range.

The broker upgrades to Outperform from Neutral on valuation grounds. Target is raised to $3.00 from $2.90.

SANTOS LIMITED ((STO)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 4/4/0

Credit Suisse suggests the risks around the share price might be more balanced now and upgrades to Neutral from Underperform. The broker acknowledges it may be too early on the call, if oil prices continue to slide.

The broker awaits resolutions on the east coast gas market, as the company is clearly at the epicentre. Nevertheless, Credit Suisse continues to wonder where GLNG sits in the debate, as the argument is being made that new gas is expensive to bring to the market.

Credit Suisse continues to have concerns regarding the long-term structural challenges for the company but notes the stock could move both ways, depending largely on the trajectory of the oil price. Target is $3.80.

WESTERN AREAS NL ((WSA)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/4/2

Macquarie prefers Western Areas over Independence Group ((IGO)) for nickel exposure, with the supply outlook expected to become clearer in coming months.

The broker upgrades its nickel price forecast for 2017 by 12% and 2018 and 2019 by 6% and 4% respectively. Upgrade to Outperform from Neutral. Target is raised to $2.70 from $2.60.

Downgrade

BEADELL RESOURCES LIMITED ((BDR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/2/1

Macquarie observes gold equities continue to trade in volatile way and this is expected to continue while gold prices are in the US$1150-1250/oz range.

The broker downgrades to Neutral from Outperform to reflect increased operating risk. Target is reduced to $0.30 from $0.35.

BWP TRUST ((BWP)) Downgrade to Sell from Neutral by UBS .B/H/S: 0/0/3

UBS believes a shortening lease expiry profile will continue to be a headwind for the stock. The broker downgrades to Sell from Neutral on valuation grounds, as other names with lower risk profiles appear more attractive.

Five assets have already been vacated, with a further seven to be vacated as Bunnings re-locates to more favourable locations that have been left vacant by the demise of Masters.

Assuming Bunnings vacates one in five leases on expiry and 12 months downtime, the broker estimates the hit to earnings will be -1%, -2.2% and -2.2% in FY18, FY19 and FY20 respectively. Target is reduced to $2.66 from $2.91.

CSL LIMITED ((CSL)) Downgrade to Neutral from Buy by UBS .B/H/S: 4/2/0

CSL is benefiting from plasma supply bottlenecks elsewhere, plus it is in a position to increase its own supply, thus maximising benefits. Did anyone mention Steven Bradbury?

UBS analysts decided to touch base with the industry at a major conference, to get a grip on how long/how much this story has to play out further. Their fresh conclusion: these structurally positive industry conditions support CSL's market volume expansion well into the medium term.

Price target lifted to $132.15 from $122 as future years estimates increase. Alas, recent price gains have also triggered a downgrade to Neutral from Buy.

GROWTHPOINT PROPERTIES AUSTRALIA ((GOZ)) Downgrade to Sell from Neutral by UBS .B/H/S: 0/1/1

UBS suspects the acquisition-led growth is coming to an end. Strong income growth was achieved through debt-funded capital expenditure in the first half.

Further de-leveraging is now expected, in addition to the underwritten distribution re-investment plan as management focuses on reducing gearing. UBS downgrades to Sell from Neutral on valuation grounds.

While anticipating the company will successfully de-leverage, the broker retains a preference for other low-geared passive A-REITs trading at a discount to valuation. Target is reduced to $2.90 from $3.07.

INVESTA OFFICE FUND ((IOF)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 0/3/2

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, the broker believes the stock continues to be underpinned by the Cromwell ((CMW)) takeover play, and considers it increasingly fully valued.

Rating is downgraded to Underweight from Overweight. Target is raised to $4.45 from $4.30. Industry view is Cautious.

STOCKLAND ((SGP)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 2/3/1

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, the broker observes the company's residential business remains relatively defensive although concerns are mounting about a slowing in the property trust.

Rating is downgraded to Underweight from Overweight. Target is raised to $4.50 from $4.45. Industry view is Cautious.

TROY RESOURCES NL ((TRY)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Macquarie observes gold equities continue to trade in volatile way and this is expected to continue while gold prices are in the US$1150-1250/oz range.

The broker downgrades to Neutral from Outperform to reflect increased operating risk. Target is reduced to $0.17 from $0.25.

VICINITY CENTRES ((VCX)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/1/2

UBS believes, in an uncertain and evolving retail environment, a buy rating predicated on a discount to valuation can no longer be justified.

The stock is well positioned to drive returns from various assets but the broker would like to witness improved performances across the entire portfolio.

As a result the rating is downgraded to Neutral from Buy. Target falls to $3.05 from $3.25. Earnings are expected to remain under pressure in 2017.

WESTFIELD CORPORATION ((WFD)) Downgrade to Underweight from Overweight by Morgan Stanley .B/H/S: 2/2/2

Morgan Stanley believes the divergence between office and retail asset classes will widen as returns in office continue to improve and retail returns deteriorate. The broker also has a preference for active over passive A-REITs.

With a new analyst, the broker believes a re-rating from the stock's elevated multiple is unlikely until there is evidence of a strategy that will drive superior growth in free funds from operations and net tangible assets.

Rating is downgraded to Underweight from Overweight. Target is reduced to $8.90 from $10.10. Industry view is Cautious.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ALACER GOLD CORP Buy Neutral Macquarie 2 BHP BILLITON LIMITED Buy Neutral Morgans 3 CHALLENGER LIMITED Neutral Sell Citi 4 CHARTER HALL GROUP Buy Sell Morgan Stanley 5 FLETCHER BUILDING LIMITED Buy Neutral UBS 6 FORTESCUE METALS GROUP LTD Neutral Sell Morgan Stanley 7 GPT Buy Neutral Credit Suisse 8 GPT Buy Sell Morgan Stanley 9 MIRVAC GROUP Buy Buy Morgan Stanley 10 MYER HOLDINGS LIMITED Buy Neutral Macquarie 11 ORIGIN ENERGY LIMITED Buy Sell Credit Suisse 12 ORIGIN ENERGY LIMITED Buy Neutral Ord Minnett 13 OZ MINERALS LIMITED Buy Neutral Macquarie 14 RESOLUTE MINING LIMITED Buy Neutral Morgan Stanley 15 RIO TINTO LIMITED Buy Neutral Morgans 16 SANTOS LIMITED Neutral Sell Credit Suisse 17 ST BARBARA LIMITED Buy Neutral Macquarie 18 WESTERN AREAS NL Buy Neutral Macquarie Downgrade 19 BEADELL RESOURCES LIMITED Neutral Buy Macquarie 20 BWP TRUST Sell Neutral UBS 21 CSL LIMITED Neutral Buy UBS 22 GROWTHPOINT PROPERTIES AUSTRALIA Sell Neutral UBS 23 INVESTA OFFICE FUND Sell Buy Morgan Stanley 24 STOCKLAND Sell Buy Morgan Stanley 25 TROY RESOURCES NL Neutral Buy Macquarie 26 VICINITY CENTRES Neutral Buy UBS 27 WESTFIELD CORPORATION Sell Buy Morgan Stanley Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SBM ST BARBARA LIMITED 100.0% 67.0% 33.0% 3 2 SYR SYRAH RESOURCES LIMITED 75.0% 50.0% 25.0% 4 3 AQG ALACER GOLD CORP 100.0% 75.0% 25.0% 4 4 FBU FLETCHER BUILDING LIMITED 50.0% 33.0% 17.0% 6 5 CGF CHALLENGER LIMITED 21.0% 6.0% 15.0% 7 6 WSA WESTERN AREAS NL -14.0% -29.0% 15.0% 7 7 MYR MYER HOLDINGS LIMITED 43.0% 29.0% 14.0% 7 8 BHP BHP BILLITON LIMITED 38.0% 25.0% 13.0% 8 9 STO SANTOS LIMITED 50.0% 38.0% 12.0% 8 10 OZL OZ MINERALS LIMITED -13.0% -25.0% 12.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SGP STOCKLAND 8.0% 42.0% -34.0% 6 2 IOF INVESTA OFFICE FUND -42.0% -8.0% -34.0% 6 3 WFD WESTFIELD CORPORATION -8.0% 25.0% -33.0% 6 4 BWP BWP TRUST -88.0% -63.0% -25.0% 4 5 PRU PERSEUS MINING LIMITED 20.0% 40.0% -20.0% 5 6 VCX VICINITY CENTRES -10.0% 10.0% -20.0% 5 7 COH COCHLEAR LIMITED -33.0% -14.0% -19.0% 6 8 CSL CSL LIMITED 58.0% 75.0% -17.0% 6 9 CPU COMPUTERSHARE LIMITED 29.0% 38.0% -9.0% 7 10 ANN ANSELL LIMITED -17.0% -14.0% -3.0% 6 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 CGF CHALLENGER LIMITED 11.186 10.688 4.66% 7 2 CPU COMPUTERSHARE LIMITED 13.517 13.159 2.72% 7 3 CSL CSL LIMITED 128.142 125.450 2.15% 6 4 IOF INVESTA OFFICE FUND 4.483 4.458 0.56% 6 5 SGP STOCKLAND 4.788 4.780 0.17% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 PRU PERSEUS MINING LIMITED 0.452 0.518 -12.74% 5 2 MYR MYER HOLDINGS LIMITED 1.243 1.291 -3.72% 7 3 OZL OZ MINERALS LIMITED 8.856 9.056 -2.21% 8 4 WFD WESTFIELD CORPORATION 9.582 9.782 -2.04% 6 5 BWP BWP TRUST 2.688 2.725 -1.36% 4 6 FMG FORTESCUE METALS GROUP LTD 6.735 6.798 -0.93% 8 7 AQG ALACER GOLD CORP 4.275 4.300 -0.58% 4 8 COH COCHLEAR LIMITED 125.283 125.957 -0.54% 6 9 BHP BHP BILLITON LIMITED 27.836 27.978 -0.51% 8 10 VCX VICINITY CENTRES 3.064 3.074 -0.33% 5 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 SYR SYRAH RESOURCES LIMITED -3.436 -4.663 26.31% 4 2 AWC ALUMINA LIMITED 12.067 10.475 15.20% 7 3 FMG FORTESCUE METALS GROUP LTD 119.336 105.852 12.74% 8 4 RIO RIO TINTO LIMITED 681.803 614.533 10.95% 8 5 MGX MOUNT GIBSON IRON LIMITED 4.600 4.167 10.39% 3 6 WSA WESTERN AREAS NL 3.910 3.681 6.22% 7 7 EVN EVOLUTION MINING LIMITED 18.067 17.181 5.16% 7 8 NHC NEW HOPE CORPORATION LIMITED 16.367 15.733 4.03% 3 9 IOF INVESTA OFFICE FUND 27.833 26.900 3.47% 6 10 DXS DEXUS PROPERTY GROUP 59.300 57.583 2.98% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 PRU PERSEUS MINING LIMITED -3.887 -3.270 -18.87% 5 2 IGO INDEPENDENCE GROUP NL 9.540 10.390 -8.18% 6 3 WHC WHITEHAVEN COAL LIMITED 43.824 45.724 -4.16% 8 4 KAR KAROON GAS AUSTRALIA LIMITED -13.220 -12.980 -1.85% 4 5 ILU ILUKA RESOURCES LIMITED 8.982 9.148 -1.81% 7 6 NCM NEWCREST MINING LIMITED 80.706 81.847 -1.39% 8 7 ARB ARB CORPORATION LIMITED 63.224 63.908 -1.07% 4 8 MYR MYER HOLDINGS LIMITED 8.797 8.867 -0.79% 7 9 OGC OCEANAGOLD CORPORATION 42.482 42.759 -0.65% 5 10 AGL AGL ENERGY LIMITED 118.186 118.886 -0.59% 7 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: Australia In Focus

The world's largest source of uranium is grappling with the issue of just how it might ensure future baseload power supply.

By Greg Peel

The Great Australian Joke

Energy, or the lack thereof and the cost thereof, has been the hot topic in Australia this past week. The issue has come to a head for two reasons: the inability of renewable energy sources in the state of South Australia to provide reliable baseload power; and the bans placed on coal seam gas exploration in the states of New South Wales and Queensland.

The first issue ties in with the gradual closure of Australia's legacy coal-fired electricity plants, particularly brown ("dirty") coal plants. As Australia's electricity generation capacity diminishes, and the South Australian experience of state-wide blackouts shows renewables have not yet reached baseload capacity, where is Australia's future electricity going to come from? Everything has been touted, from Tesla's offer to build a battery storage facility to overcome the shortcomings of renewables, to the federal government's plan to expand the hydro-electric generation network constructed in the 1950s.

In the meantime, the South Australian state government has suggested it will take things into its own hands. Electricity is currently provided by the private sector.

The second issue highlights the fact Australia is almost alone in the world in being a major energy producer with no public quarantine of energy produced. Shortly Australia will become the world's biggest exporter of liquefied natural gas, and LNG will become Australia's biggest export, overtaking iron ore. The vast bulk of that LNG will end up in Japan, Korea, and particularly, China.

The abundance of shale gas in the US should mean the US could also be a major global exporter of LNG and those wheels are now in motion. But the process is slow, given government approval is required vis a vis energy that is quarantined for domestic use against exported to trading partners for that partner's economic benefit. The government's quarantine means US businesses and households enjoy the economic benefits of cheap domestically produced power.

Not so in Australia. Australian businesses and households pay the same price the Chinese are prepared to pay for gas because why would the private sector, which poured billions of dollars and years of time into building LNG facilities, sell at any less a price than the most a customer, export or domestic, is willing to pay? There is no government quarantine.

There is, however, plenty of natural gas in Australia. On the east coast, this gas is all coal seam. When the big oil & gas companies began building their massive LNG facilities a decade ago, the availability of gas was not an issue. But when those companies started drilling, uninvited, on agricultural land, the political backlash was such that east coast state governments bowed to pressure and banned such exploration.

In the US, landowners own what's under the ground. In Australia, the government owns what's under the ground. Hence gas companies are permitted to enter a property and drill for what's under the ground, unless the government bans them from doing so.

The result of the bans is that the big LNG facilities are now struggling to source enough gas to satisfy export demand. The response is to redirect gas earmarked from sale on the domestic market to export. The lack of available gas domestically means the price of gas has risen exponentially, to the point Australian manufacturers have, or are threatening to, shut down operations due to economic unviability.

The response for the federal government is to ask the oil & gas companies, politely, if they would be so kind as to keep a little bit of gas back for sale domestically at a reasonable price. They have of course agreed, perhaps fearing the possibility of a legislated quarantine. But as to how much of their profits the companies in question, many struggling with debt, will give up, is yet to be seen.

The Great Australian Paradox

What has any of this got to do with uranium?

Australia boasts the largest reserves of uranium in the world (Kazakhstan boasts greater accessible reserves). Australia has not one nuclear power plant (other than a small plant producing medical isotopes). Successive governments over the decades have considered nuclear energy to be politically unsavoury, with events such as Three Mile Island, Chernobyl and Fukushima providing every reason throughout history not to alter such a view.

But Australia is happy to sell uranium to others, including, most recently, a deal struck with India. India is nuclear-capable and not a signatory to the nuclear non-proliferation treaty, but has promised it will only use Australian uranium for power generation. At home, the federal government has limited the number of uranium mines allowed to operate, and state governments have the power to ban uranium mining altogether.

Other than one mine in the Northern Territory that is not currently mining fresh uranium and perhaps never will again, all Australia's mandated uranium mines are in South Australia, ironically. Queensland boasts large uranium reserves but mining is banned in that state. Mining in Western Australia was banned for decades before the most recent conservative government overturned the ban. That government was able to issue a handful of mining approvals before it lost power last week. It is yet to be seen what the incoming socialist government will do.

Nuclear power has often been touted by some Australian politicians as an answer to Australia's carbon emission reduction/baseload power requirement problem. The issues regarding South Australian blackouts and rising east coast gas prices has brought nuclear to the fore once more.

Which is most likely as far as it will get. No Australian government has ever had the stomach for being seen as a supporter of nuclear energy.

Meanwhile in the US, the recently published Trump budget blueprint included funding for the construction of a nuclear waste dump in Nevada – a project which has been stalled for years by legal action and public protest. The lack of a dump facility is one reason US legacy nuclear plants have become economically unviable despite historically low uranium prices. This budget entry suggests the Trump administration is looking to do something about that.

Last Week's Market

The spot uranium market has recently become a bit of an up again, down again affair, with no clear price trend evident since the rebound earlier in the year from the December low. Two weeks ago industry consultant TradeTech's weekly spot price indicator fell -US$1.00 on low volume, last week it rose US$1.75 on even lower volume, to US$25.75/lb.

Traders and speculators again dominated in the four transactions reported, totalling 400,000lbs U3O8 equivalent, although TradeTech does report some limited buying interest emerging from utilities.

No new demand was reported in term markets. TradeTech's term price indicators are unchanged at US$28.25/lb (mid) and US$35.00/lb (long).

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The Short Report

Guide:

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

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

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

Summary:

Week ending March 16, 2017

Last week saw the ASX200 trade up to 5800 and yet again fail at that staunch resistance level, ahead of capitulation this week.

There's quite a lot of red and green on the table below but it mostly reflects bracket creep, with a couple of exceptions.

WorleyParsons ((WOR)), now considered to be under takeover, has understandably slipped further down the table, last week falling to 6.5% shorted from 8.2% shorted. In its place, peer Monadelphous ((MND)), once a long-time incumbent of the 10% plus club but more recently sitting lower on the table, has been steadily on the climb again of late. It's up to 9.6% from 8.3%.

Two more notable steady climbers of late have been Domino's Pizza ((DMP)) and iSentia ((ISD)), both of which I have covered recently in this Report. Last week both turned up in the 10% plus club – Domino's rising to 10.2% from 9.8% and iSentia rising to 10.6% from 9.5%.

It is otherwise interesting to note that Spotless ((SPO)) snuck back into the 5% plus table last week at 5.0% -- unfortunate for someone given this week's takeover bid from Downer EDI ((DOW)), which incidentally was itself 7.7% shorted last week. The bid was not well received by analysts and Downer shareholders, while long suffering Spotless shareholders are no doubt over the moon.

Weekly short positions as a percentage of market cap:

10%+

ACX 17.5 WSA 16.8 MYR 15.7 ORE 15.7 TFC 14.3 SYR 13.2 VOC 11.7 NEC 10.8 ISD 10.6 MTS 10.3 DMP 10.2

Out: IGO

9.0-9.9%

MYX, MND, IGO In: IGO, MND Out: ISD, DMP

8.0-8.9%

OFX, GTY, ILU, FLT, PRU, BAL, SRX

In: OFX, GTY, ILU Out: MND, AWC, AAD, WOR, NWS

7.0-7.9%

NWS, AWC, DOW, NXT, RWC, AAD, RIO, MTR, A2M

In: NWS, AWC, AAD, RWC, MTR, A2M Out: OFX, GTY, ILU, BKL

6.0-6.9%

HSO, IPD, CSV, BEN, BGA, WOR, EHE, PDN, SGH, IVC, SEK, IFL

In: WOR, CSV, IVC Out: RWC, A2M, MTR

5.0-5.9%

CTD, MSB, MYO, GXL, KAR, BKL, AAC, AWE, RFG, CSR, OSH, JHC, SPO, LNG

In: BKL, AWE, SPO, LNG Out: IVC, CSV

Movers and Shakers

We're yet to hear any more about the revelation made by energy services provider WorleyParsons late in February that Dar Group had taken a stake, and indeed late last year had made a full bid that the board rejected. Shorters are understandingly backing out of their Worley positions, and last week saw a drop to 6.5% from 8.2%.

Given the Worley board's failure to disclose the takeover approach, one can only assume we'll be hearing more. Worley shorters certainly have an axe to grind.

Peer Monadlphous has in the meantime seen its shares rally over 50% from late last year on the back of the rebound in commodity prices. Mona had spent a very long time in the 10% plus shorted club as the company suffered through the prior commodity price collapse, only to begin a slide back down the table. But last week saw Mona shorts jump to 9.6% from 8.3%.

This likely reflects a belief Mona shares have run their course for now, because commodity prices have run their course, and perhaps those withdrawing from their Worley shorts want to remain short the sector.

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: Hospitals, Amazon And Henderson

Weekly Broker Wrap: IVF monitor; Australian hospital stocks; Amazon in Australia; Henderson merger; Pointerra; Skydive the Beach.

-Ramsay's Australian hospital growth expected to remain ahead of the industry -Distribution advantages for incumbents likely to be weakened with Amazon's advance -Shaw and Partners: Henderson merger with Janus creates much-needed scale

By Eva Brocklehurst

IVF

UBS has launched a monthly monitor of Australian IVF cycle data. Monitoring the industry cycle remains a key input into the broker's investment thesis for relevant listed stocks. The industry cycled tough comparables in the first half and this is expected to moderate in the second half.

While the industry is likely approaching a trough in the cycle, UBS envisages a risk growth remains depressed over the final four months of FY17. Victoria continues to lead growth along with South Australia.

Virtus Health ((VRT)) is expected to find the final four months particularly challenging in terms of its domestic growth prospects and there are potential headwinds as it resets its low-cost business. Despite the stock now representing solid value, the broker believes there are are few positive catalysts and easier comparables will not be cycled until July. UBS has a Neutral rating and $5.55 target.

Australian Hospitals

Credit Suisse observes the financial performance of Healthscope ((HSO)) and Ramsay Health Care ((RHC)) has varied in recent years. From FY12, Ramsay has achieved Australian hospital revenue growth around 4% ahead of Healthscope and earnings growth 5% above. The majority of the difference is attributable to relative operating theatre additions.

While capacity expansion has historically been the key driver of differences in growth rates, the broker expects less variation over the next three years as Healthscope opens a number of brownfield projects.

There is a risk on the downside if weakness persists for Healthscope and Credit Suisse retains a Neutral rating with a $2.45 target. The broker upgrades Ramsay to Outperform from Neutral as the share price has underperformed over the past month. The target is $74.50.

Tariff reductions in the UK and France as well as a stronger AUD/GBP present headwinds for FY18 earnings growth. The broker expects the company's Australian hospital growth to remain ahead of the industry in the near to medium term.

Amazon

Australian retailers are taking the probability of Amazon entering Australia seriously. Pricing is expected to become more competitive, while short lead-time purchases are likely to switch to online and shopping centre traffic is likely to contract. Credit Suisse observes there are opportunities for globally competitive retailers to increase their distribution using Amazon's Market Place. In contrast, distribution advantages held by incumbents are likely to be weakened.

Amazon customers have a high engagement with electrical, homewares, sporting goods, clothing and children's toys. There is less impact for big, bulky and limited distribution products. Those companies that have high gross margins and costs of doing business are vulnerable, in the broker's opinion.

Credit Suisse has performed a risk analysis which shows upper quartile risk for Myer ((MYR)) and third quartile risk for Harvey Norman ((HVN)), JB Hi-Fi ((JBH)) and Super Retail ((SUL)). The broker notes Amazon's disruptive impact on retailing tends to occur when the business reaches a critical retail share.

In Australia, Credit Suisse expects the disruptive effects will be felt when Amazon exceeds a 5% share of retail in a product category. A five year time frame is envisaged for these scenarios, consistent with a maturity profile in

Australia that is half the time of that in the US.

There are some mitigating factors, the broker observes. For example, the impact on Harvey Norman group earnings is mitigated by the company's big and bulky product range and business outside of Australia. For Premier Investments ((PMV)), which stables a range of clothing brands, the impact of Amazon is mitigated by the expansion of its Smiggle stationery business ex Australia.

Henderson

Shaw and Partners considers the highly complimentary nature of the Henderson Group ((HGG)) and the Janus businesses creates much-needed scale to compete in a difficult global funds management environment. The asset base of the combined entity is US$324bn and a full spectrum of investment capabilities is represented.

Expected annual cost savings of at least US$110m over three years appears light, in Shaw's view, given this only represents about 9% of the combined cost base. The analysts do not have the same optimism regarding revenue synergies as the company and do not incorporate these into forecasts.

Following what appeared to be an end to an impressive growth trajectory in 2016, the merger looks increasingly attractive. Shaw reduced its forecast for earnings per share by -20-30% after the 2016 results and accretion is now significantly more attractive than when the deal was originally announced in October. There are headwinds in terms of overcoming investor sentiment about certain asset classes and underperforming funds and Shaw retains a Hold rating and $3.90 target for Henderson.

Pointerra

Pointerra ((3DP)) provides a cloud-based solution to manage, visualise and share 3D geospatial imaging data. Target customers include the mining, oil & gas, construction and government sectors as well as providers of laser scanning equipment and 3D data analytics and design software. 3D geospatial data sets can be very large which makes storage, processing and sharing very cumbersome.

This platform allows users such as engineers, architects and planners to store and retrieve these datasets much more easily, and substantially faster.

TMT Analytics points out the company does not provide data analytics software or 3D scanning hardware, nor does it capture 3D data itself. Rather, the service is a highly scalable hosting and management of 3D data in the cloud. The analysts consider the stock to be a global platform play in 3D geospatial data with very high operating margin potential.

Substantial upside is expected for the share price and TMT Analytics initiates coverage with a Buy recommendation and $0.08 target. Positive operating earnings (EBITDA) is forecast by FY19. Current cash flow and current cash position are expected to enable the company to break even because of the low cost base.

Skydive The Beach

Skydive the Beach Group (SKB)), an adventure tourism business, is the largest provider of tandem skydiving in Australasia. The company is expected to benefit from inbound tourism tailwinds, together with an increase in demand for skydiving and adventure tourism. In addition, the company has been making strategic acquisitions and Canaccord Genuity notes these have added materially to earnings per share.

The broker initiates on the stock with a Buy recommendation and a target of $0.74. Currently the tandem skydiving market represents around 80% of revenue and has experienced strong growth over the past 10 years, as in consumers increasingly focus their spending on experiences.

The company is well positioned, as it is the largest operator in Australia with 18 "drop zones". Scale, diversification and growing brand awareness are helping to deliver strong double-digit organic growth and the broker expects this to continue.

The company acquired Queensland's Raging Thunder tourism company last year which broadens its offering. Canaccord Genuity estimates more than 60% of the company's customers are international travellers and of these around 25% have come from Asian countries. Inbound tourism from Asian countries into Australia and New Zealand grew by 12.8% and 19.2% respectively in 2016.

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New Website: Mobile Devices

Most visitors to the FNArena website are sitting behind a desktop PC. We envisage this will change in the years ahead.

Society is becoming ever more dependent on mobile and laptops. iPads and smart phones are steadily increasing their total market share of Internet and data usage in Australia.

Which is why the new FNArena website is customised for mobile usage. Incorporating smart technology, the website adjusts to smaller screen sizes. In case of mobile phones, where screen size can be tiny in comparison with today's 21 inch PC screens, a dedicated template kicks in automatically.

This means subscribers can have access at all times, and no matter where they are. At home. At the office. While commuting on bus or train. At the airport before leaving for a well-deserved holiday. At the hotel, or near the beach while otherwise enjoying your holiday.

As long as there is Internet access, and sufficient battery power inside the device, paying subscribers now can look up the latest broker opinions and changes for their stocks of interest, while glancing over news stories, share prices, the calendar, and Rudi's tweets on Twitter.

Those who are using the Portfolio option on the website can keep track via the smallest devices, if need be. Data-heavy applications such as R-Factor, Icarus Signal and the FNArena Sentiment Indicator have been specifically re-modeled and adjusted, so they too can be accessed and used while on the run.

To better accommodate reading on smaller devices, FNArena has developed an innovative, modern era style of publishing which in particular shows its merits when reading important information on the mobile phone. It is easy to share via Facebook, Twitter or LinkedIn. The Print in PDF button works even when there's no Acrobat Reader software in sight (i.e. on a mobile).

The company charts at the bottom of our news stories can look a bit tiny, but then our adaptive technology means you only need two fingers to zoom in and see the finer details.

Font size and amendments can be chosen via the top left icon in the address bar. All key functions are still on the grey-ish horizontal bar, which has the home icon on the left and three horizontal lines on the right.

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Superloop Ties Up Strong Growth Outlook

-Positive operating earnings and net profit expected in second half -Extensive and growing network coverage in Australia, Singapore and Hong Kong -Operating leverage is high, incremental costs minimal

By Eva Brocklehurst

Telecommunications infrastructure company, Superloop ((SLC)), is in the process of monetising its assets. Sales teams have been increased across the region and a new initiative in Hong Kong, initially targeting on-net customers, marks a milestone to accelerate growth in that market.

Brokers believe the company offers a highly scalable investment opportunity with the tailwinds that are evident in the industry. The Singaporean network went live in the September quarter 2015 and reached an operating profit in under 18 months.

The focus is on driving sales growth and establishing master service agreements with large enterprises now the network has been built. Once established, brokers believe the company will need to work to maintain its short-term market share gains, as the larger groups invest in their own networks.

The company is expected to become positive in terms of operating earnings (EBITDA) and net profit in the second half. Morgans expects capital expenditure will continue to expand but not to the same extent as over the last two years.

Morgans values the stock on a discounted cash flow basis with a 10% weighted average cost of capital. The stock trades at a premium to telecommunications peers and, in order to justify this, Morgans believes it also needs to grow at a faster rate than peers.

On current forecasts this will occur, but the broker is mindful the company first needs to successfully execute on its sales strategy. The broker retains a Hold rating for the present and a $2.74 target, acknowledging risks are now to the upside, with Superloop's extensive and growing network coverage and an additional sales push.

Canaccord Genuity agrees, noting that while Superloop is more expensive than its listed telco peers, the stock is cheaper than data centre comparables and trades roughly in line with ASX-listed infrastructure companies. The broker, not one of the eight monitored daily on the FNArena database, has initiated coverage with a Buy rating and $3.00 target.

Canaccord Genuity acknowledges the high level of operating leverage, as following the initial investment, the incremental cost of adding customers and driving utilisation is minimal, with revenue dropping virtually straight to the EBITDA line. The broker expects margins to expand to 30.8% in FY20 from 14.9% in FY17, which helps drive growth forecasts for earnings per share of around a compound 48%.

Even when charging 30-40% below market levels in order to gain share, operating leverage is still high and the broker expects gross margins to trend towards 85% in the short to medium term. Canaccord Genuity notes the incumbent telecommunications companies have been reluctant to meet lower pricing from alternative players.

Network

The company now has network coverage in Australia, Singapore and Hong Kong, with a unique value proposition as the only owner/operator of telecommunications and digital services across these three jurisdictions.

The first half was largely about completing the build up of the Hong Kong network, which should be completed this month and the second half is expected to be a key sales period.

The regional network is reaching scale in Singapore, with over 30 key buildings providing access to over 1000 enterprises, and the company's early mover advantage is well recognised by brokers, as proactive fibre upgrades by incumbents have been slow.

Superloop has been rolling out its managed services and cloud business in the Asia-Pacific over the last three years. Last year it acquired BigAir Group, merging its connectivity with that company's last mile solutions.

A deal with Vocus Communications ((VOC)), will allow international, inter-capital and regional ethernet access

and metropolitan fibre capacity in Australia. Earnings per share forecasts for the outer years are lower, Morgans warns,with increased depreciation estimates for both the BigAir and Vocus deal

The broker believes the company's recent agreement with Vocus has potential to meaningfully increase the synergies on the BigAir acquisition, where a large part of the cost base relates to paying third-parties for the telco access.

The company's ability to lower third-party carrier costs appears likely to surprise on the upside, in the broker's opinion, although confirmation is needed to better understand the upside risk. The main risk/reward relates to customer demand and the impact on the rate of organic sales growth.

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

Brighter Outlook For APN News & Media

Brokers believe APN News & Media is in a superior position in two of the brightest segments of Australian advertising - radio and outdoor. Canaccord Genuity initiates coverage on the stock.

-Full ownership of Adshel to provide a springboard for growth -Ability to integrate outdoor and radio advertising formats -Potential for further consolidation in outdoor market

By Eva Brocklehurst

APN News & Media ((APN)) has reformed. Brokers believe the company is now in a superior position in two of the brightest sectors for Australian advertising - radio and outdoor.

Over the last year the company has divested print assets in Australia, offloaded its New Zealand print and radio business and emerged as a radio and outdoor advertising company. The re-organisation has helped to refurbish the balance sheet and this is now capable of funding growth.

The buying out of Clear Channel Communications in the Adshel joint venture should provide the business with a springboard for capital investment and growth in a way that was not possible under the previous structure, brokers assert.

Canaccord Genuity observes the previous set-up in which each received around $10m per annum in dividends did not suit either business. In the case of Clear Channel, the dividends did not make much difference to its increasingly difficult debt situation while APN News & Media, with only Australian radio left in its portfolio, lacked a credible equity growth story.

With the reasoning behind the buy-out clear it now raises the question of valuation. The acquisition of Adshel may have appeared pricey but Canaccord Genuity suspects this is not as problematic as initially feared. The acquisition was dilutive to earnings, accentuated by an equity raising at a 20% discount. Outdoor stocks warrant higher earnings multiples than radio and television stocks and the Adshel valuation appears in line with the multiples applied to peers in the outdoor sector.

Moreover, Adshel was not equipped for capital growth requirements under the previous ownership but had a good track record of growth and the broker discerns a clear relationship between revenue growth and capital expenditure in the business. Canaccord Genuity, not one of the eight monitored daily on the FNArena database, initiates coverage on the stock with a Buy rating and $3.25 target.

Digital revenue growth has underpinned Adshel and brokers expect this to continue. UBS upgraded to Buy at the time of the 2016 results, as the business reflected a better debt balance with higher Adshel contributions. Credit Suisse also envisages plenty of growth ahead for Adshel, which grew operating earnings by 21% in 2016 and revenue by 17% as it continues to ramp up its digital roll out.

The broker forecasts 11% pro forma operating earnings growth in FY17 for APN News & Media. This will be driven by strong growth at Adshel, modest growth at Australian Radio Network and the removal of the onerous Hong Kong bus contract. Management noted at the time of the results that the forward bookings were strong and advertiser activity is returning to normal.

Australian Radio Network

The company's radio business, Australian Radio Network, operates in a competitive environment in which it holds a similar market share to its peers Southern Cross Media ((SXL)) and Nova Entertainment.

Credit Suisse forecasts a 3.5% increase in operating earnings for Australian Radio Networks out to FY19. In addition to the mature radio business, the company's ability to fund the capital needs of a faster-growing outdoor business supports, in the broker's view, the proposition that the two formats work well together, as advertisers are able to use digital formats in promoting radio.

UBS suspects the growth story in the radio business is almost over and the main game from this point on is maintaining ratings share. The broker expects Australian Radio Network to track the radio advertising market closely in FY17 and believes the re-signing of Kyle & Jackie O to a five-year contract back in August 2016 is critical to the maintenance of ratings share.

The company has demonstrated its ability to re-vamp the radio cost base and Macquarie believes the outlook is improving. An improved ratings outcome is likely in the current half year and this should translate into improved revenue trends down the track, in the broker's opinion.

Outdoor M&A Activity

In the outdoor segment AdShel is the leading street furniture operator in Australia and Canaccord Genuity estimates it holds a 19% share of industry revenue. The company's management has voiced strong opposition to the proposed merger between APN Outdoor ((APO)) and oOh!media ((OML)) on competition grounds.

The broker wonders whether APN News & Media will look at further consolidating this market in the event this transaction goes ahead. The company recently denied reports it was preparing to bid for QMS Media but the broker believes this could be a combination worth considering, given the likely benefits of paring a radio business with a billboard operator.

There are five Buy ratings on FNArena's database. The consensus target is $3.37, signalling 27.7% upside to the last share price. The dividend yield on FY17 and FY18 forecasts is 4.6% and 4.1% respectively.

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

Ramsay Health Care: Rumour, Hearsay, Speculation, Innuendo, and Rubbish

In this week's Weekly Insights:

-Ramsay Health Care: Rumour, Hearsay, Speculation, Innuendo, and Rubbish -Conviction Calls: GS, CS, DB, Morgans, UBS, MS -Aus Retailers: Next Up, The Accountancy Disruption -New Website: Mobile Devices -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Ramsay Health Care: Rumour, Hearsay, Speculation, Innuendo, and Rubbish

By Rudi Filapek-Vandyck, Editor FNArena

We all know the share market as the public forum in which smart thinkers figure out the RBA is going to lower/hike interest rates well before the RBA comes to its decision. It's where smart money starts new trends before anyone realises the old is about to become new, and vice versa.

That's how the market is being sold to us; how the stories are being told, time and again.

But the share market is equally the place where share prices move on group-think, led by rumours, hearsay, baseless speculation, innuendo and unfounded fear.

In recent weeks, shares in Ramsay Health Care ((RHC)) have come under pressure ever since the company announced MD & CEO of nine years, Chris Rex, intends to retire later this year, and no successor has as yet been appointed. Then both departing CEO and the CFO started selling shares.

Plenty of room for unrestricted speculation about what all this can mean? And there the share price went from circa $78 (already down from $84) to $62 in three weeks. Any sideline observer who believes "the market is always right" would have drawn the conclusion the company is about to issue a profit warning, or something similar. Surely, when a share price of a Blue Chip that is Ramsay Health Care comes down by more than -20% something must be amiss, somewhere?!

On Friday, it appeared someone, somewhere had decided enough is enough, and a strong rally back into the mid-$60s ensued.

Maybe that someone works for stockbroker Morgans and issued a fierce rebuke of all the fear mongering that was going around the traps during that time?

Below is a brief summary, and my own interpretation, of stockbroker Morgans response to the share price weakness in Ramsay Health Care surrounded by the wild market rumours swirling around to justify the falling share price.

1. The CEO is leaving and nobody's ready to replace him. Yep. Board members could have done a better job, but note they are confident they will find a suitable, strong candidate, either outside or inside the company, which is far from a one-man operation. This is one of the largest private hospitals operators in the world, and one of the best too.

2. Insiders are selling shares. Are the rats leaving a sinking ship? Probably the most confusing rumours had it the Paul Ramsay Foundation, owner of 32% of RHC capital, was selling shares to set up a political think tank, the Ramsay Centre for Western Civilisation. As it turned out, this is complete rubbish. The foundation even felt compelled to issue a statement to the ASX about it. Morgans points out the CEO selling shares was well flagged and the CFO is selling to cover tax obligations because his shares are coming out of a trust in which they'd been held for seven years.

3. The Australian government is ready to clamp down on healthcare costs. Again rubbish. For good measure: Morgans doesn't actually use these words, but it is clear from reading in between sentences, they'd like to. The company has repeatedly indicated the pending protheses list review won't have any material impact and new health minister Greg Hunt seems to have a better grip on things than his predecessor, Susan Ley, while having spoken at length with Ramsay.

4. EU pricing headwinds are making life more difficult. More rubbish. Morgans points out the latest pricing cuts in

countries such as the UK and France were less severe than in prior years and -equally important- in line with expectations. Management nor the analysts have seen a reason to amend group guidance for the present year.

5. Public hospitals are grabbing private insurance patients from private hospitals. More rubbish, apparently. Morgans received intel from Ramsay Health Care this "grabbing" has been going on for years now. Nothing new under the sun. It is the company's belief these privately insured patients predominantly enter public hospitals through the emergency ward.

The real clanger, however, is the price chart below. Its underlying thesis is that, in the long run, share prices of CSL ((CSL)) and Ramsay Health Care tend to move in unison and whenever one deviates from the other, a catch up move is surely to follow next. Even if we were to assume CSL shares might be ripe for a pullback after the strong rally in the first three months of the year, there's now a sizeable gap between the two, even larger than the one that occurred early last year.

It should be no surprise both Ramsay Health Care and CSL are considered cornerstone holdings by FNArena/Vested Equities' All-Weather Model Portfolio. Recent weakness in the share price has been used to buy more shares.

Conviction Calls: GS, CS, DB, Morgans, UBS, MS

Sell Bellamy's ((BAL)), Buy Ingenia Communities Group ((INA)), say small cap specialists at Goldman Sachs. Both are being presented this week as the stockbroker's "Best small cap ideas". The need for further discounting makes the specialists question company guidance for the second half, in the case of Bellamy's, while Ingenia should have a very strong FY18 and its valuation is not yet reflective of this.

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Over at Credit Suisse, strategist Adnan Kucukalic has now added Computershare ((CPU)) to its Australia Top Picks "long" ideas. Computershare is highly cash generative, which makes it attractive for investors, says Kucukalic. The company should benefit in years ahead from the US Property Rationalisation cost program and strong growth in the US and UK mortgage servicing businesses, on top of cost cutting.

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Deutsche Bank strategist Tim Baker also made a few changes to his model portfolio this month. He added QBE Insurance ((QBE)), Orora ((ORA)) and ALS ltd ((ALQ)) while dropping Insurance Australia Group ((IAG)), Telstra ((TLS)) and Sydney Airport ((SYD)).

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The monthly update on Model Portfolios at stockbroker Morgans revealed the Balanced Model Portfolio has swapped JB Hi-Fi ((JBH)) for Beacon Lighting ((BLX)) and more resilience towards the pending threat from Amazon is but one of the considerations behind the move.

The stockbroker's Growth Model Portfolio also added Beacon Lighting, as well as Macquarie Atlas Roads ((MQA)) and Speedcast ((SDA)). They replace Smartgroup ((SIQ)) and AP Eagers ((APE)).

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Meanwhile, smaller caps analysts at UBS have, post February reporting season, lined up their list of favourites, comprising of Autosports Group ((ASG)), AMA Group ((AMA)), Gateway Lifestyle Group ((GTY)), Infomedia ((IFM)), Mantra Group ((MTR)), NextDC ((NXT)), Premier Investments ((PMV)), TFS Corp ((TFC)) and Tassal Group ((TGR)).

UBS would sell GWA Group ((GWA)) and Monadelphous ((MND)).

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Morgan Stanley also updated its Model Portfolios, but made no changes.

Subscribers should note: Weekly Insights from last week and the week prior also contained updates on Conviction Calls by stockbrokers in Australia. See your inbox or Rudi's Views on the website.

Aus Retailers: Next Up, The Accountancy Disruption

It's tough to be a retailer in Australia. Whenever I walk along Sydney streets, I note many an empty commercial space where once an enthusiastic small retailer was based.

In terms of listed peers, I note only few have managed to consistently perform and be a good investment throughout the usual seasonality and fear-and-euphoria cycles that characterise the listed sector on the share market. Super Retail ((SUL)) has fallen deeply since its late 2013 high and effectively gone sideways, through a lot of volatility, over the past two years. The Reject Shop ((TRS)) has fallen deeply too, twice, and is yet to make a sustainable come-back. Better not to mention Godfreys ((GFY)), Billabong ((BBG)), Temple & Webster ((TPW)) or Pumpkin Patch.

Harvey Norman ((HVN)) and JB Hi-Fi ((HVN)) have done a lot better, but they are now feeling downward pressure too. Woolworths ((WOW)) has made a remarkable come-back, but Wesfarmers ((WES)) is trending sideways and probably only because of it reaping the benefits from the Curragh coal operations, alongside of the prospect for a separate listing of OfficeWorks.

Baby Bunting ((BBN)) and Shaver Shop ((SSG)) listed with a lot of promise, as did Michael Hill ((MHJ)) and Lovisa ((LOV)), but none of their shareholders would be too happy today.

Retail spending in Australia in general has never recovered from the halcyon pre-2007 years. Australian jobs are predominantly part-time and wages pressure remains insignificant. Now Amazon is preparing to up the ante online through local management and real world presence, apparently. And the housing market is cum slowdown, finally.

And yet, there is one elephant in the retail room that nobody has as yet much talked about, but that won't last long. It's called "AASB 16", which is a highly technical sounding term for the upcoming requirement for all retailers to change their accountancy practices, in particular by pulling their lease contracts/obligations onto the balance sheet. This should happen from 2019 onwards. This sounds a long way off still, but my guess is professional investors and financial media will sharpen their focus on this matter well before the calendar shows December 2018.

Current practice is for retailers to treat their rents as an operational cost. Lease obligations are something that is irregularly being discussed with financial analysts, otherwise it's being kept off balance sheet. From 2019 onwards all lease obligations will be accounted for on the balance sheet while the Profit and Loss statement will recognise a depreciation expense and interest expense each year reflecting the utilisation of the leased premises.

In practice, this means a higher burden at the beginning of a lease which then gradually runs off.

Direct implications include:

-no accurate comparison with the past as just about every financial metric will be affected

-as leases differ markedly from company to company, inter-sectorial peer comparison becomes a lot more difficult too

-as leases are effectively a financial obligation, debt levels stand to rise markedly

-for some retailers, including Myer, Wesfarmers and Woolworths, debt levels could more than treble

-some retailers may be forced to renegotiate with their bankers because of sharply higher debt and impact on financial metrics

-many a retailer will face more volatile earnings trajectory

-retailers are likely to respond by negotiating shorter leases in future with more emphasis on exclusions such as turnover contingent rent

-the new standards will result in a rent expense that is very different to the cash rent paid to a landlord, making analysis and comparison by investors and analysts more difficult

Citi research suggests present lease liabilities are largest relative to market capitalisation for smaller cap retailers Myer, Specialty Fashion ((SFH)), OrotonGroup ((ORL)) and Billabong. These are also retailers near the bottom of the sector's operational earnings (EBIT) margins.

Note, for example, that on Citi analysts' calculations, Myer's total debt liabilities are likely to rise to 196% of total market capitalisation. For Specialty Fashion Group the rise could be as high as 156%, on present share price level. For Woolworths total debt could reach 50% of market cap, while for Wesfarmers the increase in liabilities in actual dollars might well be highest, but still this would take total liabilities only to 30% of market cap.

The impact will be smallest for Harvey Norman who owns 42% of the properties from which its retail stores operate. JB Hi-Fi and Premier Investments too will experience relatively benign impacts in comparison with their

peers aforementioned.

In all cases, total debt and debt metrics will change. In many cases dramatically so. On the other hand, most retailer's EBIT margin will typically be higher -often a lot higher- because the interest charge on leases is taken below the EBIT line. OrotonGroup, for example, might all of a sudden report an EBIT margin of 27.8% compared with 9.6% today.

All of these changes are large enough to force investors into rethinking their past perceptions, assumptions and value-assessments once the new reporting methodology kicks in, which will be from 2019 onwards.

It can also be expected that management teams at retailers will be focusing on shorter term leases. Because the longer the lease term, the lower the annual depreciation expense as well as the EBIT margin differential.

Share prices for ASX-listed retailers have shown a lot of volatility in years past, and I am probably being gentle here. The above is a virtual guarantee we shall see a lot more of it in the years ahead.

New Website: Mobile Devices

Most visitors to the FNArena website are sitting behind a desktop PC. We envisage this will change in the years ahead.

Society is becoming ever more dependent on mobile and laptops. iPads and smart phones are steadily increasing their total market share of Internet and data usage in Australia.

Which is why the new FNArena website is customised for mobile usage. Incorporating smart technology, the website adjusts to smaller screen sizes. In case of mobile phones, where screen size can be tiny in comparison with today's 21 inch PC screens, a dedicated template kicks in automatically.

This means subscribers can have access at all times, and no matter where they are. At home. At the office. While commuting on bus or train. At the airport before leaving for a well-deserved holiday. At the hotel, or near the beach while otherwise enjoying your holiday.

As long as there is Internet access, and sufficient battery power inside the device, paying subscribers now can look up the latest broker opinions and changes for their stocks of interest, while glancing over news stories, share prices, the calendar, and Rudi's tweets on Twitter.

Those who are using the Portfolio option on the website can keep track via the smallest devices, if need be. Data-heavy applications such as R-Factor, Icarus Signal and the FNArena Sentiment Indicator have been specifically re-modeled and adjusted, so they too can be accessed and used while on the run.

To better accommodate reading on smaller devices, FNArena has developed an innovative, modern era style of publishing which in particular shows its merits when reading important information on the mobile phone. It is easy to share via Facebook, Twitter or LinkedIn. The Print in PDF button works even when there's no Acrobat Reader software in sight (i.e. on a mobile).

The company charts at the bottom of our news stories can look a bit tiny, but then our adaptive technology means you only need two fingers to zoom in and see the finer details.

Font size and amendments can be chosen via the top left icon in the address bar. All key functions are still on the grey-ish horizontal bar, which has the home icon on the left and three horizontal lines on the right.

2016 - L'Année Extraordinaire

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

If you are a paid subscriber to FNArena, and you still haven't downloaded your copy, all you have to do is visit the website, look up "Special Reports" and download your very own copy of "Who's Afraid Of The Big Bad Bear. Chronicles of 2016, A Veritable Year Extraordinaire" (in PDF).

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

All-Weather Model Portfolio

In partnership with Queensland based Vested Equities, FNArena manages an All-Weather Model Portfolio based

upon my post-GFC research. The idea is to offer diversification away from banks and resources stocks which are so dominant in Australia, while also providing ongoing real time evidence into the validity of my research into All-Weather Performers.

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

Rudi On TV

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

-Tuesday around 11.15am, Skype-link to discuss broker calls -Thursday, 12.00-2.00pm, co-host in the studio -Thursday, between 7-8pm, interview on Switzer TV -Friday around 11.15am, Skype-link to discuss broker calls

Rudi On Tour

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

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

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

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

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

(This story was written on Monday 20th March 2016. It was published on the day in the form of an email to paying subscribers at FNArena).

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

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

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

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

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

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