Week
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Stories To Read From FNArena
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Alumina Strikes Record Earnings, Dividend

A spike in the price of alumina, amid supply shortages, helped Alumina Ltd to a record performance in 2018. Brokers consider the outlook is riding on the re-start of Brazil's Alunorte refinery.

-Alumina Ltd's outlook for alumina supply diverges from Alcoa -Alumina price could climb further if re-start of Alunorte is delayed -Idled capacity unlikely to come online quickly

By Eva Brocklehurst

2018 was a record year for Alumina Ltd ((AWC)), largely because of the woes at a competitor, so brokers are not getting too carried away with the latest results. The main focus is always on the dividend and this was US22.7c for the full year, supported by an influx of cash from its joint venture with Alcoa, AWAC.

Record earnings and dividend were largely anticipated, as the company now reports its price, shipments and cash costs along with Alcoa's quarterly results. Citi does point out that the company's costs are higher, with the average cash cost per tonne of alumina up 14% over the year.

Caustic soda prices fell in the second half of 2018 and Macquarie expects this to result in improving costs of production at AWAC, in turn supporting 2019 dividends, despite the potential for lower alumina prices. However, the company has guided to 2019 capital expenditure at elevated levels of US$255m, well above the broker's assumptions.

Increased expenditure is principally for studies of ways to reduce bottlenecks at the Western Australian refining assets and the company anticipates this could boost production from one of those assets by more than 10%.

Alumina Ltd has no plans to increase production of Western Australian bauxite, noting there are quality and freight disadvantages. Guinea should pick up any "slack", the company asserts. Production in 2019 is expected to be marginally above 2018.

UBS downgrades the stock to Sell from Neutral, given the move in the share price. Moreover, with the current alumina price elevated, particularly if Alunorte restarts, there is downside risk to the share price.

The broker doubts double-digit dividend yields are sustainable, calculating a spot alumina price of US$385/t implies an operating earnings (EBITDA) margin of US$140/t in free cash flow per share of US$0.15, giving an implied yield of 8%. Credit Suisse, on the other hand, believes the stock is continuing to trade on undemanding multiples with an 11% net dividend yield.

Alunorte

As with any supply outage induced spike in the price of a commodity this is likely to come to an end. The outage at the Alunorte plant in Brazil, the world's largest alumina refinery, is expected to be back online this year and Alcoa suggests there is a surplus market lining up.

However, Alumina Ltd believes the alumina market is balanced, even allowing for a resumption at Alunorte. A balanced alumina market in 2019 and the ramp up of Alunorte mid year, all up, suggests to Macquarie there is short-term downside potential to its bullish alumina price forecasts, while there is significant long-term upside to spot prices. Alumina Ltd now has a higher proportion (94%) of its alumina sales directly calculated off spot prices.

UBS, while noting the two companies have a diverging outlook on alumina supply, suspects the alumina price could climb if the re-start of Alunorte is delayed further into the year. The main factor underpinning a tight alumina market is the Alunorte refinery operating at around 50% capacity over 2019. Credit Suisse does not expect a re-start of Alunorte any time soon, and Alumina Ltd could be in for another strong period of earnings and capital returns.

Another factor, UBS points out, is the winter shutdown in China, which has meant Chinese production has been reduced. The broker estimates there is a total of 10mtpa of idled capacity that could be re-started but with finance, environmental and bauxite supply issues this will not come on line quickly.

Credit Suisse agrees, expecting ongoing environmental and safety audits in China and specific supply-side reforms are likely to ensure domestic alumina and alumina production will be better aligned to avoid overcapacity.

A balanced market envisages increased supply from Brazil in Australia, with Guinea and Jamaica broadly matching aluminium growth and ongoing modest imports of alumina into China.

Regardless, as Shaw and Partners points out, any resumption at Alunorte means the likely direction of the alumina price is lower. The broker, not one of the eight monitored daily on the FNArena database, understands there are no company-specific issues in 2019 that are likely to affect earnings, but trims its rating to Hold from Buy, with a target of $2.50, to reflect a more mature stage of the price cycle.

FNArena's database shows three Buy ratings, one Hold (Ord Minnett) and one Sell (UBS) for Alumina Ltd. The consensus target is $2.68, signalling -3.6% downside to the last share price. The dividend yield on 2019 and 2020 forecasts is 8.6% and 9.0% respectively.

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What Impact A Labor Victory In May For Investors?

In three months Australia elects a new federal government. Though a lot can and will change in the weeks ahead, Labor remains favourite and experts are trying to assess the potential implications for investors.

-A Labor victor at a May federal election could dent the prices of housing and stocks paying franked dividends -However, some of this risk could already be priced into assets -A Labor victory could be to Telstra's benefit

By Nicki Bourlioufas

A win by the Australian Labor Party at a May federal election could be negative for investors in the short term with a rise in political risk and a slew of measures which will cut benefits to investors, compounded by a deteriorating budget position and a housing downturn, say some share market strategists.

However, some of the risks may already be priced into assets, a view being proposed by Credit Suisse, who thinks an ALP government will expedite the economic cycle and introduce higher spending policies than a Liberal-National government, favouring a return to stronger economic growth over the longer term.

Challenges to personal investment strategies

Labor is proposing changes to franking credits, negative gearing, the capital gains tax regime, trust distributions and taxes for high-income earners. EL & C Baillieu Chief Investment Officer Malcolm Wood says the proposals would have very significant and different impacts on individuals, self-managed super funds and property investors, as well as other investment vehicles.

Under Labor policy, excess franking credits would not give rise to a cash refund.

Wood says a decline in the value of franking credits for many investors could adversely impact the value of select securities offering fully franked dividends. The prices of hybrid securities, often dominated by retail investors, could fall and see a rise in yield, though institutional investors able to utilise the franking credits should soften the impact.

Dual-listed securities such as BHP Group ((BHP)) and Rio Tinto ((RIO)) may see a narrowing of their Australian price premium. “Other listed securities are less likely to be materially affected given the high ownership and participation of institutional and foreign investors,” according to Ballieu.

Separately, Labor’s plans to limit negative gearing to new housing and to cut the capital gains discount to -25% from -50% would likely lower investor interest in property investment.

Baillieu forecasts gross rental yields may need to rise about 1%, lowering home prices by about -20% to partially compensate investors for a loss of negative gearing and capital gains tax concessions.

But Credit Suisse thinks these risks are already priced into housing and stocks. Indeed, the housing- and retail-led economic slowdown has put an interest rate cut on the RBA’s agenda, so shares and property values may not suffer as much as some analysts and investors fear, though there may be a short-term negative impact on banks, residential property developers, builders and retailers.

Indeed, shares could rally on a Labor win in a similar way to the US market after Donald Trump’s victory, on the increased prospect of big-spending policies, says Credit Suisse.

Political risk in Labor’s anti-investor, interventionist, big-spending agenda

Baillieu's Wood cites five reasons why a Labor victory would likely prompt the market to raise its assessment of Australian political risk. First, if Labor leader Bill Shorten becomes Prime Minister, he will be the seventh person to hold the office in less than 10 years.

By contrast, the nation had only five PMs in the previous 35 years. “If Australia were a public company and had changed CEOs with anything like this frequency it would signal extreme turmoil,” Baillieu says.

The second cause for concern is that the widely predicted ALP landslide could deliver control of both chambers of parliament to a left-wing party for the first time since the 1940s. Alternatively, unease in the electorate could result in Labor winning the House of Representatives but not the Senate, leaving the government reliant on independent senators to advance its legislative agenda.

A Liberal-National scare campaign on tax could give the Coalition a victory in the House but similarly deprive it of control of the Senate, continuing the current legislative dysfunction.

Baillieu says that, third, Labor is pursuing an anti-investor agenda. Extra taxes on investors, trusts and high-income earners are projected to raise $280bn over a decade. These would be partly offset by tax cuts for low-to-middle income earners, $10bn in accelerated tax breaks for business investment and increased spending on health and education, but the net effect would be “negative for growth and most investment returns”.

Fourth, a Shorten government is expected to pursue interventionist policies on energy and telecoms, and to re-regulate the financial sector in the wake of the Hayne Royal Commission. But while Australia has lost reform momentum, the world has not stood still. Labor is not likely to reduce the company tax rate, which at 30% compares badly with the OECD average of 23.5%.

Fifth, Australia has clocked up 11 consecutive budget deficits since the Global Financial Crisis and this deterioration in fiscal management would likely continue under Labor. If the NBN and other large infrastructure projects were added to the government’s balance sheet, the rise in debt could drive a loss of Australia’s AAA-credit rating.

As a result, Ballieu recommends investors increase exposure to non-Australian assets as ALP policies will increase investor uncertainty, deepen the housing downturn and impact some security prices.

Telstra to win from Labor’s proposed NBN write-down

JP Morgan says the election of the Labor party at a May election could result in positive sentiment for the fixed telecom industry. This would be a reversal of the negative impact from the National Broadband Network (NBN) over the last four years.

In particular, JP Morgan says Telstra ((TLS)) would benefit if a Labor government writes down the value of the NBN.

For every 5% improvement in NBN margins over the three financial years from 2019-20 to 2022-23, the direct impact for Telstra is to add 0.9-1.3 cents a year to projected Earnings Per Share (EPS) and 0.8-1.2 cents a year to forecast Dividends Per Share (DPS).

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Brambles Treats Shareholders With IFCO Sale

The sale of the IFCO plastic crate business will generate cash returns for Brambles shareholders as well as a buyback and refreshes the outlook for the company.

-Sale price at the high-end of broker valuations -Sale more welcome than previously proposed de-merger -Can Brambles improve cash flow and earnings to lower gearing from FY21

By Eva Brocklehurst

Investors are likely to welcome the news that Brambles ((BXB)) has sold its IFCO reusable plastic crate business to subsidiaries of the Abu Dhabi Investment Authority, expecting cash proceeds of US$2.36bn.

The company plans to return US$300m via a pro rata return of cash and US$1.65bn via an on-market share buyback. The balance of the proceeds will be used to repay debt. Credit Suisse assesses this will provide support to the share price until June 2020, at which point there should be good visibility regarding the turnaround of the US pallet business.

The broker now envisages a lower risk profile that warrants a premium rating. The transaction appears to be neutral to earnings from FY22, which is not surprising as IFCO is a lower-returning business compared with CHEP pallets. Macquarie is pleased with the sale, as it was at the high-end of its valuation range. The broker assumes the share buyback is completed over two years and forecasts peak leverage occurring in FY22.

The transaction is subject to regulatory approvals, although Ord Minnett observes neither Triton nor Luxinva, the subsidiaries, have any overlapping business with IFCO and approval is therefore more than likely.

Citi notes IFCO was a high-growth segment from a sales perspective, but returns from an invested capital perspective were below the company's targets because of the large amount of intangibles held within the division following its purchase in FY11.

Citi expects margin accretion strategies implemented in the US pallets division will begin driving a meaningful uplift in margin from FY20. The broker also suggests the timing of cash flow from the sale will create a skew to the gearing profile. The main issue is whether Brambles can meaningfully improve cash flow or earnings in order to lower gearing in the outer years from FY21.

Dividend Policy

The company has reiterated a desire to re-evaluate its dividend policy and Ord Minnett suspects it could shift to a more sustainable pay-out ratio from the current progressive dividend. A potential starting point is a forecast 29.0c per share, adjusted for the sale and loss of IFCO forecast earnings.

While Ord Minnett suspects, longer-term, the company could fund growth initiatives in the pallets market and expand into emerging markets such as Eastern Europe, nothing appears imminent.

Macquarie, on the other hand, is not expecting material changes to the company's progressive dividend policy, forecasting a 50% pay-out ratio beyond FY20. The broker points out that leverage peaks at around 1.70x in FY22, which includes the completion of capital management, and compares with the targeted leverage of around 1.75x net debt/operating earnings.

This leaves little head room for an increase in the dividend. Excluding IFCO, the broker forecasts a 7% compound growth rate in operating earnings (EBITDA) to FY22, largely supported by a recovery in margins at CHEP Americas.

Morgan Stanley considers the sale a positive outcome, particularly versus a previously proposed de-merger. However, the options on the balance sheet appear largely reflected in the share price. The broker estimates the deal will be around -7% dilutive in FY20 and -3% dilutive in FY21, with the discount narrowing further as the buyback is completed.

Management has indicated the outcomes of a re-evaluation of the capital structure will form part of its results briefing for FY19. Ultimately, Morgan Stanley believes outcomes of the strategy and capital reviews will confirm the overall merits, or otherwise, of the decision to exit IFCO.

Citi forecasts an underlying growth rate in earnings per share over the next three years of 12.5%. Supporting its forecasts is a reversion to historical averages for cost inflation and an uplift in CHEP Americas.

While valuation multiples appear high by historical standards, Citi encourages investors to balance the outlook for capital management versus earnings growth. The higher multiple is justified by a strong earnings outlook, in the broker's view.

Buyback

Overall, Citi is positive about the transaction and believes the impact of selling IFCO will be nullified by the on-market share buyback. The broker removes IFCO from forecasts, which drive -14-15% downgrades to underlying earnings (EBIT) forecasts across the entire forecast period to FY24. Based on the broker's calculations the company could repurchase up to 12% of the outstanding share base.

UBS also calculates that a 12% fall in the share count and lower interest bill will more than offset the earnings foregone by the sale. The broker observes Brambles has effectively exited growth plans within oil & gas, US white wood, and now the reusable crate business. UBS envisages above-trend growth of 11% in earnings over the next three years, driven mainly by reversion in North American margins back to 18.5% by FY22.

FNArena's database shows four Buy ratings and four Hold. The consensus target is $11.66, signalling -0.2% downside to the last share price. Targets range from $10.49 (Morgans, yet to comment on the sale) to $13.50 (Credit Suisse).

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Vocus Making Progress

Telco Vocus Group is making progress with its turnaround, prioritising profitable growth in enterprise, government and wholesale markets in Australasia, although it still faces myriad challenges.

-NBN not considered sustainable or economic in the consumer market -Morgans suggests returns need to more than double to justify the capital deployed -Intention to double enterprise, government and wholesale revenue within five years

By Eva Brocklehurst

It is early days, but brokers welcome the performance of Vocus Group ((VOC)) in the first half, with revenue improving and the Australia-Singapore cable (ASC) being completed and launched. That project is likely to come in under budget by -$10m, Macquarie calculates, because of good project management and favourable FX hedging.

The broker was also pleased with an improved sales performance in network services, although this was somewhat offset by higher churn.The Optus MVNO deal was renegotiated, providing Vocus with the ability to participate in the wireless broadband and mobile market. Vocus expects to double its networks revenue over the next five years and will provide more quantifiable targets as an investor briefing in May.

Commander (business) revenue lagged the rest of the business in the first half, falling -27%, with declines attributed to higher customer churn and the roll off of legacy NBN revenue. The company also stated the NBN is not economic or sustainable in the consumer market.

Instead, Vocus aims to maximise profitable growth within core enterprise, government and wholesale (EGW) markets in Australasia and double revenue from these divisions within five years.

New guidance on cost savings and reductions in capital expenditure have been taken seriously by the market, and Ord Minnett believes this dealt with what is likely to be the last of the short covering in the shares.

While building in the $30m in network cost savings and $30m in reduced capital expenditure targets that were announced, the broker believes it will still be hard for the company to double EGW revenue in five years time.

Deutsche Bank points out the strong cash flow conversion of 98% and welcomes the clarity on the growth plans. Still, this is the first result in a multi-year turnaround and the broker is concerned this market may have traded ahead of successful completion.

3-year Outlook

UBS is impressed by the calibre of management and believes the strategy to grow earnings on a three-year view is coherent. The company intends to win share in a corporate market that is seeking alternatives to incumbents, while stemming consumer and Commander headwinds by strategic initiatives such as the Optus partnership.

Morgans considers the return on capital metrics sub-optimal and these need to more than double to justify the capital deployed. The broker believes the catalyst which will restore investor interest is for new management to prove it can get on top of the hurdles as well as integrate acquisitions to stabilise earnings.

The main concern relates to debt on the balance sheet, although this is likely to improve amid higher free cash flow going forward. Morgans believes capital is best spent on de-gearing the business.

UBS notes, looking into FY20, incremental earnings contributors could include a normalisation of share-based payments and a full 12 months contribution from ASC. Still, even if FY20 operating earnings lifted to $400m, the broker considers the stock would be expensive.

Guidance for operating earnings (EBITDA) of $350-370m has been maintained for FY19. This is critical to Morgan Stanley's view, as implies a return to positive operating earnings growth of 6% in the second half and should set a sustainable base for FY20.

Yet Macquarie points out the company needs to pick up momentum in the second half in order to achieve guidance. The broker looks for improved trends within network solutions, while ASC revenues should build up and assist earnings.

Division Outlook

Citi observes good progress with the turnaround, although the company still faces challenges in the Commander and consumer divisions. Longer term, the broker envisages potential from EGW. However, revenue growth has slowed in that division because of higher churn associated with legacy contracts.

EGW already contributes 61% of group operating earnings. Meanwhile, Citi assesses the goal is managing the decline in consumer and Commander revenues rather than attempting long-term earnings growth. While there is some pricing pressure, the company does not expect margins in the EGW segment to move materially.

Credit Suisse now expects an uplift in operating earnings by almost 50% between FY18 and FY23, noting there could be further upside if the company's target is achieved.

In the consumer division, challenging NBN economics mean the company has moved away from growing it share and instead will focus on optimising the experience for existing customers.

As a result Ord Minnett lowers NBN subscriber edition forecast significantly reducing net additions to 50-60,000 over FY19-21 from 100-120,000. This, in turn, reduces consumer revenue estimates by -$54m in FY19, -$116m in FY20 and -$176m in FY21. However, margins are expected to increase slightly as the company adds more profitable subscribers.

FNArena's database shows one Buy (Morgan Stanley), five Hold and two Sell ratings. The consensus target is $3.64, suggesting -0.7% downside to the last share price. Targets range from $3.10 (UBS) to $4.25 (Ord Minnett).

NB: the author has shares in the company.

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ESG Focus: SASB And ESG – The Movers & Shakers

Sustainability Accountability Standards: a brief overview of organisations and companies supporting the new framework.

By Sarah Mills

The Sustainability Accountability Standards were published last October and 2019 will be the first test of their success.

While the standards are likely to meet hurdles and resistance from many corners, the Sustainability Accountability Standards Board (SASB) also has many powerful backers, and these individuals and organisations will be laying down the red carpet.

SASB is a philanthropic organisation funded by grants and donations, and aims to become self-financing in the long term through intellectual property licensing, education and training.

Its backers include Bloomberg Philanthropies and the Rockefeller Foundation and read like a Who's Who of finance and industry, with many notable exceptions.

While far from exhaustive, this article aims to list the major SASB supporters to give investors a sense of the SASB political landscape.

The SASB has established three main groups: the Standards Advisory Group (SAG) and the Investor Advisory Group (IAG) and the SASB Alliance; and there is some overlap between the groups.

At last count, SAG comprised 107 industry experts from the consumer goods, extractive minerals and processing, financials, food and beverage, healthcare, infrastructure, renewable resources and alternative investments, resource transformation, services, technology and communication and transportation sectors.

Combined assets of these companies number in the tens of trillions. The SAG members have been the primary contributors to the development of the SASB system and metrics.

At last count, the Investor Advisory Group comprises 32 leading asset owners and asset managers. The group is committed to improving the quality and comparability of sustainability related disclosures. These fund managers also represent tens of trillions of dollars of funds under management.

At last count, the SASB alliance had 49 members. The alliance is a membership program for organisations and individuals that support the SASB's mission and values, and who are committed to developing and exploring best practices to integrate material sustainability information into existing processes. They gain educational materials, resources and discounts.

The SASB is also supported by major ESG analysts and lawyers, and government and non-government organisations, including the G20, the European Commission, the United Nations and related financial standards boards, such as the Global Reporting Initiative and IIRC, GRESB, and a raft of industry associations associated with renewables and recycling.

Companies such as GM, Merck, Nike, Kellogg's JetBlue, CBRE, Diageo Groupe PSA, Schneider Electric, Host Hotels and NRG Energy have already started using the SASB standards and are among the companies that will be on board for the 2019 reporting season.

Included are tables listing major supporters, from industry, to funds management, to analysts (see link top of story).

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Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday February 18 to Friday February 22, 2019 Total Upgrades: 17 Total Downgrades: 38 Net Ratings Breakdown: Buy 43.28%; Hold 42.29%; Sell 14.43%

Week three of the domestic February corporate reporting season saw the deluge in recommendation downgrades continue. For the week ending Friday, 22nd February 2019, FNArena counted no less than 38 downgrades for individual ASX-listed entitties, against 17only upgrades.

Total Neutral/Hold ratings held by the eight stockbrokers monitored daily is rapidly closing in on total Buy ratings; 42.29% versus 43.28%, which can serve as an indication of where most downgrades lead to. The fact share market indices have remained inside a strong upward channel provides an easy explanation as to why.

Only two brokers out of the eight are carrying more Buy ratings than Neutral/Holds; retail stockbrokerages Morgans and Ord Minnett.

Three companies received multiple upgrades during the week, with each of Pact Group, APA Group and AP Eagers receiving two upgrades post market updates. AP Eagers was the only one receiving two upgrades to Buy.

On the flipside, each of Cochlear, GWA Group, Iluka Resources, nib Holdings, Regis Resources, Sandfire Resources, Sonic Healthcare, Stockland, a2 Milk, and Wesfarmers seeing two downgrades post financial results.

There was equally a lot of fireworks on display for consensus changes to valuations and price targets, with a2 Milk grabbing the week's honours enjoying an increase of 20%, followed by Goodman Group, Magellan Financial, and Cleanaway Waste Management.

The flipside equally displays large numbers with Pact Group's consensus target suffering most (-14%), followed by Smartgroup Corp, Bank of Queensland, Domino's Pizza, and Cochlear. Noteworthy: the top of the week's increases shows larger increases than the top of the week's negative ranking.

As is normal practice during reporting season, positive adjustments to earnings estimates are nothing short of enormous, and last week commodities producers (more miners than oil & gas) commanded pole position. The negative side shows more diversity, and equally ginormous adjustments, with plenty of corporate disappointers featuring prominently.

The largest downward adjustment goes to Pact Group (-135%), followed by Unibail-Rodamco-Westfield, Mineral Resources, Automotive Holdings, and OceanaGold.

Reporting season continues this week but at a gradually slowing pace from last week's tsunami of corporate releases. The epicentre of domestic reports is well and truly behind us. Ex-dividends start populating the calendar from here onwards.

Upgrade

ALTIUM LIMITED ((ALU)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 1/2/0

First half results were very strong, supported by perpetual license sales, particularly Altium Designer in China. Ord Minnett found operating leverage clearly evident.

The broker notes management's confident outlook regarding the FY20 revenue target of $200m. The broker materially upgrades cash flow forecasts and lifts the rating to Hold from Sell. Target is raised to $26.51 from $17.70.

APA GROUP ((APA)) Upgrade to Neutral from Underperform by Credit Suisse and Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 1/7/0

First half earnings were ahead of Credit Suisse forecasts. The broker asserts arbitration rules are proving ineffective, and the upcoming elections and the outcome of the review in August signal the risk has not entirely diminished.

Growth projects are largely on track. The broker believes there is upside to consensus FY20 forecasts. Rating is upgraded to Neutral from Underperform, to reflect the upside. Target is raised to $8.75 from $7.65.

Deutsche Bank believes the interim report was "solid". It was clearly better-than-expected by the broker beforehand. As management continues to deliver solid, consistent and predictable distributions, the recommendation is upgraded to Buy from Hold. Target $9.90.

AP EAGERS LIMITED ((APE)) Upgrade to Add from Hold by Morgans and Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/2/0

AP Eagers 2018 result met the broker, defying industry weakness thanks to years of cost control, risk-based pricing and business restructuring.

The company improved volumes, market penetration and margin retention and the company remains confident on these fronts. Broker notes the stock is well-positioned for acquisitions, although this would pose downside risk to the share price and dividend.

Target price inches up to $8.03 from $8. Broker upgrades to Add from Hold.

The 2018 result was in line with the guidance provided in mid January. Ord Minnett observes the economics of dealerships have changed and will continue to evolve.

The company reported margin expansion in the second half in both operating divisions, providing a level of comfort in what is expected to be a weak new vehicle sales environment.

That said, the company is ideally positioned to participate in industry consolidation. Rating is upgraded to Accumulate from Hold and the target raised to $7.50 from $7.00.

BABY BUNTING GROUP LIMITED ((BBN)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/0/0

Macquarie found the first half results solid and in line with expectations. The likelihood of an upgrade has been reduced although the broker believes the upper end of guidance is achievable.

FY19 EBITDA guidance of $25-27m is reiterated. Macquarie upgrades to Outperform from Neutral and considers the recent weakness a buying opportunity. Target is raised to $2.65 from $2.25.

BLACKMORES LIMITED ((BKL)) Upgrade to Hold from Reduce by Morgans .B/H/S: 0/4/2

Blackmore's first-half result fell shy of the broker, thanks to a weak performance from China and a deterioration in second-quarter and third-quarter sales.

Management guided to a weaker second half and Morgans slashes forecasts -12.9%, -13.4% and -14% across FY19/FY20/FY21.

Target price falls to $86 from $107. Morgans upgrades to Hold from Reduce given the sharp retreat in the share price and notes the stock is still trading at a premium multiple to international peers despite its lower growth outlook.

See also BKL downgrade.

Data#3 Limited ((DTL)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

Data#3's first-half result outpaced the broker by 4%, the dividend doubling off a low figure in the previous corresponding period.

Product outpaced Services and the company outstripped peers thanks to its diversified customer base.

On the downside, the gross profit margin fell below 13% for the first time in a decade due to weakness in Services. The Federal election could also create a drag in the second half.

EPS forecasts rise 3% in FY19 and 11% in FY20. Target price rises to $1.85 from $1.67 and rating upgraded to Add from Hold.

HEALIUS LIMITED ((HLS)) Upgrade to Add from Hold by Morgans .B/H/S: 2/3/1

Healius returned a soft first-half result thanks to external conditions and one-offs but management guided to a strong second-half recovery.

The broker spies several green shoots in the result and increases earnings forecasts for FY19-FY21 in anticipation of productivity intiatives and an improving earnings trajectory (pending market trends).

The stock is upgraded to Add from Hold. Target price rises to $3.15 from $2.90.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 7/0/1

First half net profit was weaker than Ord Minnett expected. The broker believes there could be positive surprises in the near term as PEXA gains traction and becomes a meaningful contributor.

Moreover, pending legislation is likely to lead to super funds spending more on implementing regulatory changes.

The broker upgrades to Accumulate from Hold and raises the target to $8.00 from $7.70.

See also LNK downgrade.

MOELIS AUSTRALIA LIMITED ((MOE)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 1/0/0

2018 operating earnings (EBITDA) were ahead of Ord Minnett estimates. Asset management underpins the strong performance, with total segment revenue up 95%.

The broker believes corporate advisory is largely a distraction to the base business. The broker upgrades to Buy from Accumulate and reduces the target to $6.63 from $6.67.

1300 SMILES LIMITED ((ONT)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

1300 Smiles' solid first-half result met the broker. Morgans notes the stock is on track for FY19 and leaves forecasts unchanged but upgrades to Add from Hold noting the retreat in the share price.

Target price is steady at $6.85.

PACT GROUP HOLDINGS LTD ((PGH)) Upgrade to Hold from Reduce by Morgans and Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/1

Pact Group's first-half result met the broker and last week's trading update. The company has won an RPC pooling contract to serve ALDI growers, but the balance sheet was stretched (gearing increased to 3.3x and interest cover fell to 6.5x) and no dividend was forthcoming.

The company is backing off acquisitions and will be consolidating and rationalising.

Target price falls to $2.62 from $3.01. Morgans upgrades to Hold from Reduce to reflect the recent share price retreat and the price-earnings multiple of 10.8x and an expected 2% rise in total shareholder return.

When management stated it was considering capital options and did not declare a dividend Credit Suisse suspects this led investors to believe a capital raising was imminent, driving the share price down a further -17%.

The broker does not believe a capital raising is in the offing because the company has some time yet to determine whether earnings will meet its guidance range and support debt levels.

The broker upgrades to Outperform from Neutral and upgrades estimates for earnings per share by 2-4%, amid improved confidence in cost savings and the price versus raw material cost spreads. Target is steady at $3.85.

SONIC HEALTHCARE LIMITED ((SHL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/5/0

First half net profit was better than Ord Minnett expected while, at the operating level, results were in line. The broker is encouraged by the strong lift in US revenues, given this was delivered despite funding cuts.

Domestic collection costs are stable and the broker envisages few funding risks for the near term. Rating is upgraded to Accumulate from Hold and the target to $27.40 from $24.10.

See also SHL downgrade.

SEVEN WEST MEDIA LIMITED ((SWM)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/3/1

UBS suspects the market was ready for a softer TV ad market but a -5% decline in metro TV in the half and acceleration into January was worse than feared. Cost-outs only go part of the way and the broker has downgraded forecasts.

UBS remains cautious on further downside risk but does note comparables will be easier in the FY given the cost of cricket is less than last year's costs of Winter Olympics and tennis. Despite caution, the broker notes Seven West's share price has halved from its peak on weaker ad sales and valuation suggests an upgrade to Buy from Neutral. Target falls to 60c from 80c.

VIRTUS HEALTH LIMITED ((VRT)) Upgrade to Add from Hold by Morgans .B/H/S: 2/1/0

Virtus Health's first-half report outpaced the broker. Morgans eases net profit after tax forecasts -3.8%, -3.3% and -2.8% across FY19/FY20/FY21 to reflect lower margin assumptions, changing revenue mix and a higher capital expenditure interest charge, leaving Morgans sitting below consensus.

Target price falls to $4.60 from $4.75. Morgans upgrades to Add from Hold, given the stock is trading at a -10% discount to valuation.

Downgrade

THE A2 MILK COMPANY LIMITED ((A2M)) Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Hold from Add by Morgans .B/H/S: 2/4/1

First half results were ahead of Credit Suisse estimates. Importantly, revenue grew 41% and featured another step-up from Chinese labelled infant formula.

The company anticipates second half revenue growth at a similar level. Credit Suisse upgrades FY19-21 estimates for earnings per share by 7-8%.

Following the outperformance of the share price the broker lowers the rating to Neutral from Outperform. Target is raised to NZ$13.60 from NZ$12.25.

The a2 Milk Company's first-half result outpaced the broker by 11.7%, infant formula the star of the show. Guidance was upgraded.

Margins seriously surprised Morgans to the upside, the balance sheet was strong and costs rose due to marketing expenditure and administration - in part to reflect its very promising China expansion.

Earnings-per-share forecasts rise 8.3% and 3.4% for FY19 and FY20. Target price rises to roughly in line with the share price at $13.66 from $12.35.

Broker downgrades to Hold from Add after the strong rally in the share price.

ABACUS PROPERTY GROUP ((ABP)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/2/0

On Citi's assessment, reported EPS proved a disappointment, but market consensus was positioned much lower. The underlying suggestion here is that Citi's forecast was too high, but elsewhere peers would have received Abacus' financial performance as a solid beat.

The analysts remain firm supporters of management's new strategy. But they also believe the share price has rallied too strongly, hence the downgrade to Neutral from Buy. Target falls to $3.87 from $3.91.

Citi analysts explain their valuation remains largely immune from the reduction in forecasts, because higher asset values assist their Net Asset Value (NAV) valuation, largely offsetting lower earnings estimates.

ARB CORPORATION LIMITED ((ARB)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/3/0

ARB Corp's first-half result disappointed, the broker citing weak passenger vehicle sales and potential headwinds from the Hayne Royal Commission.

Earnings-per-share forecasts fall -5% to -6% across FY20-FY21 and target price eases -2% to $18.38 from $18.66.

Citi downgrades to Neutral from Buy.

ARENA REIT ((ARF)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

First half results were in line with Macquarie's estimates. FY19 distribution guidance has been reaffirmed.

The broker notes management has executed on its strategy, while underlying conditions for the child care segment are benefiting from a change in the regulatory funding model.

However, given limited returns, the broker downgrades to Neutral from Outperform. Target is reduced to $2.69 from $2.75.

ALUMINA LIMITED ((AWC)) Downgrade to Sell from Neutral by UBS .B/H/S: 3/1/1

Alumina's result met expectations, driven by a 33% increase in alumina prices offset by only a 14% increase in costs. AWAC earnings nevertheless fell short of UBS' estimate on higher costs.

Ahead are a number of significant costs for site closures and Point Comfort holding costs that will continue for the next few years, the broker notes, reducing earnings and cash flow. On a premium to net present value, UBS downgrades to Sell from Neutral while retaining a $2.20 target.

BLACKMORES LIMITED ((BKL)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/4/2

Macquarie was disappointed with the first half result, noting margins contracted. Guidance suggests this is likely to continue in the near term.

The broker observes the company's China business is in a state of flux and sales trends are weakening despite the stronger marketing investment.

Leverage to structural tailwinds remains supportive and the broker envisages scope for improved execution.

Rating is downgraded to Neutral from Outperform. Target is reduced to $95 from $150.

See also BKL upgrade.

BANK OF QUEENSLAND LIMITED ((BOQ)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/5/3

The bank's trading update has indicated cash earnings are likely to be in the range of $165-170m in the first half. The weaker-than-expected update is driven by a reduction in non-interest income.

Credit Suisse was more disappointed with the outlook commentary for the second half, as market conditions are expected to remain challenging amid increased costs from regulatory requirements.

The broker downgrades FY19-20 earnings estimates by -10-12%. Rating is reduced to Neutral from Outperform. Target is lowered to $9.69 from $11.40.

COCHLEAR LIMITED ((COH)) Downgrade to Neutral from Buy by Citi and Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/4/3

Yesterday already, Citi analysts responded they found the interim release a "mixed" result. The key surprise is the impact felt by the launch of the AB HiResUltra3D Cochlear Implant in the USA by competitor Sonova.

Note the analysts: MedEl (another competitor) has had an MRI compatible product for years and it had little impact in the US market. Citi does anticipate a response from Cochlear through development of its own MRI compatible product.

In the meantime, the analysts expect Cochlear to arrest further market share losses with existing products and marketing efforts. Estimates have been lowered by -2%-3%. Price target drops -5% to $190. Recommendation downgraded to Neutral from Buy.

First half sales were below Credit Suisse estimates, affected by competition. The broker expects market share losses and increased competition will heat up in the second half and into FY20.

Unit sales growth is expected to recover to around 6% in FY20. Factoring in weaker implant sales growth Credit Suisse reduces estimates by -2% for FY19.

In an environment where the company is losing share and the stock is considered overvalued, Credit Suisse downgrades to Underperform from Neutral. Target is reduced to $168 from $195.

COLES GROUP LIMITED ((COL)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 1/4/2

First half results were below Ord Minnett's forecasts with weak like-for-like sales growth and rising costs of doing business. As a result, the broker downgrades to Lighten from Hold.

The challenges the retailer faces are worse than the broker had feared and several of these are structural. Target is reduced to $11.00 from $12.25.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/5/0

First half results were robust, given the weaker listings environment, Macquarie notes. Nevertheless there are risks in the near term and the broker downgrades to Neutral from Outperform.

Macquarie reduces FY19 estimates by -1.2% and raises FY20 estimates by 3.3%. Target is raised to $2.60 from $2.50.

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

Underlying operating earnings (EBITDA) were 8% ahead of Credit Suisse expectations, supported by lower shipping costs and lower operating expenditure.

The stock has rallied 60% so far in 2019 and moved well ahead of the broker's valuation. Hence the rating is downgraded to Neutral from Outperform.

Credit Suisse now assesses the valuation and investment case is too stretched for fresh money. Target is raised to $6.00 from $5.10.

GWA GROUP LIMITED ((GWA)) Downgrade to Neutral from Buy by Citi and Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/5/0

It's not about you, it's about the cycle and our concerns, such seems to be the message from Citi analysts post interim report release. The analysts make minor adjustments to forecasts only, but lower longer term forecasts out of concern about the housing cycle in Australia.

The analysts do note, acquired Methven strengthens GWA's innovation focus, with the NZ company carrying three of the six patented shower technologies globally, and GWA's geographic footprint expands as well, but Citi prefers to wait on how all of this plays out.

Downgrade to Neutral from Buy. Target drops to $3.26 from $3.69.

FY19 guidance for a similar second half is in line with Credit Suisse estimates. The broker liked the first half result as bathrooms & kitchens revenue grew 2.6% in a flat market.

Cash flow conversion was strong and the interim dividend was increased by 6%.

The broker considers the stock fairly valued and downgrades to Neutral from Outperform. Target is reduced to $3.65 and $3.75.

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

Helloworld's first-half result met the broker and FY19 guidance for strong earnings growth was reiterated. Cash flow was weaker than expected.

Morgans rates the stock and management well but downgrades to Hold from Add noting there is less than 10% upside to the target price.

Target price rises to $5.85 from $5.75.

INTEGRAL DIAGNOSTICS LIMITED ((IDX)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/1/0

First half operating earnings (EBITDA) were below Ord Minnett estimates, despite revenue being slightly ahead. Earnings were undermined by an unexpected lift in costs.

This is expected to constrain margin expansion over the short term. While envisaging multiple avenues for growth, Ord Minnett recognises a shifting environment and downgrades to Accumulate from Buy. Target is reduced to $2.99 from $3.00.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Neutral from Buy by Citi .B/H/S: 4/2/0

As reported yesterday already, Iluka's update missed Macquarie's projections. Because the share price has performed well to date, and management has guided towards lower production volumes for 2019, Macquarie has downgraded to Neutral from Outperform.

Medium term, the analysts see upside risk from rutile prices. The broker has increased rutile prices forecast to US$1250/t from 2HCY20 onwards. Target price $9.10. Estimates reduced for 2019, but lifted for 2020. DPS forecasts have gone up.

Iluka management has guided to weaker production in 2019. 2018 results were largely in line.

Citi envisages downside risks to production forecasts, downgrading 2019 earnings estimates by -4% to reflect lower JA rutile production and increasing 2020 earnings estimates by 2% to reflect a higher iron ore price (BHP royalties).

Target price falls to $10.40 from $12.40. Rating is downgraded to Neutral from Buy.

IRESS MARKET TECHNOLOGY LIMITED ((IRE)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/3/0

While the company's growth story is complex, Ord Minnett was pleased that both top-line growth and margin expansion occurred in 2018. The result beat guidance, with the UK demonstrating a robust result.

The broker looks forward to further operating leverage over coming years but, given the target now indicates a 6% total shareholder return, lowers the rating to Accumulate from Buy. Target is raised to $13.09 from $11.73.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Downgrade to Sell from Hold by Deutsche Bank .B/H/S: 7/0/1

It is Deutsche Bank's view that reported results were broadly in-line with expectations, but there was also weakness in the Australian operations. On that observation, the analysts have decided to downgrade to Sell from Hold, while cutting the price target to $6.30 from $7.20.

Regulatory changes affecting funds management in Australia, among other factors, have Deutsche Bank worried about margin pressure in Australia over the next three years.

See also LNK upgrade.

NIB HOLDINGS LIMITED ((NHF)) Downgrade to Hold from Add by Morgans and Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 1/6/1

NIB Holdings' first-half result pleased the broker, thanks to a strong contribution from the Australian Residential Health Insurance business and upgraded 2019 guidance.

Morgans increases FY19 earnings per share 1% but cuts FY20/FY21 by -7% to reflect more conservative margin estimates for ARHI.

Target price eases to $6.18 from $6.37 and rating downgraded to Hold from Add, the broker noting the stock is trading at a relatively fair price-earnings multiple of 18x, thanks to recent share price weakness.

First half results beat Credit Suisse estimates. FY19 guidance is increased, with underlying operating profit expected to be at least $195m.

Given the recent recovery in the share price Credit Suisse downgrades to Underperform from Neutral, believing the PE premium is not justified.

While management is doing a solid job in generating earnings growth, the broker believes the further away target margins become, the more risk there is of a correction. Target is steady at $4.90.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Sell from Hold by Deutsche Bank and Downgrade to Sell from Neutral by UBS .B/H/S: 0/3/4

Interim performance missed Deutsche Bank's expectations, despite tail winds from an accounting adjustment. Target rises to $4.50 from $4.30 but with the share price trading well above this level, the rating is downgraded to Sell from Hold.

Regis Resources posted a small beat of UBS' forecast on lower costs. Net cash and bullion means the miner is well funded to develop Rosemont underground and McPhillamy's, although the broker suspects the McPhillamy's feasibility study will show an increase on previously assumed capex given mining cost inflation.

The stock has rallied hard on the rising A$ gold price but the broker now believes too far. The gold price may continue to rise but the broker sees better value in Evolution Mining ((EVN)) and Northern Star ((NST)). Downgrade to Sell from Neutral. Target unchanged at $5.00.

SCENTRE GROUP ((SCG)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/4/1

2018 results were in line with expectations. 2019 guidance is lower than Credit Suisse expected, with the company signalling funds from operations growth of around 3%.

Although the broker assesses value in the stock, moderating comparable income growth and a prolonged stabilisation period for developments suggest the outlook is challenging.

Rating is downgraded to Neutral from Outperform and the target reduced to $4.20 from $4.70.

SANDFIRE RESOURCES NL ((SFR)) Downgrade to Underperform from Neutral by Credit Suisse and Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/4/3

First half net profit was less than expected, largely because of higher exploration expenditure. FY19 guidance is unchanged.

Gold prices remain above cost assumptions and support higher gold credits against copper costs, the broker observes.

Credit Suisse downgrades to Underperform from Neutral on valuation grounds and reduces the target to $6.15 from $6.75.

First half earnings were below Macquarie's estimates because of higher exploration expense.

The company is actively looking for acquisitions to solve its limited mine life and in the absence of a deal Macquarie struggles to find a positive catalyst.

A lack of exploration success at DeGrussa is also a concern and the broker downgrades to Neutral from Outperform. Target is reduced to $7.80 from $8.10.

STOCKLAND ((SGP)) Downgrade to Neutral from Buy by Citi and Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 2/2/2

Stockland's first-half result missed the broker - primarily because of an unexpected residential skew to the second half. The broker notes operating conditions are deteriorating faster than expected and management lowered guidance despite weaker debt costs.

Funds from operations estimates ease -1% to -2% to account for lower residential volumes.

Target price falls to $3.88 from $4. Citi downgrades to Neutral from Buy.

First half results missed Credit Suisse estimates and reflected lower-than-expected income across all divisions. Guidance is reduced to the lower end of the previous guidance range for growth of 5-7%.

Credit Suisse finds it difficult to envisage a silver lining amid ongoing pressure on retail asset valuations and further price declines in residential land.

Rating is downgraded to Underperform from Neutral. Target is reduced to $3.17 from $3.76.

SONIC HEALTHCARE LIMITED ((SHL)) Downgrade to Hold from Buy by Deutsche Bank and Downgrade to Neutral from Buy by Citi .B/H/S: 3/5/0

Sonic Healthcare's interim result was "broadly in line" (read: slightly disappointing) with Deutsche Bank. Margins disappointed a little, but the broker expects this will be rectified in H2.

Downgrade to Hold from Buy. Target declines slightly to $24.70 from $24.85.

Sonic Healthcare's first-half result was in line with Citi forecasts. Guidance was revised up by 6%-8%.

Interest guidance also fell to reflect a $328m placement (compared with an expect $100m), which results in a -2% share dilution in FY20 and beyond.

This has resulted in a dilution to the discounted cash-flow based target price to $24.75 (a price-earnings multiple of 20x) from $25.25.

The broker downgrades to Neutral from Buy, noting the recent sharp rally in the share price.

See also SHL upgrade.

SMARTGROUP CORPORATION LTD ((SIQ)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 3/3/0

While the company has demonstrated growth in novated leasing despite the weakness in new car sales, revenue growth in the 2018 results was weaker than Credit Suisse expected.

The broker believes the company can continue to grow earnings but will carry reduced sales of extended warranties. Credit Suisse reduces estimates for earnings per share by -6% for 2019-20.

Rating is downgraded to Neutral from Outperform and the target lowered to $9.50 from $12.10.

SANTOS LIMITED ((STO)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/4/0

2018 results beat Macquarie's forecasts. Despite the strong headline result, Macquarie believes the upside going forward is less apparent.

Following the share price appreciation since the December lows, and because catalysts around reserves and expenditure are largely played out, the broker downgrades to Neutral from Outperform.

Versus its peers, Santos has fewer near-term drivers and Macquarie prefers Oil Search ((OSH)). Target is raised to $7.20 from $6.80.

SENEX ENERGY LIMITED ((SXY)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 3/2/0

While exposure to domestic gas prices and strong production growth are positives, Ord Minnett is concerned about well performance relative to other Queensland gas assets.

As the stock is now trading within 6% of valuation the broker downgrades to Hold from Buy. The $0.40 target is unchanged.

The broker believes the company will require high prices to ensure an appropriate rate of return on its Queensland assets.

WESFARMERS LIMITED ((WES)) Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Sell from Neutral by UBS .B/H/S: 2/2/3

The company has emerged from the first half result in a strong position, Credit Suisse believes, with most businesses performing solidly.

While market conditions in retail moderated over the first half, management does not appear to be implying further deterioration in the second half.

Credit Suisse believes investors should take comfort in the consistency of the company's strategies at Kmart and Bunnings.

The broker downgrades to Neutral from Outperform because of the strong share price reaction. Target is reduced to $33.12 from $34.98.

Wesfarmers' result was not as strong as it appeared on the headline, given various one-offs, and underlying earnings only exceeded UBS' forecast slightly. Bunnings missed the mark and Kmart and industrials earnings declined.

Cash conversion was the bright spot, the broker notes, providing for a special dividend, and Officeworks outperformed.

UBS has made little change to forecasts but suggests a 20x FY20 earnings multiple is too rich in the face of slowing consumer spending, the impact of a weak housing market on Bunnings, and a competitive environment. Downgrade to Sell from Neutral. Target rises to $32.60 from $30.75.

WISETECH GLOBAL LIMITED ((WTC)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 1/3/0

The first half result was better than Ord Minnett expected. The only issue the broker has is with guidance, which was revised slightly higher and potentially implies softer second half organic growth.

Ord Minnett lowers the rating to Hold from Buy as some risk is creeping into FY20. Target is raised to $18.12 from $17.87.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 1300 SMILES LIMITED Buy Neutral Morgans 2 ALTIUM LIMITED Neutral Sell Ord Minnett 3 AP EAGERS LIMITED Buy Neutral Morgans 4 AP EAGERS LIMITED Buy

Neutral Ord Minnett 5 APA GROUP Neutral Sell Credit Suisse 6 APA GROUP Buy Buy Deutsche Bank 7 BABY BUNTING GROUP LIMITED Buy Neutral Macquarie 8 BLACKMORES LIMITED Neutral Sell Morgans 9 Data#3 Limited Buy Neutral Morgans 10 HEALIUS LIMITED Buy Neutral Morgans 11 LINK ADMINISTRATION HOLDINGS LIMITED Buy Neutral Ord Minnett 12 MOELIS AUSTRALIA LIMITED Buy Buy Ord Minnett 13 PACT GROUP HOLDINGS LTD Neutral Sell Morgans 14 PACT GROUP HOLDINGS LTD Buy Neutral Credit Suisse 15 SEVEN WEST MEDIA LIMITED Buy Neutral UBS 16 SONIC HEALTHCARE LIMITED Buy Neutral Ord Minnett 17 VIRTUS HEALTH LIMITED Buy Neutral Morgans Downgrade 18 ABACUS PROPERTY GROUP Neutral Buy Citi 19 ALUMINA LIMITED Sell Neutral UBS 20 ARB CORPORATION LIMITED Neutral Buy Citi 21 ARENA REIT Neutral Buy Macquarie 22 BANK OF QUEENSLAND LIMITED Neutral Buy Credit Suisse 23 BLACKMORES LIMITED Neutral Buy Macquarie 24 COCHLEAR LIMITED Neutral Buy Citi 25 COCHLEAR LIMITED Sell Neutral Credit Suisse 26 COLES GROUP LIMITED Sell Neutral Ord Minnett 27 DOMAIN HOLDINGS AUSTRALIA LIMITED Neutral Buy Macquarie 28 FORTESCUE METALS GROUP LTD Neutral Buy Credit Suisse 29 GWA GROUP LIMITED Neutral Buy Citi 30 GWA GROUP LIMITED Neutral Buy Credit Suisse 31 HELLOWORLD LIMITED Neutral Buy Morgans 32 ILUKA RESOURCES LIMITED Neutral Buy Macquarie 33 ILUKA RESOURCES LIMITED Neutral Buy Citi 34 INTEGRAL DIAGNOSTICS LIMITED Buy Buy Ord Minnett 35 IRESS MARKET TECHNOLOGY LIMITED Buy Buy Ord Minnett 36 LINK ADMINISTRATION HOLDINGS LIMITED Sell Neutral Deutsche Bank 37 NIB HOLDINGS LIMITED Neutral Buy Morgans 38 NIB HOLDINGS LIMITED Sell Neutral Credit Suisse 39 REGIS RESOURCES LIMITED Sell Neutral UBS 40 REGIS RESOURCES LIMITED Sell Neutral Deutsche Bank 41 SANDFIRE RESOURCES NL Neutral Buy Macquarie 42 SANDFIRE RESOURCES NL Sell Neutral Credit Suisse 43 SANTOS LIMITED Neutral Buy Macquarie 44 SCENTRE GROUP Neutral Buy Credit Suisse 45 SENEX ENERGY LIMITED Neutral Buy Ord Minnett 46 SMARTGROUP CORPORATION LTD Neutral Buy Credit 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Change Recs 1 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 33.0% 83.0% -50.0% 6 2 MFG MAGELLAN FINANCIAL GROUP LIMITED 43.0% 83.0% -40.0% 7 3 SBM ST BARBARA LIMITED -20.0% 20.0% -40.0% 5 4 ILU ILUKA RESOURCES LIMITED 58.0% 92.0% -34.0% 6 5 SGP STOCKLAND -8.0% 25.0% -33.0% 6 6 A2M THE A2 MILK COMPANY LIMITED 14.0% 43.0% -29.0% 7 7 BHP BHP GROUP 25.0% 50.0% -25.0% 8 8 TGR TASSAL GROUP LIMITED 13.0% 38.0% -25.0% 4 9 RRL REGIS RESOURCES LIMITED -56.0% -31.0% -25.0% 8 10 COH COCHLEAR LIMITED -44.0% -19.0% -25.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 A2M THE A2 MILK COMPANY LIMITED 13.628 11.300 20.60% 7 2 GMG GOODMAN GROUP 12.478 10.783 15.72% 6 3 MFG MAGELLAN FINANCIAL GROUP LIMITED 32.670 28.885 13.10% 7 4 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 2.248 2.015 11.56% 6 5 TGR TASSAL GROUP LIMITED 4.858 4.638 4.74% 4 6 ASX ASX LIMITED 59.839 57.793 3.54% 8 7 SBM ST BARBARA LIMITED 4.560 4.420 3.17% 5 8 BBN BABY BUNTING GROUP LIMITED 2.750 2.670 3.00% 4 9 SXY SENEX ENERGY LIMITED 0.476 0.464 2.59% 5 10 WTC WISETECH GLOBAL LIMITED 19.803 19.308 2.56% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 PGH PACT GROUP HOLDINGS LTD 3.236 3.772 -14.21% 5 2 SIQ SMARTGROUP CORPORATION LTD 10.718 12.078 -11.26% 6 3 BOQ BANK OF QUEENSLAND LIMITED 9.243 10.171 -9.12% 8 4 DMP DOMINO'S PIZZA ENTERPRISES LIMITED 44.396 47.994 -7.50% 8 5 COH COCHLEAR LIMITED 168.113 179.855 -6.53% 8 6 VRT VIRTUS HEALTH LIMITED 4.990 5.257 -5.08% 3 7 ILU ILUKA RESOURCES LIMITED 10.433 10.908 -4.35% 6 8 COL COLES GROUP LIMITED 11.923 12.449 -4.23% 8 9 SGP STOCKLAND 3.822 3.987 -4.14% 6 10 ARB ARB CORPORATION LIMITED 17.820 18.565 -4.01% 4 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 CRN CORONADO GLOBAL RESOURCES 56.541 26.885 110.31% 3 2 ILU ILUKA RESOURCES LIMITED 93.085 73.395 26.83% 6 3 SXY SENEX ENERGY LIMITED 1.125 0.940 19.68% 5 4 OSH OIL SEARCH LIMITED 37.685 31.872 18.24% 8 5 STO SANTOS LIMITED 44.723 38.859 15.09% 8 6 GMG GOODMAN GROUP 55.577 50.577 9.89% 6 7 TLS TELSTRA CORPORATION LIMITED 19.574 17.943 9.09% 8 8 SVW SEVEN GROUP HOLDINGS LIMITED 136.800 125.650 8.87% 5 9 S32 SOUTH32 LIMITED 33.386 30.738 8.61% 7 10 WSA WESTERN AREAS NL 6.538 6.027 8.48% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 PGH PACT GROUP HOLDINGS LTD -8.315 23.237 -135.78% 5 2 URW UNIBAIL-RODAMCO-WESTFIELD 33.506 135.554 -75.28% 4 3 MIN MINERAL RESOURCES LIMITED 80.967 259.967 -68.85% 3 4 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 7.458 16.458 -54.68% 7 5 OGC OCEANAGOLD CORPORATION 18.286 29.121 -37.21% 6 6 PLS PILBARA MINERALS LIMITED 1.100 1.520 -27.63% 4 7 BIN BINGO INDUSTRIES LIMITED 8.300 10.933 -24.08% 3 8 AWC ALUMINA LIMITED 25.679 32.808 -21.73% 5 9 BKL BLACKMORES LIMITED 378.400 455.350 -16.90% 6 10 WOR WORLEYPARSONS LIMITED 59.327 68.028 -12.79% 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: The Nuclear Debate

Can a lower-emission world be achieved without nuclear energy?

-Activity slows in uranium markets -Debate over nuclear’s role in energy markets -China growth slowing

By Greg Peel

Activity in uranium markets fell to a low ebb last week. Industry consultant TradeTech reports five transactions in the spot market totalling only 500,000lbs U3O8 equivalent while no transactions were reported in term markets.

TradeTech’s weekly spot price and monthly term price indicators all remain unchanged at US$26.80/lb, US$30.00/lb (mid) and US$32.00/lb (long) respectively.

One reason why trading has stalled and prices levelled off is because US market participants are busy filling out lengthy questionnaires to aid the government’s section 232 investigation.

In the meantime, a bill put to Congress by two Democrats continues to draw scrutiny as it calls for a US policy of clean and zero-emission sources to address climate change. Dubbed USA’s Green New Deal, the bill specifically calls for a move away from nuclear power.

In response, a coalition of clean energy groups called ClearPath has published a paper suggesting the goals of the Green New Deal are impossible to achieve without preserving the current US reactor fleet and further developing new generation plants.

Secretary of Energy Rick Perry said last week that the administration is striving for an “all of the above” approach to energy policy including both renewables and nuclear, and that nuclear is part of a policy perceived by the president.

Demand Side

In the private sector, BP last week released its 2019 Energy Outlook which explores uncertainties for the global energy market through to 2040. The challenge ahead with regard reducing emissions, BP suggests, is not one of developed market policy but of increasing demand for energy as poorer nations become more prosperous, making the transition to a lower-carbon future more tricky.

BP forecasts an overall increase on global nuclear power to 3400TWh by 2040, of which 1000TWh will come from China alone as OECD generation declines.

The Chinese government plans to expand nuclear power capacity by 58GW by 2020 and have another 30GW under construction. China opened seven new reactors in 2018 and currently boasts an operating capacity of 43GW, making it the world’s fourth largest nuclear fleet.

Yet China’s nuclear capacity pales in comparison to its renewables capacity. Currently solar and wind are producing twice as much electricity in China than nuclear, and the government’s renewable power capacity target for 2020 is almost four times that of nuclear.

In the meantime, the pace of economic growth in China is slowing, In order for the nuclear capacity target to be reached, the pace of reactor construction approvals needs to increase.

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FNArena is proud about its track record and past achievements: Ten Years On

The Short Report

Guide:

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

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

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

Summary:

Week ending February 21, 2019

Last week saw the ASX200 continue to track sideways in the 6000-6100 range. A lack of macro newsflow and a stalled Wall Street met some big local share price moves post earnings result releases that netted each other out.

Last week saw the bulk of companies reporting. Extreme share price moves both and up and down again featured but there has not been a lot of change to short positions. There were nevertheless a couple of exceptions.

I noted last week that Bingo Industries ((BIN)) was sitting right at the bottom of the 5%-plus shorted table at 5.0% before a profit warning that saw the stock fall -49%. Unsurprisingly, Bingo has now dropped off the table.

That would suggest profit-taking. On the other hand, a2 Milk ((A2M)) was previously sitting at 6.0% shorted ahead of its result, which produced a 10.5% rally. That stock has also now dropped off the table, suggesting short-covering was evident in said rally.

I also noted last week that after a surprisingly weak result from Bendigo & Adelaide Bank ((BEN)), shorts in peer Bank of Queensland ((BOQ)) increased in anticipation of a similar result.

Bank of Queensland does not report in the standard cycle but never mind, the bank issued a profit warning last week suggesting it was in an even worse position than Bendalaide. Shorts have increased to 7.7% from 6.8%.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+ SYR 16.7 ING 16.3 GXY 15.0 ORE 12.9 JBH 12.8 IVC 12.6 BWX 11.9 MTS 11.7 MYR 11.1 DMP 10.7 NXT 10.1 BAL 10.1

Out: BAL

9.0-9.9

BAL, SDA, HVN

In: BAL Out: PLS 8.0-8.9%

PLS, SUL

In: PLS Out: IFL

7.0-7.9%

NUF, BOQ, IFL, MSB, SGM, BEN, AMP, AMC, BKL

In: IFL, BOQ, AMP, BKL Out: RWC

6.0-6.9%

RWC, DHG, NAN, RSG, CGF

In: RWC, CGF Out: BOQ, AMP, BKL, MND, GMA, CCP, A2M

5.0-5.9%

LYC, CCP, WSA, SEK, HT1, GMA, CAR, MND, BGA, A2B, AHG, APT, CLH, HUB, KAR, KDR, MLX

In: CCP, GMA, MND , MLX Out: CGF, PTM, BIN

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 7.3 7.1 RIO 4.1 4.2 ANZ 1.6 1.5 S32 0.6 0.5 BHP 4.4 4.5 SCP 1.1 1.1 BXB 0.3 0.3 SUN 1.0 0.9 CBA 2.2 2.4 TCL 1.5 1.5 COL 2.3 2.1 TLS 0.7 0.5 CSL 0.2 0.3 WBC 2.0 2.1 IAG 0.4 0.4 WES 1.4 1.4 MQG 0.3 0.3 WOW 2.8 2.8 NAB 1.0 0.9 WPL 0.8 0.7 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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The Wrap: Health Insurers, RBA & Super

Weekly Broker Wrap: health insurers; slot manufacturers; RBA; superannuation; and global debt.

-Health insurer valuations factoring in minimal risk of regulatory scrutiny -Aristocrat Leisure still ahead among slot manufacturers -UBS forecasts official cash rate cut at year end, but could be earlier -Morgan Stanley concerned about build up in corporate debt in US, China

By Eva Brocklehurst

Health Insurers

UBS believes investors are now less concerned about the impact of the Australian Labor Party's proposed policy to limit price increases for health insurers at 2% for two years.

Valuations appear to factor in minimal risk for greater regulatory scrutiny of the premium setting process and profit margins. The broker disagrees with this complacency and cannot envisage how the issue of profitability will avoid the regulatory spotlight indefinitely.

Medibank Private's ((MPL)) net margins appear to be heading for a fourth year above 8% but the broker was most surprised by the change in the first half at nib Holdings ((NHF)), where margins widened sharply and expenses were buffered.

Policy holders may be receiving better service and benefits but on the issue of price the broker finds little evidence the spoils are being shared. Both companies' approved pricing has been higher than industry, post privatisation.

UBS considers the valuations are out of kilter and remains underweight on the sector. The broker has a marginal preference for nib and has a Neutral rating, with a Sell rating on Medibank Private.

Slot Manufacturers

Macquarie analyses the performance of slot machines within Australia, which it believes provides insight into market share for outright sales. Aristocrat Leisure ((ALL)) continues to outperform with its new games delivering 1.6x floor averages, supported by the Dragon and Lightning series.

In January, two titles from these series were released in Victoria and already are top performers. Macquarie is increasingly confident Aristocrat Leisure can capture greater share in North America.

Ainsworth Gaming ((AGI)) continues to moderate and its performance was -34% below floor averages in January. Macquarie is encouraged by the release of Kanga Cash in Queensland, which is performing strongly, albeit on low installations. The broker finds the step-up in the company's R&D positive but expects new products are some time away, given lead times are more than 12 months.

Reserve Bank

UBS expects the Reserve Bank of Australia to reduce its official cash rate by -25 basis points in November 2019 and February 2020, taking this rate down to 1.00%. This view is based on a tightening of credit playing out amid ongoing falls in housing prices and a negative household wealth affect on consumption.

Although the labour market remains solid, the broker points out this is a lagging indicator. UBS expects below-trend GDP growth of 2.3% in 2019 and unemployment to rise to 5.25% by the end of the year.

Could the RBA cut earlier? UBS considers this the main risk to its view. A modest rise in unemployment is likely to be needed for a rate reduction and the broker points to commentary from RBA governor Philip Lowe, who stated it was possible that the economy was softer than expected and that income and consumption growth will disappoint.

The governor also signalled that, in the event of a sustained increase in unemployment and lack of further progress on the inflation objective, lower rates might be appropriate.

UBS suspects that inflation will move under the central bank's 2-3% target band and could be enough to bring an easing of official rates even further forward.

Moreover, the RBA is expected to again downgrade the GDP outlook in May. The main upside risk to GDP is considered to be the budget from the federal government, given this is already tracking $3bn ahead of the mid year economic and financial outlook (MYEFO).

Superannuation

Analysis by Rainmaker Information, which provides marketing intelligence and financial services information, has found that of the 28m superannuation accounts that safeguard over $2.7 trillion in assets, over 5m accounts are likely to have their fees reduced to less than 3%.

This view stems from the legislation that passed through the Senate. AMP ((AMP)), Hostplus and ANZ OnePath appear to be impacted the most, with accounts under $1000 representing 34%, 32% and 41% of their totals respectively.

The researchers note that many of Australia's super funds have thousands of small accounts that are owned by young people. For these members who are just starting out, if the fund has a flat dollar fee, it can translate into extremely high percentage rates. The legislation is considered a win for these consumers.

Global Debt

On Morgan Stanley's calculations global debt was stable at an elevated level of 226% of GDP in 2018. After rising for six consecutive years over 2010-16 this marks the second year that ratios have stabilised.

China remains the driver of global debt dynamics and the recent stabilisation in ratios is supported by that country's successful de-leveraging of its corporate sector. Elsewhere, there was a slight uptick in non-financial corporate and public debt, offset by a decline in household debt.

However, Morgan Stanley notes China has stepped up the pace of its policy easing and other central banks have also become more dovish. Hence, while global growth is likely to improve from the second quarter of 2019, the broker suggests local debt ratios will also rise, led by China and developed market public debt.

Three areas of risk stand out, including corporate credit risks in the US and China, and external funding risks for selected emerging markets. Morgan Stanley is particularly concerned about the rapid build in debt in the corporate sector in the US and China.

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Will Higher Costs Overwhelm Hub24?

Revenue growth prospects are strong for fund management platform Hub24 but brokers remain concerned about an escalation in costs.

-Revenue margins likely to be pressured by price competition for funds -Escalation in costs could lead to questions about scalability -Business still expected to benefit from flows to specialist platforms

By Eva Brocklehurst

Substantial growth in costs featured in the first half but Hub24 ((HUB)) has moved to reassure the market that there is still leverage in the business and cost growth will slow. Additional expenses were incurred in governance, distribution, infrastructure and services. An FY21 target for funds under administration (FUA) of $19-23bn was reiterated.

One of the positives in the result was revenue margins, which were maintained in spite of a minimal contribution from a large client transition. Citi expects revenue margins will still decline, and forecasts a margin of 49 basis points by FY21. This will be driven by sharper pricing for larger deals, more clients with higher balances, an increase in price competition and lower cash balances on the platform.

Revenue growth prospects are still shaping up well and Credit Suisse estimates a 10% rebound in equity markets in the first quarter of 2019 has benefited the company's FUA by around 6%. The March quarter is typically the weakest of the year for flows and, therefore, this is considered a good sign.

In contrast, Macquarie suspects FY20 consensus estimates for operating earnings (EBITDA) are unlikely to be achieved because of higher operating expenses and capitalisation.

While the broker assesses the sell-off in the stock may be seen as creating an attractive entry point, the step-change in cost growth and lack of visibility make this difficult to pin down. Shareholders are now investors in a company that is re-sizing its operating costs post the Hayne Royal Commission.

Wilsons also takes a negative view, downgrading to Sell, with a target of $10.43. The broker was most surprised by the substantial lift in employee-related costs, reflecting senior and middle management recruitment.

The broker asserts it would always support a business investing in growth but Hub24 is not priced for disappointment. Wilsons, not one of the eight monitored daily on the FNArena database, expects the company will gain significant market share in the medium term, as the drivers of funds from incumbents to specialist platforms are firmly in place.

Costs

Citi believes the escalation in costs could lead investors to question the scalability of the company's platform. The broker expects platform margins will increase over the medium term, and forecasts three-year compound growth in earnings per share of 65%, as the business benefits from a structural shift towards specialist providers. Nevertheless, downside risk is also envisaged for industry pricing over the medium term.

Credit Suisse agrees the cost outcome was disappointing but is confident the company is now set up to deliver in coming years. Importantly, revenue was robust and beat in terms of margin, and that should reduce some concerns about pricing.

The broker accepts there will be debate around the level of cost growth and to what extent operating earnings margins are sustainable. Using competitor Netwealth ((NWL)) as guide, Credit Suisse believes the platform division of Hub24 is likely to migrate towards a cost base of around $50m by FY21, which should support margin expansion in operating earnings to at least 45% on its platform.

FUA is currently around 20% above the first-half average, which the broker believes will set the business up for firm growth in the second half. Significant flows are expected in coming years amid higher growth in earnings per share. As the stock is fairly priced, Credit Suisse maintains a Neutral rating.

Transitioning Clients

Macquarie suspects the allocation of transition costs as a one-off cost in the report implies there are no large deals on the horizon. Therefore, net fund flows may return to normalised growth rates in the near term. Credit Suisse argues the company is well-placed for additional transition deals, given the quality of its offering and the desire for independent advisers to move towards specialist platforms.

The company added 10 licensees in the second quarter, providing access for an additional 137 advisers, and completed the transition of around $700m of Fitzpatricks Wealth in December. Credit Suisse notes some suspicions that pricing was low for this deal and this will erode revenue margins. However, the broker calculates the effect is likely to only be -1-2 basis points.

FNArena's database shows one Buy rating (Ord Minnett, yet to comment on the half-year), two Hold and one Sell (Macquarie). The consensus target is $12.70, suggesting 8.2% upside to the last share price. This compares with $13.07 ahead of the report. Targets range from $9.90 (Macquarie) to $14.21 (Ord Minnett).

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February Reports: Is Not As Bad Good?

In this week's Weekly Insights:

-Share Market Momentum: 2x Indicators -February Reports: Is Not As Bad Good? -Yield: The Silent Performer -Rudi On TV -Rudi On Tour

By Rudi Filapek-Vandyck, Editor

Share Market Momentum: 2x Indicators

Two graphs included this week (see below) summarise, in my opinion, the background for today's equity markets.

The first graph concerns the leading indicator for the US economy, still the largest on this planet, as composed and published by the Conference Board, an independent research organisation with activities in 60 different countries.

As anyone can clearly see on that chart (which is updated until December), forward indicators for the US economic growth momentum pretty much fell off a cliff late last year, which easily explains as to why share prices went into a negative maelstrom at that time, fully exacerbating two full months of downward moving trend lines.

The graph specifically shows the leading indicator for the US, but the LEI for the rest of the world looks exactly the same. This feeds into the idea that a strong US economy can only withstand weakness in the rest of the world for so long. Eventually, and certainly history would back this conclusion, the US too will feel the impact from a slowing global economy.

The one caveat for all of this is that several input data for this indicator have remained missing due to the temporary US government shut down in December. The Conference Board might operate as an independent research entity, its indicators still rely on input data collected and published by departments of the US government. Since December, some of such data have not yet been released.

Also, as indicated (red arrows), the US LEI falling below the zero line historically always coincides with turmoil for global assets. In 2011 and 2012 the problem stemmed from a weakened and unstable Europe, by early 2016 investor doubt was focused on China with global momentum continuing to decelerate, and by late last year the culprit was more than likely a somewhat delusional Federal Reserve who somehow thought it could simply continue hiking the official cash rate, while running down the massive debt mountain on the central bank's balance sheet.

The world's most powerful central bankers have understood the market's message loud and clear since, and are now officially in pause mode.

This has facilitated strong rallies for beaten down equities the world around since. Which brings us to the second graph accompanying this story; CNN's Fear & Greed measure, observed by many across the globe who want a less technical indicator for where investor sentiment is at.

[With thanks to the Gartman Letter]

As clearly shown above, the indicator has ventured back into "extreme greed" territory, which is another way for saying shares have been egregiously overbought for the time being, or that market bullishness has once again reached elevated levels. None of this indicates a share market correction needs to follow immediately, but it does show the need for ongoing positive news flow to keep the upward momentum going, and probably shows a pull back, at the very least, needs to follow at some point, if only to let some steam escape from current share prices.

Investors might also take note that according to some technical analysts, like Gary Burton at FPMarkets, equity markets globally remain in a bear market. Viewed from this angle, the swift rally post Christmas into late February fits in the mould of sharp rallies that are typical under bear market conditions.

To throw off the mantle of the bear, the local ASX200 index needs to rally past the previous high, achieved in Q3 last year at 6373. I don't want to sound too pessimistic, but I don't see that happening in the foreseeable future. (though, admittedly, stranger things have happened in financial markets). But there is plenty of grey to play with.

Burton's latest market update suggests what equities need right now is a pullback of -5%, and then a resumption of this rally. Were this scenario to unfold in the weeks ahead, Burton would be prepared to once again call equities as being in an uptrend.

February Reports: Is Not As Bad Good?

One of the key events this reporting season occurred on the final day of the opening week, Friday the 8th of February. Local real estate platform REA Group ((REA)) alongside parent News Corp released interim financials, and while the operational numbers looked robust and resilient, management's guidance for a more subdued, elections impacted second half period was instantly interpreted as an invitation to sell down the stock.

Flash forward two weeks, and today the share price sits well above the levels both prior to and after the release of interim financials.

This is not standard practice. Usually, and I am learning on experience from many years of observing and analysing corporate reporting seasons in Australia, following a disappointing market update, and subsequent public flogging, share prices of stocks such as REA Group remain in the doghouse for a while longer.

In a world that is increasingly short-term focused, all investors need to know during and immediately after reporting season, apparently, is whether the result beat expectations, or whether it was a disappointment. In case of the latter, investor interest may well remain lukewarm for a number of months, depending on the magnitude of it all, and whether there are ample opportunities available elsewhere.

In REA's case, history shows that when the company disappointed in August 2016, the share price didn't bottom out until the calendar read November, after which the prior uptrend in the share price resumed. By April the following year -eight months after the results related sell-down- REA's share price was back at pre-August release levels, and continued trending higher.

This time around the immediate "loss" suffered by loyal shareholders (such as myself) only lasted for about one week, give or take. And REA Group shares are far from the only ones to swiftly recover from earnings update inspired weakness. Take a look at Carsales ((CAR)) -same pattern- or Link Administration ((LNK)) -again, same pattern. Idem for GUD Holdings ((GUD)).

In contrast, when Insurance Australia Group ((IAG)) updated on the 6th of February, the release was labelled a "beat" by all and sundry, and the share price rallied on the day. But there never was any follow-through. In the three weeks post the IAG market update the share price has bit by bit given up on the share price gains booked on the day of release, to ultimately end up lower than on the days prior to the market update.

So who are the real winners and losers in this February reporting season? The distinction between the two has, according to my memory, never been this blurred.

Reporting season in February still has a few more days to run, but already it has become clear total "beats" and total "misses" are in a tight contest to grab the largest percentage of the season's corporate reports. FNArena has been closely monitoring local reporting seasons since August 2013, but never have we witnessed such a tight race between "beats" and "misses", i.e. between "positive surprises" and "negative disappointments".

Underlying, earnings estimates are trending south, outside resources, but probably at a slower pace than predicted pre-February. Valuations and price targets are struggling to stay positive, for the season as a whole. If the end result ends up negative, this too will be a first since August 2013 (Either way, it seems the end result is on its way to become the least favourable outcome in the series to date).

None of this should surprise, given the background of overwhelmingly soft looking economic indicators, that are -equally important- pointing towards more weakness, not improvement in the weeks and months ahead. Some sectors have revealed their vulnerability this month, starting with car-related businesses (virtually all disappointed), with building materials and construction, and even both supermarket operators unable to shake off operational headwinds.

Some retailers managed to stand above the crowd; many others, however, did not. All aged care providers disappointed on a genuine downturn for the sector, despite increased government funding. Regional banks were weak. Outdoor media, clearly, is doing it tough too, as are wealth managers with exception of you know who.

Popular, High PE super-performers who yet again proved their mettle, confounding the many critics on the sideline for the umpteenth time, include a2 Milk ((A2M)), Altium ((ALU)), Appen ((APX)), and Nanosonics ((NAN)). They join the list I pointed out last week, see:

https://www.fnarena.com/index.php/2019/02/21/february-reports-early-resilience-big-disappointments/

Others, including Blackmores ((BKL)), Domino's Pizza ((DMP)), Flight Centre ((FLT)), Hub24 ((HUB)), and Praemium ((PPS)) simply couldn't live up to market expectations.

Equally noteworthy, in the shadow of mostly robust performances from large resources stalwarts, including BHP Group ((BHP)), Rio Tinto ((RIO)), Fortescue Metals ((FMG)) and Woodside Petroleum ((WPL)), the contractors and

engineers are awaiting their moment in the limelight. Investors should keep in mind, nevertheless, this is a sector that traditionally combines outsized investment returns with dismal failures. It wasn't that long ago RCR Tomlinson went bankrupt, just like that, and Lendlease is now looking to divest its own (troubled) engineering division.

This month, services providers including Ausdrill ((ASL)), Alliance Aviation ((AQZ)), Monadelphous ((MND)), and NRW Holdings ((NWH)), among numerous others, provided plenty of confirmation and indications there should be plenty of fresh contracts awaiting in the near term.

On the flipside, companies including iSentia ((ISD)), Ardent Leisure ((ALG)), Asaleo Care ((AHY)), Class ((CL1)), Coca Cola Amatil ((CCL)), Event Hospitality and Entertainment ((EVT)), Fletcher Building ((FBU)), Freelancer ((FLN)), Healius ((HLS)), Mayne Pharma ((MYX)), Pact Group ((PGH)), and many others, once again provided plenty of evidence it is not easy to successfully turnaround a business stuck in struggle street.

On occasion, one such perennial disappointer refinds its mojo, and triggers a successful recovery in the beaten down share price, to the grand delight of long suffering loyal shareholders. This month's turnaround story may well be named QBE Insurance, but we won't know for certain until after the next season in August, if not until after February next year.

All in all, it looks like the end of February will leave investors with a general feeling corporate health and performances in Australia are not mirroring worst case scenarios, but being not as bad, is this good enough to sustain current share price levels?

Ironically, the answer is likely to depend on what happens at the macro level.

FNArena keeps track of corporate results the year-around. Our February assessments can be tracked through daily updates via a dedicated section on the website:

https://www.fnarena.com/index.php/reporting_season/

Yield: The Silent Performer

If there is one forecast that many experts have called wrongly in the share market over the past few years, it is the direction of government bond yields.

Gone are the predictions that pinned bond yields at 4%, and possibly higher. Whoever sold their high yielding shares in the local share market on the basis of such predictions has been left severely disappointed since. Share prices for yield stalwarts such as Transurban ((TCL)) and Sydney Airport ((SYD)) have not crashed to all-time lows, but surged to near all-time highs instead. And the same applies to smaller brethren equally offering juicy yields, such as Viva Energy REIT ((VVR)) and Atlas Arteria ((ALX)), to name but two.

And what to make of the stand-out performances of the new growth stocks in the local yield sector, Goodman Group ((GMG)) and Charter Hall ((CHC))? The former's forward looking dividend yield at the present share price and on freshly updated consensus forecasts is currently... wait for it... 2.4%!

This is an indicating of how strong the performance of Goodman Group shares has been in recent years. Surely, I am not the only one who can still remember when shareholders in Goodman Group could expect a similar income/yield from dividends as their peers holding Transurban or Atlas Arteria?

There is an old saying that financial markets are there, above anything else, to keep investors humble, and humbled many have been. Not just by diverging trends over the past five years, or by last year's sudden bear market black hole, but most certainly by how difficult it has been to retain even a modest level of economic growth the world around, and by the persistent absence of that what many fear most; tangible price inflation.

Slow(ing) growth with no inflation (to speak of) equals lower bond yields and ten year US Treasuries are currently yielding less than 2.70% - a long way off from the 3%-plus the world witnessed in Q3 last year, and certainly nowhere near the occasional 4% or 5-6-7% we might have heard mentioning by very intelligent looking, highly eloquent men in suits on financial television.

Lower bond yields are, of course, one of the factors that have supported a recovery in equity markets. While the underlying reason as to why bond yields are again trending lower is a clear negative for risk assets, the immediate impact is one of providing support. See the yield stocks mentioned earlier (and their peers), but also share markets in general.

The Federal Reserve is now officially taking a breather. To some experts looking back at historical precedents, this most likely means the next step will be a rate cut, but probably not anytime soon. The complicating matter here is that quantitative tightening really has only just started.

No matter what scenario lays ahead, quantitative tightening remains far from done, or even remotely near the level the Federal Reserve had been targeting until recently. So investors should not be surprised if -but that's still pure and plain speculation at this stage- quantitative easing and negative interest rates are to remain much longer on central bankers' To Do list.

Potentially much, much longer.

Can you hear that noise in the background? That's from all those investors having gone short Goodman Group, or from advisors telling their customers to sell. Yet, if global bond yields are continuing to trend lower, it is not very likely we will have the chance any time soon to see Goodman Group shares trading at "cheap" levels.

One thing that may well be on the Fed's menu, and soon too, is a general reset for the so-called dot plots. This is the level at which each individual FOMC member (those who decide upon the official cash rate) indicates where he/she sees the cash rate into the future.

Now that the Federal Reserve has acknowledged the December hike might have been one step too far already, it is not inconceivable a number of FOMC dot plotters will reset their expectations, and the median from all dot plots should thus fall at the next update in March.

Spoiler alert: bond traders and fixed income investors pay close attention to such signals. We might yet see US treasuries take another rally-step higher, meaning bond yields can still move to a lower level, even though they already are low within historical context.

I wouldn't be selling any Goodman Group shares just yet. (The FNArena/Vested Equities owns Goodman Group shares, as well as Viva Energy REIT and Atlas Arteria and we haven't even thought about selling for one millisecond in weeks past).

All else being equal, rallying bond prices and falling bond yields should equally benefit Australian banks' share prices, but ever since that strong rally leading into May 2015, the case to own Australian banks/witness them benefiting from lower bond yields has not been as simple and straightforward as it usually is.

I feel a separate story on the risks that still surround Australian banks is necessary. Watch this space.

Rudi On TV

My weekly appearance on Your Money is now on Mondays, midday-2pm, but due to the February reporting season I shall remain absent both on Monday, 18th February and on 25th February. I'll resume on Monday, 4th March.

I should also appear on Wednesday, March 6, 2pm to discuss the February reporting season.

Rudi On Tour In 2019

-ASA Inner West chapter, Concord, Sydney, March 12 -ASA Sydney Investor Hour, March 21 -ASA Toowoomba, Qld, May 20 -U3A Investor Group Toowoomba, Qld, May 22 -AIA Adelaide, SA, June 11 -AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

(This story was written on Monday and Tuesday 25-26 February 2019. It was published on the Tuesday in the form of an email to paying subscribers at FNArena, and again on Thursday as a story on the website).

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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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