Week

42

Stories To Read From FNArena

Friday, 20 October 2017

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Health Reforms Unlikely To Dent The Trend

The Australian government's changes to health insurance centre on prostheses and addressing the decline in the insured 20-30-year olds. Overall, brokers are sceptical the reforms will be enough to make a dent in the trend.

-Health insurance likely to continue to be a discretionary item for many -Reduction in claims likely to be partially offset by lower premium growth for insurers -Improved access to mental health services and travel & accommodation benefits to add costs to the system

By Eva Brocklehurst

The long-awaited reform package for Australia's private health insurance industry has been delivered by the Australian government. The proposed changes should result in up to $1bn in claims savings across the system over four years of operation, mainly via reductions in the prices paid for medical devices and prostheses. Brokers generally believe the reforms are a net positive for the industry but suspect they will go only a small way to turning around the declining trend in participation.

The main positive centres on addressing the decline in the insured 20-30-year old age group, with the government offering cumulative discounts to attract younger people back to private health insurance. Nevertheless, Deutsche Bank is one broker pointing out that if consumer confidence remains low and unavoidable costs such as electricity and rent continue to rise, discretionary items such as private health insurance may still prove a choice beyond the reach of many.

The broker raises forecasts by 2% for the major health insurers Medibank Private ((MPL)) and nib Holdings ((NHF)) to reflect lower claims costs on the back of the announcement, but calculates the positive outcome on claims is partially offset through -1% lower premium growth.

The one question UBS is left asking: if the government is committed to constraining runaway growth and applying significant pressure to premiums, how can that ultimately translate into a larger profit pool for the private health insurers?

On balance, the initiatives suggests claims growth may slow but the broker is not sure that an orderly trajectory will occur, as some initiatives are inflationary. Improved access to mental health services and the option to add accommodation and travel benefits to hospitals should add costs to the system. However, initiatives to tackle low-value care and eliminate a range of natural therapies are positive outcomes, given the questionable costs that are borne by all policy holders.

The overall impact will not be known for some years but Credit Suisse does not believe the changes will fundamentally alter affordability issues in the private health insurance industry. As long as premiums continue to inflate at a rate that is faster than wages growth and, given the alternative services provided in the form of the public system, the decline in participation is likely to continue, although perhaps at a slower pace.

The Youth Push

There may be some slowing down of the exit rates from insurance in the younger age bracket but this also comes at a revenue cost to insurers through lower premium revenue and may not provide a great net benefit, in Credit Suisse's view.

Citi also expects lower premiums will be offset by lower claims and makes no change in the earnings estimates for Medibank Private and nib. Overall, the broker considers the reforms make the system more attractive to younger people and approving overall affordability while suspecting the reforms will initiate intense competition for younger members.

Morgans is sceptical that even the maximum 10% price discount will change younger people's perceptions of private health insurance. The broker considers the upside is heavily linked to whether the changes actually increase industry volumes and maintains Hold calls on both Medibank Private and nib, given current fair trading multiples.

Morgan Stanley calculates that if insurance participation rates among 20-29 year-olds were similar to that of 30-40-year-olds an additional 430,000 customers could be added, equating to a 4% one-of boost to the customer base. However, the broker considers it highly unlikely that the discount will lift participation rates to such a level.

The broker is also surprised that that given former health ministers attempted and failed to implement tiered levels of products, the gold, silver and bronze proposals are included. How will a bronze policy compare with a basic policy? Credit Suisse agrees the streamlining and categorising of insurance products is unlikely to materially impact on consumer perceptions regarding private health insurance.

Options related to privately insured patients in public hospitals will be discussed with the states as part of the negotiations for the next national health agreement. Credit Suisse suspects that any attempt by the federal government to restrict private patient admissions to public hospitals could have revenue implications for the states.

Medical Devices Pricing

For private hospital operators, such as Ramsay Health Care ((RHC)) and Healthscope ((HSO)) the main impact is via the proposed reductions to prostheses prices and the likelihood of reduced supplier rebates. The main benefit will flow to consumers in reduced insurance premium increases but Morgans suggests cost reduction benefits may be over-estimated by the government in terms of prices.

A critical assumption in assessing the earnings impact is that the brunt of the reductions is borne by the device suppliers and, in determining the level of bargaining power retained by the hospital operators, Credit Suisse finds it difficult to ascertain. All up, the broker does not envisage any material change to current private hospital volume growth or price/mix contribution.

Ord Minnett is encouraged by the comprehensive nature of the reforms but believes the net impact for a reduction to prostheses prices will be modest and may offset a recovery in participation rates and the opportunities from an expanded mental health cover.

Moreover, the more intractable problems such as a growing volume of private patients in the public system and rising out-of-pocket charges by doctors have not been addressed directly. The broker suggests that the most likely outcome of policy will be a slowing of the growth in this trend rather than any action that leads to a material transferring of this patient grouping to private hospitals.

Reforms

$188m will be cut from prostheses expenditure from February 1, 2018, a further $188m in 2019 and $115m in 2020. Private health insurers have stated that every $200m in prostheses benefit reductions will decrease private health insurance premiums by -1%.

The government will also require health insurers to remove the waiting period for mental health cover. An expert committee to address low-value care will be established to eliminate or replace admitted mental health and rehab services which deliver low-value or inefficient care. Insurers will be able to offer cover for travel and accommodation benefits under hospital policies for people in rural areas that need to travel for treatment.

There will be four categories of hospital products: gold, silver, bronze and basic and three categories of general treatment (extras): gold, silver and bronze. Categories will take effect from April 1, 2019. Also taking effect from that date, insurers will also be able to offer discounts on hospital cover of up to -2% for each year that a person is under 30, to a maximum of -10% for 18-29 year-olds.

The discounts will be gradually clawed back once a policy holder turns 40 (ie the person then faces a 6% increase in premiums per year from age 40 to 45, assuming underlying premium increases of 4% in those years). The government will also raise the cap on excess that is used to lower premiums. Excess will be raised to $750, from $500, for singles and to $1500, from $1000, for couples/families.

Power Supply A Key Risk For OZ Minerals

OZ Minerals offers leverage to copper prices with substantial reserves at Prominent Hill and Carrapateena. The main issue for brokers is the uncertainty of the power supply to Prominent Hill.

-Near-term catalysts are exploration updates from regional drilling programs -Alternative power sources and infrastructure required at Prominent Hill by 2020 -Technical challenges at Carrapateena may become more visible through 2018

By Eva Brocklehurst

OZ Minerals ((OZL)) produced a solid September quarter, sustaining significant cash flow and enabling it to pursue opportunities, whether via exploration or small acquisitions.

Canaccord Genuity considers a scalable production profile and large reserve enable exposure to a buoyant copper price. UBS agrees that, as the near-term outlook for the producing assets is well communicated, the stock offers increasing leverage to copper.

Near-term risks include a slowdown in the development rate at Carrapateena and ongoing power uncertainty beyond 2020 at Prominent Hill, both in central South Australia. Yet UBS suggests an underweight position in the stock could mean risking leverage to potentially higher copper prices and expansion options at West Musgrave (Western Australia).

Credit Suisse elects to retain an Underperform rating and believes the greatest near-term opportunity is from the re-optimisation of Prominent Hill underground, to progressively include additional resources that have long been defined but offer an in-situ value that is too low relative to the extraction cost.

The opportunity is yet to be examined in detail, the broker acknowledges, in order to determine if a lower-cost mining method can be applied without the need for material establishment capital.

Near-term catalysts in Macquarie's opinion are exploration updates from the regional and joint venture drilling programs,combined with the scoping study for the West Musgrave project.

Macquarie notes material movements were 25% higher in the quarter from Prominent Hill's open pit, a driver of higher costs along with power. The increased movement of material stemmed from the company accelerating the closure of the open pit to the first quarter of 2018, six months earlier than the broker had previously forecast.

Power Supply

One of the major risks for the stock is the need for a power strategy at Prominent Hill, adjacent to the Olympic Dam complex in South Australia. BHP Billiton ((BHP)) has decided to terminate an existing connection and power access agreement. Under the existing agreement, Prominent Hill shares BHP's power line from Davenport to Olympic Dam while OZ Minerals owns the infrastructure from Olympic Dam to Prominent Hill.

This highlights the competition and scarcity of infrastructure in the region. Alternative power sources and associated infrastructure at Prominent Hill are required before 2020. Power costs at Prominent Hill are expected to rise 60% this year and higher power costs are assumed in guidance.

UBS interprets the company's revelation that discussions with BHP regarding joint power transmission are ongoing as a sign there is potential for a shorter-term access arrangement and/or at a higher price. The company is also looking at building its own infrastructure which could, in the broker's opinion, involve part duplication of power lines to Mount Gunson, or on-site power.

Morgans expects resolution of power security for Prominent Hill is some months away and this contributes to the concerns for marginal investors. The broker agrees that power certainty will only improve from current levels and backs the company's ability to manage both the long-term transmission and pricing risk.

The broker had hoped for more detail regarding solutions to the power issue, including a stand-alone infrastructure corridor and possible integration of on-site generation/renewables. Still, given commercially sensitive negotiations are ongoing, Morgans is prepared to be patient and suggests a self-funded power corridor is the worst-case scenario. Conceptually, if $100m in capital expenditure is required in FY20 this equates to a $0.34 reduction to the broker's valuation.

Government intervention in the market could support more palatable alternatives, although Morgans believes the summer months and potential load shedding have the potential to knock the stock around. Hence, buyers should watch the dips closely. The broker retains an Add rating.

Carrapateena

Canaccord Genuity accepts that assuming there is no significant cost blow-out at Carrapateena, the company's existing balance sheet and strong cash being generated from Prominent Hill mitigate the financial risks associated with the additional expenditure required for the new power strategy.

Carrapateena is not affected by the discussions with BHP as the proposed power supply is from Mount Gunson. Nevertheless, while Carrapateena is not directly affected, as first concentrate is expected in the fourth quarter of 2019, this coincides with implementing an alternative power strategy at Prominent Hill and provides added complexity and risk, Canaccord Genuity contends.

The broker expects the logistical and technical challenges associated with Carrapateena will become more visible from 2018 onwards and, not being one of the eight stockbrokers monitored daily on the FNArena database, retains a Sell rating and $7.30 target.

Even after including Carrapateena in valuation on an unrisked basis, the stock is trading close to valuation and Ord Minnett maintains a Hold rating. FNArena's database shows four Buy ratings, two Hold and two Sell. The consensus target is $8.33, suggesting -0.8% downside to the last share price.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

Evolution Upside Hinges On Exploration

Having sold Edna May, Evolution Mining has improved its debt position and portfolio quality, narrowing its focus to strong producing mines.

-Promising exploration results at Cowal -Exploration upside considered key to improving valuation -To pay for upside the market likely requires more results, and investment

By Eva Brocklehurst

Record cash flow and production prevailed in the September quarter for Evolution Mining ((EVN)) as both Cowal (NSW) and Mount Carlton (QLD) outperformed on grades. Exploration results from Cowal signal a new discovery and longer life. Edna May was divested, improving the quality of the portfolio, and allowing the company to repay a further $40m in debt.

Record gold production of 220,000 ounces at an all-in sustainable cost of $786/oz was 6% higher and -6% lower than Macquarie's respective forecasts. The main beat in terms of production outcomes was a strong performance from Cowal as well as higher-than-expected copper production at Ernest Henry (QLD). Mount Carlton also assisted, with high-grade production from the V2 bonanza zone.

Gearing is now below 14% and, as a consistent producer, Ord Minnett expects the company to be net cash by the end of 2018. Evolution Mining has, in its short history, operated both open pit and underground mines and built a pre-development asset at Mount Carlton, while adding value via acquisitions. For Ord Minnett, the missing piece is the organic reserve growth and options on assets.

Production Sustainable?

The main question for Credit Suisse is whether the September quarter performance is sustainable. Management is confident that depletion across all assets can be offset from Cracow (QLD), Mungari (WA) and Mt Rawdon (QLD).

Several brokers find the outlook for Cowal even more positive after the quarterly report, with exploration outside the immediate mine plan only just commencing but already yielding results. This reinforces Ord Minnett's view that these tenements could host economic ounces outside of the E42 pit shell - priority targets that have not been progressed for over a decade because of a lack of funding.

Macquarie is impressed with the 139m intersection returning 17g/t and also flags the fact this, as well as other encouraging results, sits outside the current 400,000 ozs E42W resource envelope.

Cash flow continues to be a defining quality of the company and, should the current trajectory be maintained, Canaccord Genuity looks forward to a net cash position in the first half of 2018. The broker, not one of the eight stockbrokers monitored daily on the FNArena database, maintains a Hold rating on valuation, believing the outlook is priced in.

Exploration Upside?

UBS notes, despite the company's stable operations and execution on acquisitions, exploration success is not uppermost in client assessments. The broker suggests a lack of historical exploration success explains the difference between the value of Evolution Mining and Northern Star ((NST)).

Yet, the lower gearing and balance sheet strength now mean interest is mounting regarding the potential from exploration. While there is success at Cowal and Mungari, the broker notes for FY18 the budget is down by -30%. Most of this reduction is coming from expenditure on resource definition. Even so, the "discovery" component is still falling by -14%, to $25m.

UBS questions the low expenditure and, while not simply advocating an increase in spending, cannot help but compare Evolution Mining's $53m per production ounce exploration expenditure with Northern Star's equivalent $118m. The broker would not be surprised if the budget lifts when success demands it, but in order to get the market to pay more for this upside believes it will take time, results and probably more investment.

There are four Buy ratings, three Hold and one Sell (Morgan Stanley, yet to comment on the quarterly) on FNArena's database. The consensus target is $2.44, suggesting 3.7% upside to the last share price. Targets range from $2.10 (Morgan Stanley) to $2.80 (Macquarie).

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

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

IOOF Gains As ANZ Divests Wealth Business

ANZ Bank will sell part of its wealth management business to IOOF for $975m. Brokers suggest the deal is not optimal for ANZ but should provide further scale for IOOF.

-Brokers surprised at the separation costs involved -Will ANZ be able to sell the life business on a standalone basis? -Issues ahead include low organic growth of the ANZ wealth division

By Eva Brocklehurst

The acquisition of ANZ Bank's ((ANZ)) OnePath pension & investments and aligned dealer group businesses should provide material accretion for IOOF ((IFL)), although this will not be fully realised until FY21. Meanwhile, ANZ, for $975m, has offloaded a small earner and its CET1 capital ratio is expected to increase by around 15 basis points on completion of the sale, expected in around 12 months.

Deutsche Bank suggests the bank would have probably preferred to divest the wealth management business in its entirety noting, based on current disclosure, the divested assets contribute only 0.5% of group net profit.

Given ANZ is already well-positioned for APRA's requirements, Deutsche Bank assumes it will return the sale proceeds to shareholders in FY19 via a share buyback. Moreover, now life insurance can be sold on a cleaner basis a sale may be easier to achieve than previously.

Morgan Stanley has reduced confidence in ANZ's revenue recovery and assesses, while it offers an improving return on equity and has committed to cost reductions, its relatively strong capital position and sustainable dividend payout ratio are reflected in current trading multiples.

The segments of the wealth business that are not included in the transaction include life insurance, general insurance, life company products, financial planning and lenders mortgage insurance.

UBS is somewhat disappointed by the announcement, having hoped the bank would have sold off a larger proportion of its wealth management business by now. The broker, too, considers much of the upside from divestments and potential capital returns is now factored into the share price.

The bank has calculated the accounting loss on the sale to be around -$120m, based on separation and transaction costs of $300m post-tax and an accounting adjustment of around $500m for treasury shares.

The headline price appears reasonable and the impact on earnings not material but Macquarie is surprised with the quantum of separation costs. Despite the complexities associated with this separation, the amount relative to the sale price appears abnormally large to the broker. Ultimately, Macquarie expects the impact to be broadly neutral to earnings, assuming a $600m buyback and around -$50m of stranded costs for ANZ.

Ord Minnett suggests, given the uncertainty regarding the potential sale of the remaining wealth business, there is a risk the bank may need to delay its buyback. However potential suitors for the life insurance business, which may have been put off by the level of integration between the OnePath pensions & investments and life insurance, could be more interested once separation is completed.

Credit Suisse is also disappointed, given the lengthy separation time involved, which could delay any divestment of life insurance. As well, the prospect of the bank undertaking a substantial buyback in the near-term has diminished.

Life Insurance

ANZ has reiterated a commitment to withdrawing from insurance. Morgans believes, ideally, the life insurance business could have been sold along with pension & investments, and expects it will be more difficult to sell on a standalone basis for an acceptable price. Still, given the magnitude of separation costs associated with this transaction, costs associated with a potential future sale of the life business will likely be much lower.

Credit Suisse suggests ANZ has been out-manoeuvred in its divestment of life insurance by both National Australia Bank ((NAB)) and Commonwealth Bank ((CBA)), as it is hampered by the quality of the assets and complexity of the transaction. A piecemeal divestment, the broker suspects, was never ANZ's preferred option.

ANZ has entered a 20-year strategic distribution agreement to make IOOF superannuation and investment products available to customers and will receive small ongoing payments. The bank retains its financial planning business and private bank.

IOOF Outlook

From the IOOF perspective the acquisition significantly enhances IOOF's scale but UBS believes value implications are somewhat less, given the low organic growth prospects of ANZ's wealth division and a lack of net fund flows and margin compression. This compounds similar, less pronounced, issues in IOOF's existing business. Nevertheless, the deal is more accretive than UBS expected and should boost earnings per share by over 20% once fully integrated.

With near-term dilution as funds are raised, and material accretion not fully realised until FY21, Citi suggests this presents a risk that the business could deteriorate in the interim, although IOOF contends that after significant restructuring and a significant hit from MySuper changes the business has now reached a relatively steady state.

As ANZ made very little money from advice and a large proportion of the acquired business came from the platform operation, the acquisition pushes IOOF's earnings back towards platforms relative to advice, and reverses the trend of recent times.

Nevertheless, the broker flags the fact the company has a solid track record of integrating platform business. Macquarie suggests ultimately IOOF will need to reverse the negative revenue trends in the acquired businesses in order to extract the full value from the transaction.

FNArena's database shows three Buy ratings and five Hold for ANZ. The consensus target is $30.75, suggesting 1.2% upside to the last share price. The dividend yield on FY17 and FY18 forecasts is 5.3% and 5.4% respectively. There are four Hold ratings and one Buy (Credit Suisse) for IOOF. The consensus target is $11.64, signalling -0.1% downside to the last share price. The dividend yield on FY18 and FY19 forecasts is 4.6% and 5.3% respectively.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

Is Perseus Heading For Re-Rating?

Perseus Mining's Edikan mine is now a reliable producer, after difficult early years, and brokers suggest positive momentum for a re-rating is now building.

-Lingering throughput issues at Edikan now appear settled -Sissingue on schedule and on budget -Company confident no need to raise further capital

By Eva Brocklehurst

Perseus Mining ((PRU)) generally impressed brokers with its handling of gold production in the September quarter, despite weaker-than-expected volumes. A trend of improving grade and higher mill utilisation suggests guidance should be achievable.

Edikan (Ghana) is now reliably producing and Sissingue (Côte d'Ivoire) is on schedule and on budget. UBS suggests Edikan has turned the corner and a re-rating may have already begun. A further re-rating of the stock would require delivery on guidance and maintaining lower costs. If this is forthcoming, the broker would be motivated to reconsider the valuation discount.

There were lingering throughput issues with the Edikan plant, but the company is confident in meeting first half guidance of 110-125,000 ounces at an all-in sustainable cost (AISC) of US$950-1150/oz. September quarter results were weaker than brokers anticipated, driven by lower-than-expected milling rate of 6.3mtpa versus the expected 7.3mtpa.

A definitive feasibility study for Yaoure (Côte d'Ivoire) is on track for release in the December quarter. Credit Suisse asserts Yaoure development, while long dated, may be deferred until fundable from cash and debt, as the company is loath to issue new equity. Moreover, the performance of both Edikan and Sissingue will affect Yaoure's funding capacity and the timing of development.

The broker suggests management has learned from bad experiences at Edikan that compensation costs can rise over the life of the mine if not fully defined and agreed up front. Despite applying discounts - 15% to Edikan, 30% to Sissingue and 50% to Yaoure - Credit Suisse still generates a compelling valuation.

Edikan

Edikan produced 51,300 ounces at AISC of US$1116/oz over the September quarter, consistent with the prior quarter's performance. This was -14% below what Citi expected and -17% below Macquarie's forecasts, negatively affected by the reconciliation mill trial that reduced grade and throughput over 12 days.

Milling was adversely affected by a period of harder ore that led to unplanned maintenance, as liners and pumps wore out sooner than expected. The company appears to have been successful in managing the harder ore, with resource grade reconciliation now running at 100%.

Credit Suisse found the increased processing costs that featured at Edikan, driven by reduced tonnage for processing and increased maintenance costs, disappointing. Edikan has always been a challenging operation but the broker is assured the problems are under control, noting grade reconciliation is strong and the plant is performing well.

Sissingue

Good progress is being made at Sissingue, the company's second mine to come into production. Sissingue's development is 77% complete and commissioning is set to begin in November with crushing later in the month. First production is scheduled for the March quarter. Exploration upside is expected to extend the five-year life and improve already robust returns.

Citi notes the company needs US$32m to complete Sissingue and expects to draw down another US$30m of debt. Management is adamant that no capital raising will be required and expects to repay the debt by the end of 2020.

FNArena's database shows three Buy ratings and two Hold. The consensus target is $0.50, suggesting 51.6% upside to the last share price. Targets range from 40c (Macquarie, UBS) to 78c (Credit Suisse).

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

Nufarm Unfairly Discounted?

Nufarm has progressed with its transformation and there is scope for continued earnings growth, although Morgan Stanley believes this is yet to be factored into the market's outlook.

-Further potential from organic growth, cost reductions and efficiencies -Stock still trading at a substantial discount, considered unwarranted -Challenges in crop protection weighing on the share price

By Eva Brocklehurst

While retaining significant earnings momentum, Nufarm ((NUF)) continues to transform its business and an improvement in profitability has coincided with a substantial de-leveraging of the company's balance sheet.

Morgan Stanley suggests Nufarm's is now a higher-quality business and initiates coverage with an Overweight rating. The company has delivered a 450 basis points lift in returns on funds employed, to 14% from FY14-17. The broker still envisages 14% growth in earnings per share in FY18-20 and identifies potential beyond the current initiatives.

This potential comprises organic growth, cost reductions and efficiencies in the balance sheet, which the broker believes are yet to be reflected in the current valuation. Legacy concerns prevail, notably the slump in glyphosate prices in 2008-11 and the impact this had on the company.

Credit Suisse considers the stock has experienced the benefit of lower costs - three manufacturing facilities have been closed and all sites now sold - and market share gains that are likely to be sustained in the near-term.

The risks, in the broker's opinion, nonetheless, centre on the seasonal conditions in Australasia, as well as some adverse effects from the ornamental and turf sectors in North America from recent hurricanes. Ord Minnett also points out that challenges remain in crop protection, in the absence of M&A, and this weighs on the share price.

Morgan Stanley agrees investors may want consistent delivery of higher earnings before considering a higher rating but stresses this is unwarranted, arguing that a premium to history is justified and a discount unnecessary.

On consensus forecasts the stock trades at a -17% discount, on par with the 5-year average and at a discount to the 1-3-year average. Yet, the company's reliance on commodity glyphosate products has declined to 20% of sales in FY17 from 28% of sales in FY10. The broker estimates the gross profit contribution has declined to less than 20% from around 30% over this period.

Moreover, sales reliance on the Australasian region has declined to 22% in FY17 from around 30% of sales in FY10. The improvement in business, geography mix and profitability has coincided with a de-leveraging of the balance sheet. Leverage has declined to 2.3x in FY17 from 3.2x in FY14.

In contrast to Morgan Stanley, Deutsche Bank believes, with less leverage it will be more difficult to undertake an acquisition of any size. The broker also contends the company retains challenges in Argentina, Australia and in its seeds business.

The seeds business may struggle, as Australian canola volumes are likely to be down around -30% this year, following a 50% increase in FY17. Argentina earnings also declined by -97% in FY17 because of the elimination of import restrictions that allow greater access to the market for imported products.

Omega-3

An area of potential upside is the company's Omega-3 project ,which seeks to address a projected global deficit in supply of fish oil. If successful, the company will be in a position to offer a land-based, sustainable source of Omega-3. Commercialisation is expected in FY19.

Initial earnings are expected from FY20-21 and Morgan Stanley expects the market to be educated on this initiative over the next 12 months. This should then move the market to ascribe a value to Omega-3. The broker currently values a project at $0.72 per share.

Industry Consolidation

Industry consolidation, a key theme in the agricultural chemical industry over the past few years, is another area of potential upside for the stock. A capital raising would be more than likely forthcoming if such were to occur, Morgan

Stanley acknowledges, but suggests the market would welcome an acquisition in view of the company's cautious approach to the balance sheet and transaction funding.

The opportunity to add scale is a strategic positive although any transaction will carry execution risk. The company has stated it is aware of the potential for acquisitions that might result from the current round of industry consolidation but is disciplined in order to ensure any such opportunities represent compelling value.

FNArena's database shows two Buy, four Hold and one Sell rating (Deutsche Bank). The consensus target is $9.11, suggesting 2.2% upside to the last share price targets range from $6.75 (Deutsche Bank) to $10.40 (Morgan Stanley).

See also, Will Acquisitions Provide Impetus For Nufarm? On September 27 2017.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

The Lithium Supercycle

By Richard (Rick) Mills Ahead of the Herd

As a general rule, the most successful man in life is the man who has the best information.

The truth, in regards to the world's mineral resources, is that we in the western developed countries are usually not in control of supply.

"The spectre of resource insecurity has come back with a vengeance. The world is undergoing a period of intensified resource stress, driven in part by the scale and speed of demand growth from emerging economies and a decade of tight commodity markets. Poorly designed and short-sighted policies are also making things worse, not better. Whether or not resources are actually running out, the outlook is one of supply disruptions, volatile prices, accelerated environmental degradation and rising political tensions over resource access." Chatham House, Resources Futures

There are many serious concerns in regards to global resource extraction that we need to consider:

Resource nationalism/Country risk, political instability of supplier A looming skills shortage Competition with Chinese mining investment, smaller areas open for exploration Low hanging fruit - the high quality large deposits have already been found, lower economic attractiveness of new projects, cost inflation Supply bottlenecks for much needed and scarce equipment The manipulation of supplies ie speculation and concentrated ownership of LME stocks Rising capex/opex, lack of financing options, capital project execution Lack of innovation and technological advancements Declining open pit production, ongoing operational issues Lack of recognition for population growth, growing middle class w/disposable incomes and urbanization as on-going demand growth factors Environmental group and labor risks, mining unrest - lack of a social license to operate, incredibly difficult and lengthy permitting processes Climate change, accidents and natural disasters Lack of infrastructure or poor infrastructure access, attacks on supply infrastructure Price and currency volatility Fraud and corruption Access to raw materials at competitive prices has become essential to the functioning of all industrialized economies.

Accessing a sustainable, and secure, supply of raw materials is going to become the number one priority for all countries. Increasingly we are going to see countries ensuring their own industries have first rights of access to internally produced commodities and they will look for such privileged access from other countries.

Numerous countries are taking steps to safeguard their own supply by:

Stopping or slowing the export of natural resources Shutting down traditional supply markets Buying companies for their deposits Project finance tied to off take agreements "Continued growth in consumption resources is being driven by growth in China and the rest of Asia. Chinese companies are increasingly acquiring assets, as are Indian companies, prompting other global miners into a race to secure mineral assets of their own." George Fang, Standard Bank's Head of Mining and Metals China

The new competitor's for the world's resources have a mandate to secure long term resource deals for domestic use and have the financing capabilities any major mining company, or for that matter any government, would be envious of.

China's state owned enterprises (SOE) and sovereign wealth funds (SWF) were armed with hundreds of billions of US dollars from the country's foreign reserves and sent out to scour the globe for resources - they went on the hunt to fuel China's exploding economy. China wants to diversify out of the massive US dollar component of its Foreign Reserves so the SOE/SWFs have no problem dealing in straight cash and operating in what some might consider high risk areas. The Chinese also have a longer term horizon for their ultimate payoff because they are mostly after off-take supply agreements from early stage development projects.

China, along with Japan (imports 100% of its fossil fuels) and Korea, who have no lithium of their own, have been forming strategic alliances, joint ventures, and acquisitions with lithium exploration companies worldwide.

"Lithium supply security has become a top priority for Asian technology and manufacturing companies. Strategic alliances, joint ventures, joint ventures and acquisitions, continue to be established with lithium exploration companies worldwide. These agreements ensure a reliable and diversified supply of lithium for Asia's battery suppliers and vehicle manufacturers.

With lithium carbonate being one of the lowest cost components of a lithium-ion battery, the issue that Asian companies are addressing supply security attained which can be achieved by acquiring lithium from various lithium producers. These measures have been ongoing since 2009 which has seen Asian companies establish joint venture and acquire existing producers.

These strategic moves have allowed battery and vehicle companies to alleviate the possibility of future lithium supply disruptions, which could have devastating consequences in a well-established and productive HEV, PHEV, and EV industry. Consider that both Korea and Japan, who are amongst the largest producers of lithium ion batteries have no lithium hard rock or salar brine deposits within their borders." Livio Filice, Seeking Alpha

The rechargeable power needs of our modern society has made lithium a serious player in the commodity markets.

The reason for the electrification of the global transportation system is clear.

Electric vehicles (EVs) have far fewer moving parts than Internal Combustion Engine (ICE) gasoline-powered cars - they don't have mufflers, gas tanks, catalytic converters or ignition systems, there's also never an oil change or tune-up to worry about getting done. Plug and go, pretty convenient and very green!

But the clean and green doesn't end there - electric drives are more efficient then the drives on ICE powered cars. They are able to convert more of the available energy to propel the car therefore using less energy to go the same distance. And applying the brakes converts what was simply wasted energy in the form of heat to useful energy in the form of electricity to help recharge the car's batteries.

The first DVD players, the first flat panel widescreen TV's, the first production runs of any advanced technology are always more expensive than later unit costs will be. That is a fact, but this author believes that Hybrid and fully Electric Vehicle prices will soon be very affordable and offer cost advantages over their polluting gas guzzling ICE second cousins.

Electric vehicles are totally emission free. China, the world's second-biggest economy, in a move to cap its carbon emissions by 2030 and curb worsening air pollution said it was preparing to set a deadline for automakers to end sales of fossil-fuel-powered vehicles.

That's a lot of lithium batteries to manufacture – and the Chinese are preparing by locking up a secure supply of lithium. In just a few short years, by 2021, Chinese Gigafactory's will provide 3.5 times more gigawatt-hours of battery cells than Tesla's current Gigafactory.

Lithium supply or off-take agreements have been signed with lithium focused companies from Australia, Mexico and Argentina to name just a few countries - Jiangxi Ganfeng Lithium Co., a Chinese company, even has an off-take deal with a company operating in Ireland.

Lithium production in 2016 was 89% concentrated in three countries: Australia 40%, Chile 33% (added a new royalty regime in 2017 considerably adding to production costs) and current economic basket case Argentina 16%, which together comprised 89% of global supply.

There is no doubt that the three leading countries in lithium-ion battery production for electric vehicles are looking to, or are already close to locking up most of the global supply of lithium for their own use. Lithium project developers in North America should be on every investors radar screen - the supply of lithium for North American gigafactory's, is going to tighten.

And no wonder Asia is locking up global lithium supply!

China and India are both going to 100% electric vehicles. Every major car manufacturer has electric models. Volvo has even promised to phase out traditional internal combustion engines (ICE) from 2019.

France has promised to end the sale of gasoline and diesel vehicles by 2040, the U.K. quickly followed suit.

Bloomberg New Energy Finance predicts electric vehicles will make up an astounding 54% of new car sales by 2040.

In 2016, Chinese carmakers sold 28.03 million cars. If China follows through on its promise to go 100% electric that's a minimum 28.03 million lithium-ion battery packs.

Add in the UK's 2.7 million car sales in 2016 and France's 2 million car sales in 2016.

That's 32.73 million electric vehicles all requiring lithium-ion battery packs, without counting electric buses (a big deal in China, and going to be in India as well) or annual growth rates in auto sales.

One Tesla car battery uses 45 kg or 100lbs of lithium carbonate.

Tesla intends to ramp up its vehicle production to 500,000 cars per year by 2018 and 1,000,000 cars by 2020. A million electric cars produced in North America means 45,454,000kg/100,000,000 pounds or 45,454mt/50,000t of lithium carbonate equivalent (LCE) has to be mined just for Tesla's North American electric vehicle production – and Tesla has promised to source North American Lithium. Elon Musk, Tesla's CEO also has plans to build four more Gigafactory's.

Think about those global 32,730,000 lithium battery packs.

If each used the same amount of lithium carbonate as Tesla's electric vehicles that's 1.487Bkg/3.273 Billion pounds or 1,487,727mt/1,636,500t of new lithium carbonate demand.

Current annual production of lithium carbonate equivalent (LCE), for all purposes, stands at 182,000 metric tonnes, there is a very slight excess in 2017 predicted to disappear in early 2018.

The global lithium market is measured in terms of 'lithium carbonate equivalent (LCE), given that lithium carbonate is the most commonly traded product in the market.

Consider India is going 100% electric and piling on to the existing lithium demand, surely there will be other countries, and companies like Volvo, announcing the phase out of internal combustion engines?

"When you look at all the battery plants being built and the plans for EVs, even if only about 25 percent of those are realized, we're still going to be short of lithium. It's a unique once-in-a-generation situation." Simon Moores, managing director of Benchmark Mineral, Electric Car Boom Drives Rush to Mining's $90 Billion Hub

Lithium security of supply key

If we want a lithium-ion battery industry and electric vehicles built in North America we need lithium security of supply. No longer can we rely on the good graces of other countries, we need to develop an energy metals industry in North America – from mine to battery.

Lithium stocks, the producers and the near term producers are expensive, there are few bargains to be found among the more developed plays. Fortunately, for investors and our planet's health, the move towards electrifying the global transportation system is fully underway and appears unstoppable.

And that means, in this author's opinion, the earlier stage lithium focused resource plays are going to receive major investor attention.

But not just any early stage lithium company is worthy of our attention.

Brine vs hardrock lithium mining

Although it's less expensive than hard rock (Granite pegmatite-ore bodies are the hard-rock source of lithium. The lithium minerals that occur in granite pegmatites are spodumene, apatite, lepidolite, tourmaline and amblygonite) lithium mining, salar based lithium sources have a self imposed limit to annual production. You can realistically pump out only as fast as new water comes in and replenishes it. Also, with the brines your grade slowly depletes.

Of course a company should have 100% control over the production rate from their salar. It's possible an aquifer can become diluted - over producing can impact the brine's salt concentrations and chemical compositions - or depleted by too many wells sucking up more brine than should be produced.

If two or more companies have straws (wells) into the same salar legal battles might result over the sharing of the resources.

That's not a sustainable business model and lawsuits are liable to erupt.

Many junior exploration companies chasing lithium projects are not cognizant of the economic and technical challenges – no brine mining projects and even fewer hard rock projects have been put into production for the last two decades and when done so it's been by the major lithium producers – this exposes something in the industry no one talks about – a lack of skilled personnel to get involved with minerology/metallurgy and the engineering side of production.

Hard rock lithium miners have large problems facing them when competing with brine economics – firstly most have large capital (capex) costs for start up and secondly their production cost is roughly twice what it is for the brine exploitation process.

Lithium products derived from brine operations can be used directly in end-markets, but hard-rock lithium concentrates need to be further refined before they can be used in value-added applications like lithium-ion batteries.

Pegmatites are on the small side when it comes to size. A 2012 University of Michigan study, for example found that even the largest pegmatites have estimated resources similar only to that of the average brine, and, on average, brines are an order of magnitude larger in contained lithium than hard rock pegmatites.

Clayton Valley

The decision by electric car innovator, Tesla, to locate a battery manufacturing plant in the state has triggered a rush of claims in Clayton Valley.

Albermarle's Silver Peak lithium mine in Clayton Valley, Nevada is the only producing (50 years) lithium brine operation in the United States. Because Clayton Valley is an endorheic basin - endorheic basins are closed drainage basins that retain water and allow no outflow - precipitation and inflow water from the surrounding mountains only leaves the system by evaporation and seepage.

Albermarle production started at upwards of 600 milligrams per liter of lithium in the brine and even though Clayton is a closed basin now they're mining just over 100 milligrams Li per liter.

Other basins in Nevada are considered open - water travels in and out reducing lithium concentrations. The possibility of finding an economic lithium deposit to compete with Clayton Valley's is much more difficult.

The best of both lithium and hard rock?

Cypress Development Corp.

This is a heads up to alert my readers to what is a potentially explosive drill program scheduled to start very soon.

One North American lithium focused company I'm extremely high on is Cypress Development Corp. (TSX-V: CYP, OTCBB: CYDVF, Frankfurt: C1Z1).

Cypress is in the unique position of working to establish a resource and economic metallurgical process for what Cypress believes is a large, bulk-tonnage deposit of leachable, non-hectorite 'claystone.' If, as indicated by early results, the claystone is proven to be a significant lithium source rock, then Cypress will be in a very enviable position of having the best of both worlds - a combination of mining an at-surface leachable deposit, the claystone, that's capable of producing a 'synthetic lithium brine.'

With a Clayton Valley, Nevada address, money in the treasury, an unusual lithium source, impressive first phase results regarding assay values and deposit size,, low public share float, an immediate drill program and Bill Willoughby (Dr. Willoughby has been a Professional Engineer since 1985 and received his Doctorate in Mining Engineering & Metallurgy from the University of Idaho in 1989) as the CEO this might be, in my opinion, the best early stage lithium play out there.

I'm sure I'll be writing much more in the near future regarding Cypress and it's intriguing Clayton Valley project.

Conclusion

Your author knows the lithium space. I was one of the very first, back in 2009 to be writing about then President Obama's plans for electrification of America's transportation system. I was exposing my readers to the Puna Plateau (Lithium Triangle), a brine mining business model, The Lithium Three and the Lithium's ABC's long before most others were even aware of the once in a generation change starting to take place.

Ahead of the Herd readers enjoyed huge success' such as Salares Lithium (TSX.V:LIT) going from .39 to a buy-out by Talison in 9 months at Cdn$1.29, Rodinia (TSX.V:RM) went from .05 to .85, in 2016 Lithium X went up up and up from a .15 IPO and more recently Far Resource went from pennies to .38.

Tesla Motors Inc. is on record saying it plans to only use raw materials sourced from North American for its $5-billion lithium-ion battery gigafactory.

New York Governor Andrew M. Cuomo recently stated that Imperium3 New York Inc. will build the state's first gigafactory producing lithium-ion batteries, aiming to produce three gigawatts of batteries by Q4 2019 and eventually to 15 gigawatts.

A Lithium Supercycle, North America's lack of supply of said commodity, a large enough resource to prevent fragmented supply chains and supply North America for decades, upcoming drill programs, assays, metallurgical work results and Cypress Development Corp. (TSX-V: CYP, OTCBB: CYDVF, Frankfurt: C1Z1) are all on my radar screen. Are they on yours?

If not, maybe they should be.

Richard (Rick) Mills

rick@aheadoftheherd.com

Richard is the owner of Aheadoftheherd.com and invests in the junior resource/bio-tech sectors. His articles have been published on over 400 websites, including:

WallStreetJournal, USAToday, NationalPost, Lewrockwell, MontrealGazette, VancouverSun, CBSnews, HuffingtonPost, Londonthenews, Wealthwire, CalgaryHerald, Forbes, Dallasnews, SGTReport, Vantagewire, Indiatimes, ninemsn, ibtimes and the Association of Mining Analysts.

If you're interested in learning more about the junior resource and bio-med sectors, and quality individual company's within these sectors, please come and visit us at www.aheadoftheherd.com

Content included in this article is not by association necessarily the view of FNArena (see our disclaimer).

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 October 9 to Friday October 13, 2017 Total Upgrades: 10 Total Downgrades: 12 Net Ratings Breakdown: Buy 42.38%; Hold 41.29%; Sell 16.33%

The week ending Friday, 13th October 2017 once again saw downgrades in ratings for individual ASX-listed stocks outnumber total upgrades, but the week's numbers were heavily impacted by three downgrades for accommodation provider Mantra Group after it succumbed to a take-over proposal from French giant Accor.

Digging deeper into the finer details, seven out of ten upgrades moved to Buy and eight out of twelve downgrades stopped at Neutral/Hold. Stocks receiving downgrades to Sell: Bank of Queensland, Fisher and Paykel Healthcare, New Hope and Orocobre.

Four out of the closely monitored eight stockbrokerages carry more Buy ratings than Neutral. These four are: Macquarie, Morgan Stanley, Morgans and Ord Minnett. Total Buy ratings remain comfortably the largest group, representing 42.38% of all ratings, versus 41.29% Neutral/Hold ratings and 16.33% for remaining Sell ratings.

The week's table for positive revisions to target prices is headed by -surprise, surprise (not)- Mantra Group, followed by Whitehaven Coal, Western Areas and Orocobre. IPH Ltd, fresh from announcing expansion into New Zealand, is not far behind. The negative side looks bare, only consisting of an insignificant reduction to Amcor's consensus target.

Galaxy Resources steals the show for a more then doubling in profit forecasts, followed by Whitehaven Coal, South32 and Bank of Queensland. Stockbroking analysts have started updating commodities sector forecasts, have you noticed? The negative side looks painful for companies including Beadell Resources, Mt Gibson, Perseus Mining and Syrah Resources.

With AGM season getting traction, and resources companies releasing quarterly production reports, investors have plenty to look forward to this month, including major banks reporting next week and in November, and plenty of smaller cap stocks going ex-dividend.

Upgrade

AMP LIMITED ((AMP)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/5/0

Credit Suisse observes the share price has underperformed the market by around -10% since the first half result. The broker believes the share price has been affected by an expectation of cost savings and a large capital return.

The company's buyback was disappointing, the broker acknowledges, as it was not completed. Still, Credit Suisse supports the company's honest approach to communications and expects value to be eventually realised.

Rating is upgraded to Outperform from Neutral.Target is $5.60.

ANSELL LIMITED ((ANN)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/2/1

Ahead of the company's investor briefing, Ord Minnett re-assesses the potential benefits of the company's transformation program and lifts earnings estimates to allow for relatively low-risk cost reductions in FY18.

Given the potential upside, the broker upgrades to Accumulate from Hold and raises the target to $25.50 from $21.40.

CROMWELL PROPERTY GROUP ((CMW)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 0/3/1

Ord Minnett reviews Cromwell following reports that Redefine Properties, which owns 25%, may be looking to sell shares. The broker suspects, if this were the case, it will be challenging to find a buyer.

Cromwell's relatively high retail ownership, estimated at 30-35%, is expected to limit demand to a strategic investor or incoming institutions.

Rating is upgraded to Hold from Sell. Target rises to $1.05 from $0.87.

INDEPENDENCE GROUP NL ((IGO)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/4/0

Macquarie has updated price forecasts for all commodities. The most significant increases are reserved for the lithium ion battery commodities of lithium, cobalt and nickel, which see upgrades of 20-50%. Copper and aluminium forecasts rise by 5-10%.

Significant earnings forecast upgrades result for Independence. Upgrade to Neutral from Underperform, target rises to $3.80 from $3.20.

IPH LIMITED ((IPH)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

The company will acquire NZ IP firm, AJ Park. Macquarie estimates annualised accretion to be around 5%, excluding synergies.

There is also scope for material margin improvement. The broker remains attracted to the business model and strong cash flow. Rating is upgraded to Outperform from Neutral. Target is raised to $5.75 from $5.37.

ORORA LIMITED ((ORA)) Upgrade to Buy from Neutral by Citi .B/H/S: 6/2/0

Citi transfers coverage to another analyst, upgrading to Buy from Neutral and raising the target to $3.60 from $3.20. The broker believes the company is strongly positioned for growth opportunities.

Should acquisitions not be forthcoming the broker suspects a capital return is likely. Citi estimates a $200m share buyback would boost earnings per share by 2%, while an acquisition that makes the company's target will be 10% accretive by year three.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/3/5

Macquarie has updated price forecasts for all commodities. Gold is downgraded modestly in FY18 but thereafter changes are minimal.

FY18 earnings forecast downgraded for Regis Resources. Target unchanged at $4.00, upgrade to neutral on valuation.

SARACEN MINERAL HOLDINGS LIMITED ((SAR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/0

Macquarie has updated price forecasts for all commodities. Gold is downgraded modestly in FY18 but thereafter changes are minimal.

FY18 earnings forecast downgraded for Saracen. Target unchanged at $1.50, upgrade to Outperform on valuation.

SIMS METAL MANAGEMENT LIMITED ((SGM)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/4/0

Macquarie observes the stock has drifted, as scrap prices moderated. Nevertheless, the fundamentals for material velocity are intact, particularly with Chinese exports being subdued.

The broker is now more comfortable that the strategic direction is intact following the settling down of a change in management and upgrades the stock to Outperform from Neutral. Target is $15.40.

WESTERN AREAS NL ((WSA)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/3/3

Macquarie has updated price forecasts for all commodities. The most significant increases are reserved for the lithium ion battery commodities of lithium, cobalt and nickel, which see upgrades of 20-50%. Copper and aluminium forecasts rise by 5-10%.

Significant earnings forecast upgrades result for Western Areas. Upgrade to Outperform from Neutral, target rises to $3.50 from $2.60.

Downgrade

AMCOR LIMITED ((AMC)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/6/0

Citi transfers coverage to another analyst. The broker trims FY20 forecasts and reduces its target price to $16.00 from $16.20.

Acquisitions are a likely catalyst but the broker considers high valuations will challenge the company's strict hurdle rates.

Rating is downgraded to Neutral from Buy as the shares have enjoyed a significant re-rating and may be vulnerable to unwinding as interest rates begin to rise.

BANK OF QUEENSLAND LIMITED ((BOQ)) Downgrade to Neutral from Buy by Citi and Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/5/3

Citi observes FY17 was strong, but expected. Cash earnings were 3% above the broker's estimates. Finalisation of capital requirements has enabled the bank to undertake capital management initiatives.

With a CET1 ratio of 9.4%, as well as future organic capital generation, Citi expects more capital initiatives to be implemented in future periods.

However, revenue growth is expected to hit a wall after re-pricing initiatives wear off. Rating is downgraded to Neutral from Buy. Target is reduced to $13.00 from $13.25.

Morgan Stanley observes the bank's benefit from a sweet spot in terms of margins, as well as sound credit quality, a strong capital position and an improved franchise performance in FY17.

However, trading multiples are at multi-year highs and earnings momentum is expected to slow. Hence, Morgan Stanley downgrades to Underweight from Equal-weight.

Target is reduced to $11.40 from $11.80. In-Line industry view retained.

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 2/1/2

Credit Suisse observes the company has distinguished itself over the last five years with leading products in hospital and significant gains in OSA masks.

The broker believes the business is now operating from a position of scale and has a better-resourced R&D program amid a competitive environment that is arguably more benign than previously expected.

The main near-term risk, patent litigation, appears unlikely to affect news flow this year. However, the stock is trading at 16% above the broker's valuation and now considered stretched.

Rating is downgraded to Underperform from Neutral. Target rises to NZ$12.00 from NZ$10.50.

MANTRA GROUP LIMITED ((MTR)) Downgrade to Hold from Buy by Ord Minnett and Downgrade to Neutral from Outperform by Credit Suisse and Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 3/5/0

The company has entered a binding scheme of arrangement with Accor SA at $3.96 a share. Directors have unanimously recommended the bid, which is subject to regulatory approvals.

Ord Minnett believes Accor was always the most suitable acquirer of Mantra. Still, another bidder cannot be ruled out although it's considered unlikely. The ACCC will take a look at the transaction but the broker expects it to approve.

In current circumstances Ord Minnett considers it prudent to downgrade to Hold from Buy. Target is $3.47.

The company has received a proposal from Accor at $3.96 a share. Credit Suisse calculations suggest around 5.5% earnings accretion to the bidder which, however, factors in no synergies.

The broker also does not envisage alternative bidders having the same ability to extract value. Rating is downgraded to Neutral from Outperform and the target raised to $3.95 from $3.15, in line with the proposal.

The company has received an indicative proposal from Accor at $3.96 a share. Morgan Stanley expects the stock will now trade on sentiment regarding an acquisition as opposed to fundamentals.

As a result, the rating is downgraded to Equal-weight from Overweight. Industry view is: In-Line. Target is raised to $3.96 from $3.40.

NEW HOPE CORPORATION LIMITED ((NHC)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 1/1/1

Credit Suisse analysts observe how coal prices remain above in-house price projections. On this basis, while leaving future estimates unchanged, the analysts cannot but concede there seems to be ongoing upside risk.

They have marked-to-market and updated FX forecasts and this has resulted in mild earnings reductions. The target price has been lifted to $1.70, a little above the new DCF SoTP valuation at $1.66.

Irrespective, Credit Suisse thinks it's time to take some profits, Downgrade to Underperform from Neutral.

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

Macquarie has updated price forecasts for all commodities. The most significant increases are reserved for the lithium ion battery commodities of lithium, cobalt and nickel, which see upgrades of 20-50%. Copper and aluminium forecasts rise by 5-10%.

Earnings forecast upgrades result for Orocobre. Target rises to $4.90 from $3.78 but rating downgraded to Underperform on valuation.

PERSEUS MINING LIMITED ((PRU)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 3/2/0

Macquarie has updated price forecasts for all commodities. Gold is downgraded modestly in FY18 but thereafter changes are minimal.

Earnings forecasts downgraded for Perseus. Target unchanged at 40c, downgrade to Neutral on valuation.

SOUTH32 LIMITED ((S32)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/6/0

Credit Suisse observes all the company's commodity exposures are above original forecasts, although partly offset by unfavourable currency.

Operating cash flow in the September quarter should be strong and the broker expects metallurgical coal and alumina have the most near-term downside pricing risk versus spot.

Rating is downgraded to Neutral from Outperform, given recent share price strength. Target is raised to $3.20 from $2.95.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/4/2

Credit Suisse downgrades to Neutral from Outperform as the stock has had a strong run. The broker acknowledges material cash is still being generated and there are signs it will be returned to shareholders.

However, the broker finds it hard to envisage, outside of a hike in commodity prices, a material upside catalyst, and the stock is trading above fundamentals. Target is raised to $3.40 from $3.20.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AMP LIMITED Buy Neutral Credit Suisse 2 ANSELL LIMITED Buy Neutral Ord Minnett 3 CROMWELL PROPERTY GROUP Neutral Sell Ord Minnett 4 INDEPENDENCE GROUP NL Neutral Sell Macquarie 5 IPH LIMITED Buy Neutral Macquarie 6 ORORA LIMITED Buy Neutral Citi 7 REGIS RESOURCES LIMITED Neutral Sell Macquarie 8 SARACEN MINERAL HOLDINGS LIMITED Buy Neutral Macquarie 9 SIMS METAL MANAGEMENT LIMITED Buy Neutral Macquarie 10 WESTERN AREAS NL Buy Neutral Macquarie Downgrade 11 AMCOR LIMITED Neutral Buy Citi 12 BANK OF QUEENSLAND LIMITED Neutral Buy Citi 13 BANK OF QUEENSLAND LIMITED Sell Neutral Morgan Stanley 14 FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED Sell Neutral Credit Suisse 15 MANTRA GROUP LIMITED Neutral Buy Credit Suisse 16 MANTRA GROUP LIMITED Neutral Buy Morgan Stanley 17 MANTRA GROUP LIMITED Neutral Buy Ord Minnett 18 NEW HOPE CORPORATION LIMITED Sell Neutral Credit Suisse 19 OROCOBRE LIMITED Sell Neutral Macquarie 20 PERSEUS MINING LIMITED Neutral Buy Macquarie 21 SOUTH32 LIMITED Neutral Buy Credit Suisse 22 WHITEHAVEN COAL LIMITED Neutral Buy Credit Suisse Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 IPH IPH LIMITED 67.0% 33.0% 34.0% 3 2 CMW CROMWELL PROPERTY GROUP -25.0% -50.0% 25.0% 4 3 IGO INDEPENDENCE GROUP NL

33.0% 17.0% 16.0% 6 4 SGM SIMS METAL MANAGEMENT LIMITED 33.0% 17.0% 16.0% 6 5 WSA WESTERN AREAS NL -29.0% -43.0% 14.0% 7 6 ORA ORORA LIMITED 69.0% 56.0% 13.0% 8 7 RRL REGIS RESOURCES LIMITED -63.0% -75.0% 12.0% 8 8 AMP AMP LIMITED 31.0% 19.0% 12.0% 8 9 ANN ANSELL LIMITED 25.0% 17.0% 8.0% 6 10 TTS TATTS GROUP LIMITED 13.0% 10.0% 3.0% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MTR MANTRA GROUP LIMITED 38.0% 75.0% -37.0% 8 2 S32 SOUTH32 LIMITED 25.0% 50.0% -25.0% 8 3 BOQ BANK OF QUEENSLAND LIMITED -38.0% -13.0% -25.0% 8 4 PRU PERSEUS MINING LIMITED 60.0% 80.0% -20.0% 5 5 ORE OROCOBRE LIMITED 17.0% 33.0% -16.0% 6 6 AMC AMCOR LIMITED 25.0% 38.0% -13.0% 8 7 WHC WHITEHAVEN COAL LIMITED -6.0% 6.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 MTR MANTRA GROUP LIMITED 3.546 3.269 8.47% 8 2 WHC WHITEHAVEN COAL LIMITED 3.431 3.194 7.42% 8 3 WSA WESTERN AREAS NL 2.491 2.326 7.09% 7 4 ORE OROCOBRE LIMITED 4.585 4.282 7.08% 6 5 IPH IPH LIMITED 5.660 5.317 6.45% 3 6 CMW CROMWELL PROPERTY GROUP 0.978 0.933 4.82% 4 7 IGO INDEPENDENCE GROUP NL 3.687 3.520 4.74% 6 8 PRU PERSEUS MINING LIMITED 0.504 0.484 4.13% 5 9 S32 SOUTH32 LIMITED 3.229 3.116 3.63% 8 10 ANN ANSELL LIMITED 22.543 21.793 3.44% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 AMC AMCOR LIMITED 16.268 16.293 -0.15% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 GXY GALAXY RESOURCES LIMITED 12.733 6.267 103.18% 4 2 WHC WHITEHAVEN COAL LIMITED 40.491 35.980 12.54% 8 3 S32 SOUTH32 LIMITED 24.192 22.058 9.67% 8 4 BOQ BANK OF QUEENSLAND LIMITED 95.700 90.250 6.04% 8 5 CMW CROMWELL PROPERTY GROUP 7.960 7.560 5.29% 4 6 PTM PLATINUM ASSET MANAGEMENT LIMITED 29.425 28.125 4.62% 4 7 AWC ALUMINA LIMITED 13.866 13.302 4.24% 7 8 BHP BHP BILLITON LIMITED 174.466 168.180 3.74% 8 9 LOV LOVISA HOLDINGS LIMITED 30.700 29.700 3.37% 3 10 BBN BABY BUNTING GROUP LIMITED 11.800 11.450 3.06% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 BDR BEADELL RESOURCES LIMITED -0.700 -0.300 -133.33% 3 2 MGX MOUNT GIBSON IRON LIMITED -0.050 0.350 -114.29% 3 3 PRU PERSEUS MINING LIMITED 0.370 1.990 -81.41% 5 4 SYR SYRAH RESOURCES LIMITED -9.790 -8.690 -12.66% 5 5 RCR RCR TOMLINSON LIMITED 25.750 28.000 -8.04% 3 6 FMG FORTESCUE METALS GROUP LTD 59.377 63.227 -6.09% 8 7 MFG MAGELLAN FINANCIAL GROUP LIMITED 114.917 120.783 -4.86% 6 8 NST NORTHERN STAR RESOURCES LTD 40.157 41.737 -3.79% 6 9 NCM NEWCREST MINING LIMITED 79.474 82.358 -3.50% 8 10 EVN EVOLUTION MINING LIMITED 16.774 17.289 -2.98% 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.

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

Uranium Week: Revived, Not Reviled

The Trump Administration is willing to act to support coal-fired and nuclear energy in the face of potential baseload shortfalls.

-Australia and US governments worry about baseload power reliability -Argentina adding to global demand for uranium -Low prices forcing AREVA Niger to cut production

By Greg Peel

Australia is currently undergoing an energy crisis. Electricity and gas prices for households and businesses are skyrocketing due to the conflagration of two developments – the ramp-up of LNG export at the expense of domestic gas supply, and the retirement of legacy coal-fired power stations with no desire exhibited by utilities to replace them. The situation is only forecast to deteriorate.

The government is torn along factional lines between a moderate desire to uphold the Paris Agreement while ensuring future energy supply and a push by far right climate change deniers to promote further coal mining and coal-fired power. Public opposition to coal is strong. But the government is struggling to reach a decision on clean energy targets, leaving the private sector unable to sanction expenditure for alternative solutions due to uncertainty.

Occasionally the N-word is spoken, given Australia's abundance of uranium, but no mention of a nuclear solution has ever been seriously raised.

Australia is not alone. In the US, an abundance of domestic shale gas and, as yet, little LNG export capacity or permission to export has meant coal-fired power generation cannot compete commercially with gas-fired, while despite a low uranium price, legacy nuclear power plants cannot compete with either gas or government-subsidised renewable energy sources. The future of US coal-fired and nuclear power is in limbo.

The biggest fear of the Australian government is the loss of future baseload power capacity in the face of ever increasing power demand. The biggest fear of the US government is also the loss of future baseload power capacity in the face of ever increasing power demand. The US Energy Secretary has proposed swift action to address threats to US grid resilience and to counter subsidies that are benefiting renewables over coal and nuclear.

"These resources must be revived, not reviled," said Secretary Perry.

Demand

Nuclear energy is not an issue in Argentina. The country has an aggressive nuclear expansion plan from an existing base of several reactors, a report by research house Hallgarten & Company notes, public opposition to nuclear power is almost non-existent and Argentina has an energy shortage.

Argentina has been paying significantly more than the spot price to import uranium from Canada and Kazakhstan. The country does have its own sources and several Canadian explorers now have credible mining projects, but the past has seen public opposition to open-pit mining in relation to other metals. The new Mecri regime should be able to lower labour and mining costs.

Supply

In the meantime, Argentina is adding to global uranium demand. On the supply side, AREVA Niger has announced it will cut production next year at its Somair mine and is considering the same for its Cominak mine in the West African Republic, due to low uranium prices.

The spot price was lower again last week, albeit minimally. With both buyers and sellers refusing to give ground, activity was light, industry consultant TradeTech reports, with only four transactions concluded totalling 700,000lbs U3O8 equivalent.

TradeTech's weekly spot price indicator is down -US5c at US$20.65/lb.

There were no transactions reported last week in uranium term markets. TradeTech's term price indicators remain as US$24.50/lb (mid) and US$30.00/lb (long).

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

The Short Report

Guide:

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

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

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

Summary:

Week ending October 12, 2017

Last week saw the ASX200 rally off support at 5650 before beginning a winning streak that would take it, finally, through the 5800 resistance level and on to 5900.

While there were quite a few moves, up and down, on the table last week, only one represented a change in position of one percentage point or more (not counting Orocobre, which dropped 1.2ppt but the lithium stocks are as volatile in short positions as they are in share price).

That stock in Select Harvests ((SHV)), which I flagged in last week's Report as someone to watch given a takeover bid from an Abu Dhabi investment company that sent the stock up 25% in a session. Select shorts fell 2.4ppt last week to 11.4%.

Other than that, we might note two stocks I highlighted last week given they are both Top 20 – Woolworths ((WOW)) and Westfield ((WFD)) – which snuck into the bottom of the 5% plus table, have snuck out again. Both have dropped to 4.9%.

Given there is nothing else to highlight this week, there are no Movers & Shakers. We will watch with interest next week, nonetheless, to see just what impact the index breakout has had on short positions.

Weekly short positions as a percentage of market cap:

10%+

SYR 19.7 IGO 18.8 DMP 14.8 JBH 14.6 WSA 14.5 ORE 13.6 RFG 13.4 HSO 13.1 MYR 12.1 AAD 12.0 ACX 11.4 SHV 11.4 APO 11.2 GXY 11.1 HVN 10.4

No changes

9.0-9.9%

MTS, NXT, MYX In: NXT Out: RIO

8.0-8.9%

RIO, QIN, NWS, FLT, GTY

In: RIO, FLT Out: NXT, ISD

7.0-7.9%

ISD, HT1, VOC, TPM, AHG, SAR, NEC, JHC, SEK, NSR

In: ISD , HT1, NEC, JHC, NSR Out: FLT, BKL

6.0-6.9%

BKL, MND, GXL, BAP, AAC, BEN, IPD, CSR

In: BKL, CSR Out: HT1, JHC, NSR, NEC, SDA

5.0-5.9%

ING, GMA, PRU, KAR, SDA, TAH, QUB, WHC, BAL, BWX, SUL, IPH

In: SDA Out: CSR, OFX, WOW, WFD

Movers and Shakers

See above.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena

The Wrap: Utilities, LNG/AUD & Infrastructure

Weekly Broker Wrap: Utilities; LNG & AUD; consumer; infrastructure; Afterpay Touch; and agricultural stocks.

-National Energy Guarantee envisaged supporting incumbents -LNG becoming more significant in Australian dollar valuation -Energy costs seen becoming a problem for supermarkets -East coast infrastructure boom gathering pace -Improving conditions for agricultural stocks

By Eva Brocklehurst

Utilities

Australia's government has released its energy policy, called the National Energy Guarantee. This has two components: reliability, which requires retailers and large users to procure a certain percentage of electricity from generators that meet dispatchability criteria; and an emissions guarantee which requires retailers and large users to procure a certain percentage from lower emission generators to meet emissions targets.

The renewable energy target (RET) remains in effect but will not be extended beyond 2020. If the policy is endorsed by the Council Of Australian Government (COAG) meeting in November the reliability guarantee will start in 2019 and the emissions guarantee in 2020.

Ord Minnett suspects the policy is shifting the burden of meeting guarantees onto the retailers and could lead to market distortions with added power to the incumbents, namely AGL Energy ((AGL)), Origin Energy ((ORG)) and Energy Australia. Moreover, wholesale prices are considered still too low to encourage investment in new generation assets. The broker believes the policy will encourage retailers to own generation assets.

UBS believes the new generation that is required to bring down prices should benefit incumbent producers. At this stage the broker envisages no short-medium term impact on wholesale electricity prices. The move to a contract-based system may benefit AGL Energy and Origin Energy in the medium term.

The broker expects east coast electricity prices will remain at or above $80/megawatt-hour for the next three years and gas prices will be in the $8-10/gigajoule range for the foreseeable future.

Morgan Stanley believes, if implemented, bipartisan policy would be a positive for all utilities under coverage and the emphasis on contracting is a net positive for AGL Energy and Origin Energy.

LNG & AUD

Commonwealth Bank analysts observe a change in the driver of Australia's terms of trade appears to be occurring. A common tool in estimating the terms of trade has been the iron ore price. Iron ore is Australia's largest export so its price should have an influence on the Australian dollar. The iron ore price has trended lower so far this year, to around US$60 a tonne, currently, while in contrast the Australian dollar has trended higher, to around US78.5c.

Hence, the analysts question the influence of iron ore price on the Australian dollar and suggests the ongoing recovery in LNG prices is emerging as part of the story that supports the Australian dollar. The LNG price has increased by 45% since a cyclical low point in May 2016.

The analysts note a decade-long mining investment boom has increased the capacity in Australia to extract gas and estimate that oil & gas production will approach iron ore in the next few years. While iron ore will remain an important influence on the Australian dollar the analysts believe it's important to be aware of the changing trends in LNG and oil prices.

Most of Australia's current and future LNG is exported to Japan and Korea. China will take about 20% once full production is reached in coming years. In general, the price of LNG production occurs under long-term contracts linked to the lagged price of Brent crude oil and therefore fluctuations in the Brent price will affect the fundamental valuation of the Australian dollar.

Supermarkets

Morgan Stanley suggests, having met with a number of industry contacts, the trading performance of Coles ((WES)) and Woolworths ((WOW)) has improved. Suppliers are consistent in their feedback that execution at Woolworths is stronger than Coles, which is suffering from higher rates of staff turnover.

Energy costs appear to be fast becoming a problem, with the broker noting some suppliers have indicated as much as 100% increases from early 2018. Suppliers also indicated promotional intensity has increased, with promotions now often required to support new product development.

Meanwhile, a major supplier to Metcash ((MTS)) has shifted its distribution to independents via a competing wholesaler. Morgan Stanley estimates the sales impact for Metcash is around -$70m on an annualised basis. The company remains confident that supplier additions will more than offset the supplier losses.

Infrastructure

Over the next four years both the Australian government and the states are expected to spend around $237bn on infrastructure. Macquarie suggests the amount may be at least $323bn, as planning advances on major projects that have not yet received full funding. The broker notes and NSW and Victoria plan to spend $73bn each by pumping property tax revenue from the Sydney and Melbourne property markets and their own recycled infrastructure into new projects.

In anticipation of another wave of asset-rich Sydneysiders moving north, the broker suggests Queensland could eventually join the boom. The Sydney and Melbourne housing markets and political momentum in asset recycling appears to be the key source of infrastructure funding for some time. Meanwhile, roads and rail have near-record levels of work in hand and other areas such as water and sewerage and electricity are coming on board.

Aged care has also record levels of work in hand. Macquarie estimates that weakness in housing over the next two years will be offset just by the work that has already started on roads, and other sectors and roadwork will easily cover the risk of a sharper housing downturn, if realised. Nevertheless, the infrastructure boom is unlikely to overturn the benchmark created by the heights of the mining boom between 2005 and 2013.

Afterpay Touch

Afterpay Touch ((APT)) provided a strong quarterly update with the numbers coming in ahead of Bell Potter's expectations. There's been a significant increase in the number of merchants offering Afterpay, up 43%, as the benefits of the payment method become more apparent.

The company has flagged a possible New Zealand dollar bank facility to support business expansion in New Zealand. The broker considers this a positive development and looks forward to hearing news regarding other international markets the company may be targeting.

Bell Potter upgrades underlying estimates of earnings per share by 4.0% and 9.3% for FY18 and FY19 respectively. Earnings revisions are driven by higher customer numbers and higher expenditure, offset to some degree by higher cost growth estimates. The broker upgrades the price target to $7.30 from $5.90 and retains a Buy rating.

Agricultural Stocks

Rainfall across large parts of Queensland and New South Wales and a partial recovery in cattle prices have supported Ruralco ((RHL)) and Elders ((ELD)) in recent weeks. Wilsons observes the rainfall represents a timely seasonal break for the summer cropping activity.

The broker remains broadly comfortable with estimates for 2017, given Elders guidance appears conservative and Ruralco provided guidance in July, which likely reflected the more subdued trading consider conditions experienced during winter.

While the cattle price (Eastern Young Cattle Indicator) has bounced from its lows it remains around -10% below the global price. This reflects the lingering impact of dry weather. Wilsons expects, given the outlook for average rainfall over the next three months, that the gap should close, all else being equal.

Brokers Take Knife To Xenith IP

Intellectual property firm Xenith IP provided weak FY18 guidance, flagging an underperforming transaction, and brokers sharply mark down expectations.

-Main issue stems from integrating and deriving benefits from Griffith Hack -Xenith IP still likely to expand into Southeast Asia

By Eva Brocklehurst

Xenith IP ((XIP)) has guided to operating earnings (EBITDA) in FY18 of $18-22m, well below broker forecasts which centred around $26m previously, as the company's first quarter performance fell short at both the revenue and earnings line.

The weakness has largely been attributed to the recently-acquired Griffith Hack business, where performance has been affected by the disruption of the transaction and the need to rebalance current capacity against anticipated workflow.

Central to Bell Potter's view of the stock are the attractive operations of all segments, despite the complexity of integrating two business-transforming acquisitions at the same time. Griffith Hack warrants caution, the broker acknowledges, because the need to rebalance current capacity implies an under-utilisation of staff.

Hence, notwithstanding the stock is at the bottom-of-peer group in terms of its PE ratio, Bell Potter downgrades to Hold from Buy, with a price target of $1.22. While integrating recently-acquired businesses in Australia, the broker believes the company will still expand into Southeast Asia, in order to provide a one-stop shop IP service offering in Asia Pacific.

Acknowledging the stock has fallen well short of expectations, Shaw and Partners is not giving up yet and retains a Buy rating with a $2.34 target, reduced from $3.60. The broker contends that management can use the slump in the share price as a catalyst to get on the front foot and focus on integrating operations while deriving synergy benefits from Griffith Hack. If this can be done, the current share price could be a nadir rather than a peak.

Shaw and Partners asserts that the company paid too much for Griffith Hack, and collectively the company's businesses were behind target. The broker assumes Griffith Hack will see a -5% reduction in revenue versus the previous year while the rest of the businesses will grow at 2.5%, not 5%.

The broker also increases the negative currency impact to $2.0m from $1.5m. Given the operating leverage within the business the impact on operating earnings is significant.

Morgans also notes the main issue is the disruption from the Griffith Hack transaction and the need to bed down new practice group structures and reporting lines. The broker had previously flagged the heightened risk around integrating significant transactions and, while the company expects an improvement over the remainder of the year, remains cautious given the ongoing issues and the recent change in CEO.

Morgans has a Hold rating and, in changing to a discounted cash flow from a blended approach & allocating a 20% discount to valuation, reduces the target to $1.10 from $2.03. Future year earnings have also been reduced resulting in reductions to earnings per share of -27% and -28% for FY18 and FY19, respectively.

Xenith IP owns a group which comprises Shelston IP, Griffith Hack, Glasshouse Advisory and Watermark. It provides specialist IP services including identification, registration, management, commercialisation and enforcement of IP rights for a broad range of clients.

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

Breakout Looming For G8

By Michael Gable

The Australian market has managed to string together a few positive days to see it potentially break above the recent trading range. With the May peak only 100 points away for the S&P/ASX 200, it will encounter plenty of resistance in the next few days. The overall picture still remains cloudy but finding opportunities in the mid cap space continues to be very fruitful. Because of this, it is where investors have been finding some great performance since the market peaked in May.

The strategy of concentrating on individual stocks instead of the overall market has never been truer. The chest-beating that we saw earlier in the year from the passive investors has indeed died down. This week we look at G8 Education ((GEM)).

GEM has spent much of the last two years in a large trading range between about $3 and $4.15. It now looks like the stock is breaking out here (circled). If it can hold above the breakout zone, then we could be seeing GEM move into a new trading range where the upper limit would be near $5.30.

Content included in this article is not by association the view of FNArena (see our disclaimer). Michael Gable is managing Director of Fairmont Equities (www.fairmontequities.com)

Fairmont Equities is a share advisory firm assisting Private Clients with the professional management of their share portfolio. We are based in the Sydney CBD but provide services to private clients across Australia. We believe that the concepts of fundamental analysis and technical analysis of stocks are not mutually exclusive. Regardless of whether you are a trader or long term investor, combining both methods is crucial to success. As a result, the unique analysis of Fairmont Equities is featured regularly in the media such as Sky News Business, CNBC, The Australian Financial Review, and the ASX newsletter. Contact us for a free trial of our research and information on our portfolio management services.

Michael is RG146 Accredited and holds the following formal qualifications:

• Bachelor of Engineering, Hons. (University of Sydney) • Bachelor of Commerce (University of Sydney) • Diploma of Mortgage Lending (Finsia) • Diploma of Financial Services [Financial Planning] (Finsia) • Completion of ASX Accredited Derivatives Adviser Levels 1 & 2

Disclaimer

Fairmont Equities Australia (ACN 615 592 802) is a holder of an Australian Financial Services License (No. 494022). The information contained in this report is general information only and is copy write to Fairmont Equities. Fairmont Equities reserves all intellectual property rights. This report should not be interpreted as one that provides personal financial or investment advice. Any examples presented are for illustration purposes only. Past performance is not a reliable indicator of future performance. No person, persons or organisation should invest monies or take action on the reliance of the material contained in this report, but instead should satisfy themselves independently (whether by expert advice or others) of the appropriateness of any such action. Fairmont Equities, it directors and/or officers accept no responsibility for the accuracy, completeness or timeliness of the information contained in the report.

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

Big Switch In Market Sentiment

In this week's Weekly Insights (published in two separate parts):

-Resources Stocks: What's The Problem? -Big Switch In Market Sentiment -Insurers Versus Climate Change -Conviction Calls: Ord Minnett, Shaw, Citi, Morgans -Rudi's Public Appearances -Rudi On BoardRoomRadio -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appear in part two on the website on Thursday]

Big Switch In Market Sentiment

By Rudi Filapek-Vandyck, Editor FNArena

You don't need a pair of rose tinted glasses to see market sentiment has perked up in October.

Since peaking in the closing week of April, at 5924, Australian shares have found the going too tough to handle and even after rediscovering positive momentum in the second week of October, the ASX200 is still more than 1% below the April high, but it is closing in rapidly.

The switch in sentiment is clearly visible on the bar chart below, taken from FNArena's Overnight Report which is published daily. Actually, it is from The Monday Report as the report changes name on the opening day of each week. The chart is one of few improvements we have been adding to the website in recent weeks.

Now that the always unpredictable September month is behind us, surely local funds managers, assisted by investors of all colours and sizes, must feel emboldened to put more money back to work inside the domestic share market?

Their confidence would have received a big boost from the latest data analysis by analysts at JP Morgan (subsequently replicated by Ord Minnett). According to the research, Australian equities are member of a select group of stock markets globally that has experienced a positive final quarter performance in each of the past seven years.

Not only has Australia shown a rare 100% hit rate, the average return has been 4.1%. This compares with the MSCI World Index on average returning 3.4% and an average return for the September quarter of only 0.8%. Best performing sectors for the quarter are usually healthcare and financials, reports JP Morgan, with both outperforming the broader market by quite a margin, on average.

Maybe there's a relationship with the Aussie dollar usually weakening as year-end approaches? Only one sector has fairly consistently generated a negative return for the December quarter; energy, thanks to Brent crude prices usually falling as Christmas draws near.

The chart below shows fresh funds flowing into superannuation funds in Australia have been merely parked into cash and deposits in recent months. Deutsche Bank analysts rightfully conclude these funds will be allocated to asset classes, including domestic equities. The question is whether this process has started in October?

Amidst all attention seemingly focused on the share market's sideways movement since May, with the ASX200 until recently failing to break through 5800 on the upside, investors might have missed the fact total return for the calendar year to date is approaching 7%, believe it or not.

Add in the fact most banks are yet to report and pay out final dividends, plus JP Morgan's unmistakably positive research, and a positive movement leading into the new calendar year can possibly translate into yet another year of double-digit return, or close to, and that's certainly a contrast to general market commentary in Australia.

One final comment to add is all of this is taking place against mounting concerns in the US about valuations and a potential correction, also because it has been eons since US equities have experienced a decent pull-back. Such concerns, however, have been lingering for a long while and from an isolated fundamental point of view, it's hard to see why US investors would choose to start selling down their market over the next couple of weeks.

Hence any correction over there will have to be of technical nature. Or is Trump's rampaging frustration (and White House disorder) finally coming home to roost?

Theoretically I'd agree the biggest threat for Australian equities probably lies with a correction in US equities, but I wouldn't be betting on it happening anytime soon. My personal thoughts are probably reflecting the majority view in global financial markets. Ironically, that's when the foundations are being laid for the next market correction; when nobody sees it coming.

Small cap stocks are back in favour and one only has to observe strong momentum for the likes of a2 Milk, Bellamy's, Mineral Resources, Beach Energy, Altium, WiseTech Global and Blackmores to grasp the validity of that statement.

Deutsche Bank strategists warn investors not to get sucked in as the domestic economy remains tough, the Aussie dollar has probably done its dough and small cap valuations look a lot less attractive than six months ago. Careful stock picking is their advice to investors looking to jump on board for the next three months.

Insurers Versus Climate Change

It wasn't that long ago when insurers' focus was on climate change and its possible effects on the sector and its chances for survival.

Then came the big change in sentiment and insurers, wouldn't you know, could well become beneficiaries, not victims, in a world more frequently ravaged by hail storms, floods, tornadoes, drought and bush fires. The thinking behind this switch in sector view was that every time the sector experiences huge losses due to a spike in claims, insurance premiums increase the following year, returning insurers back to profits, plus some.

Well, not so, apparently. Deutsche Bank analysts released the chart below last week and it clearly shows the above is yet another myth waiting to be exposed at the next turning point.

What Deutsche Bank's historical data analysis shows is that premiums do spike higher following disaster years, but the effect is fleeting and temporary on each occasion. On most recent occasions, spikes in premiums remain rather modest and they hardly seem to compensate for the suffering that preceded.

Having said this, analysis by Morgan Stanley suggests insurers in Australia shouldn't be too afraid of the upcoming cyclone season in Australia. Dry weather El Nino conditions and extreme wet weather in strong La Nina years are the worst scenarios for insurers, shows Morgan Stanley research. Luckily for the industry, this year should see rather weak to neutral La Nina conditions; this should translate into a rather average year for claims.

Morgan Stanley's prediction is backed up by the Bureau of Meteorology which, at this point, anticipates not more than a "typical" cyclone season, meaning between ten to 13 cyclones between December and March, of which no more than four, on average, reach Australia's coast.

While nothing is set in stone as yet, Morgan Stanley points out the difference between a neutral year for damage claims because of cyclones, storms and floods compared with a heavy La Nina year can be as high as 60% for insurers.

The Bureau of Meteorology has flagged some risk remaining of La Nina conditions developing by December, so Morgan Stanley is not taking anything for granted just yet.

Conviction Calls: Ord Minnett, Shaw, Citi, Morgans

One of the stocks that has remained on my radar this year is Flight Centre ((FLT)). Most analysts covering the stock cannot reconcile the sharp recovery in share price from the lows in March-April, and they certainly don't seem prepared to reconsider their negative view now the share price has rallied from circa $28 back then to $50 by late August.

Flight Centre shares have settled around $45 since.

Yet those in favour of buying the shares remain convinced management is on a winning streak, and the share price has much further to go. Ord Minnett slapped a price target of $53 on the stock back in August, accompanied with the sole Buy recommendation for the eight stockbrokers monitored daily by FNArena (see Stock Analysis on the website).

The stockbroker making the most noise about Flight Centre, and showing the most conviction behind its positive view on the company/stock, is Shaw and Partners. The latter reiterated its Buy rating, and $52 price target, while explicitly stating "our conviction in our BUY rating remains".

Both Ord Minnett and Shaw place their faith in management's focus on reducing costs as a key ingredient for improving overall returns for the company over the next 3-5 years. Shaw expects "cost growth will be significantly curtailed, enabling the leverage in the business to drive earnings growth over at least the next few years resulting in a substantial build in free cash".

The flip side of the argument is currently being supported by analysts at Morgan Stanley who seem on a mission to convince investors Australian household are under the pump, or they soon will be, and this will have a pronounced impact on spending patterns, and thus on companies whose well being is dependent on consumers spending.

Morgan Stanley believes Flight Centre is one of the companies most likely to be affected. No guessing why the latter has the lowest price target for the stock ($38) and an Underweight/Cautious industry view.

****

Have share prices for Australian bricks and mortar retailers been pared back too far in anticipation of the Amazon-impact? Public opinion remains as divided as ever. Meanwhile, share prices remain well below analysts' price targets, with exception of Harvey Norman ((HVN)).

Discretionary retailing analysts at Citi released their findings on Monday; Super Retail ((SUL)) and Premier Investments ((PMV)) are currently undervalued, JB Hi-Fi ((JBH)) and Harvey Norman not so. Citi sees further weakness ahead for the latter two from the moment Amazon makes its actual presence felt on Australian soil.

Offshore experience shows, say Citi analysts, retailers in the DIY (Auto and Hardware), discount department stores (also known as "DDS") and Food categories have to date experienced little impact from Amazon.

****

Precious metals specialists at Citi have grabbed the opportunity to put gold and gold exposure back on investors radar, because, says Citi, geopolitical tensions are back and this means investors need portfolio protection/hedges, in particular with equities and bonds broadly overvalued.

Citi analysts also have a canny admission to make: most investors seeking leverage to gold buy into gold equities. Historically, however, this strategy has not worked, and this time around, history is likely to repeat. Citi thus recommends physical gold over gold equities.

Exceptions are possible, and the analysts have come up with a short list of global gold producers whose share price is most likely to outperform the metal itself, the chosen few are Northern Star ((NST)), Randgold, Evolution Mining ((EVN)), Perseus Mining ((PRU)) and Pretium. Three gold producers are considered least likely candidates to outperform gold; Harmony Gold, Zhongjin Gold and Gold Fields.

As far as gold bullion is concerned, Citi expects the gold price to average US$1,312/ounce in 2H17, rising to US$1,350-1,400/ounce by 2019-2020. Citi analysts also anticipate the gold industry's all-in costs (AIC) will follow the price of gold higher, as years of unsustainable austerity measures unwind.

****

Stockbroker Morgans has been making multiple changes to its various Model Portfolios, as at the end of September. The Income Model Portfolio has taken up entitlements in Macquarie Atlas Roads' ((MQA)) accelerated rights issue, while IPH ltd ((IPH)) and Suncorp ((SUN)) remain on the watch list with the intention to accumulate more whenever opportunity announces itself.

The Balanced Model Portfolio has added Cleanaway Waste Management ((CWY)), plus added more shares to the existing position in IPH Ltd. The Growth Model Portfolio added Domino's Pizza ((DMP)), while reducing exposure to Reliance Worldwide ((RWC)) and increasing ownership of BT Investment Management ((BTT)).

Note to paying subscribers: updates on Conviction Calls have been a regular feature in my Weekly Insights stories since early February this year, with only a rare exception. For past updates: see Rudi's Views on the FNArena website.

Rudi's Public Appearances

One of the additions we've made to the website is incorporating Rudi on TV and Rudi On Tour into the Rudi's Views section of the FNArena website.

Regular readers of Weekly Insights know both overviews of respectively my appearances on Sky Business and presentations throughout the country already are standard inclusions in the weekly email that lands in most readers' inbox every week.

From now onwards this information can be easily accessed by visiting Rudi's Views on the website, which also remains the easiest route to my weekly updates and analyses on the FNArena website, including an archive stretching back more than ten years.

Rudi On TV is updated before the start of each week. It goes without saying, last minute changes can happen any time. Communication about last minute changes will continue via Twitter.

Rudi On BoardRoomRadio

Last week's audio interview:

https://boardroom.media/broadcast/?eid=59dc644b43412343aeab2ed9

2016 - L'Année Extraordinaire

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

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

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

All-Weather Model Portfolio

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

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

Rudi On TV

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

-Tuesday, 11.15am Skype-link to discuss broker calls -Thursday, 1pm-2pm, Trading Day Live -Thursday, between 7-8pm, interview on Switzer TV -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

- I will be presenting in Adelaide on November 14th to members of Australian Investors Association and other investors, 7pm inside the Fullarton Community Centre, 411 Fullarton Rd, Fullarton. Title of presentation: Investing In A Slow Growing World - An Update

(This story was written on Monday 16th October, 2017. This first part was published on the day in the form of an email to paying subscribers at FNArena, and again on the following Wednesday as a story on the website. Part two shall be published on Thursday).

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

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

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

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

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

Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

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

Rudi's View: Resources Stocks: What's The Problem?

In this week's Weekly Insights (this is part two):

-Resources Stocks: What's The Problem? -Big Switch In Market Sentiment -Insurers Versus Climate Change -Conviction Calls: Ord Minnett, Shaw, Citi, Morgans -Rudi's Public Appearances -Rudi On BoardRoom.Media (Updated) -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appeared in part one on the website on Wednesday]

Resources Stocks: What's The Problem?

By Rudi Filapek-Vandyck, Editor FNArena

2017 is the first year of global synchronised growth post 2011 and 2018 is expected to at least extend the positive global momentum, so why haven't share prices of miners and energy producers performed better than they have thus far this year?

As per always, investing in commodities and related stocks in the share market is a matter of timing and of perspective. Twelve months ago, BHP's ((BHP)) share price was lingering around the $22 mark, which makes today's share price of around $27, including two dividend payouts in the meantime, look like an excellent performance. But this ignores the fact the share price touched $28 in January.

Rio Tinto's ((RIO)) share price this week set a new high for the calendar year, carried by a strong rally for mining and energy stocks in recent weeks, but many share prices across the sector still remain below share price levels registered earlier in the year.

Another observation is the sector is already now attracting broker downgrades with the likes of Galaxy Resources ((GXY)), Independence Group ((IGO)), New Hope Corp ((NHC)), Orocobre ((ORE)), Perseus Mining ((PRU)), South32 ((S32)), Whitehaven Coal ((WHC)) and Western Areas ((WSA)) receiving downgrades from stockbroking analysts over the past week or so.

Clearly, global growth is not the only factor in play here. In fact, there is but a fair argument to be made that policy changes in China have a more decisive impact on prices for commodities, as again witnessed this month through sharp divergence in iron ore producers performances.

Whereas share prices for BHP and Rio Tinto have rallied strongly since September, the same cannot be said of Fortescue Metals ((FMG)), Mt Gibson Iron ((MGX)) or Atlas Iron ((AGO)). The pronounced difference between both groups can be explained as high quality product producers versus low quality producers of iron ore.

China's policy of winter pollution controls is forcing steel manufacturers in the country to buy higher grade ores (62% Fe). This has in a short time created a price gap of 40% between higher-grade and lower-grade ore. As a result, producers like BHP, Rio Tinto and Vale continue to enjoy highly profitable conditions, but a number of lower grade producers are now underwater and at risk of going out of business.

As Beijing is likely to keep the pollution controls in place until spring next year, this tale of two sharply different dynamics inside the sector might not be resolved anytime soon.

What else should investors be aware of?

This week (18th October) the 19th Chinese Communist Party Congress starts and it is widely assumed President Xi will significantly consolidate his political leadership. After the Congress, Chinese authorities are expected to focus on pollution control and on improving air quality which means government officials are putting the brakes on industrial output. This is why analysts are anticipating a slowdown in Chinese economic activity should soon manifest itself.

Is this bad news for commodities? Not necessarily. China's focus on less pollution will also hit the domestic mining sector. The world will be watching closely, while trying to ascertain the precise impact from Chinese policies. There's a fair chance the shift towards higher product quality, which already is dividing the iron ore industry, might serve as a blueprint for other sectors in the months ahead.

Commodity analysts at ANZ Bank and Macquarie recently stated they expect prices for high-grade iron ore to remain well-supported. ANZ Bank predicts a price of US$70/tonne by year-end (versus below US$60/t last week).

Supply-Side Constraints

Recent sector updates by analysts all share one common observation: the outlook for aluminium prices has improved significantly. Again, policy measures in China are responsible through smelter curtailments in the country combined with supply discipline from ex-China producers (think Rio Tinto). Deutsche Bank, for one, now predicts global aluminium will remain in deficit through to 2019.

In a recent update on the mining sector, Deutsche Bank analysts showed a notable lack of enthusiasm for investing in the sector, noting mining equities in general appear "fully valued", highlighted by the broker's reiterated Sell ratings for Iluka ((ILU)), Newcrest Mining ((NCM)), Northern Star ((NST)), Regis Resources ((RRL)) and Western Areas ((WSA)).

Deutsche Bank is more optmistic on the outlook for base metals prices than for bulks, and in particular where supply-side cuts and constraints are likely. Deutsche Bank thinks this is the case for metallurgical coal, copper, nickel, zinc and mineral sands. High grade iron ore, predicts Deutsche, should be back at US$70/tonne by mid next year.

Favourite exposures are BHP and Rio Tinto, as well as St Barbara ((SBM)), Sandfire Resources ((SFR)), Alacer Gold ((AQG)) and Dacian Gold ((DCN)).

In contrast, commodities analysts at Credit Suisse believe the price of alumina in China is peaking and likely due for a sizeable fall in the months ahead. Their view is prices have rallied strongly on the back of Xinjiang smelters restocking, but this will change as destocking follows early in 2018.

As is not uncommon in the sector, commodities analysts at Morgan Stanley do not share this forecast. They predict ongoing support for alumina prices because of tight bauxite supply over the Chinese winter.

Electric Vehicles

Macquarie's team of specialists earlier this month highlighted potential upside risks from the global switch towards Electric Vehicles, including new-technology batteries. The impact is likely most pronounced for cobalt. Even as battery producers are moving away from heavier cobalt loadings, Macquarie still projects global demand to grow by 8.9% CAGR between 2017 and 2022.

For a relatively small market, with primary supply highly concentrated in that top five producers supply more than 50%, and with 60% of total mine output from the as ever unstable Democratic Republic of Congo, Macquarie suggest global cobalt seems poised to experience severe shortages. This should translate into much higher prices.

Macquarie has also become more positive on the price outlook for other lithium-ion battery related commodities nickel and lithium. A recent sector update saw the broker lifting the price target for Clean Teq Holdings ((CLQ)) by no less than 75% to $2.10. Clean Teq is the owner of the Syerston Nickel/Cobalt/Scandium Project in NSW, which the company wants to develop into a low cost supplier of nickel sulphate and cobalt sulphate into the lithium-ion battery market.

Macquarie's update was remarkable because more optimistic price projections were accompanied by downgrades for Galaxy Resources ((GXY)) and Orocobre ((ORE)), both on valuation grounds.

In the same vein as Deutsche Bank, Macquarie analysts note 2017 and 2018 should see the best global growth since 2011, which should -all else being equal- prove supportive for commodities. But current strong momentum underpinning global growth should soon be replaced with a slowdown, argues Macquarie, albeit a rather mild one.

This means individual market dynamics will become increasingly important throughout the year ahead. Supply restraints are but the most obvious differentiator, alongside Chinese policy measures.

Macquarie's preferred short for the final quarter of 2017 is thermal coal, primarily because the price is too high for Chinese government comfort, say the analysts. In contrast, aluminium and steel stand to benefit the most from China's winter production cuts. Macquarie is also of the view the US dollar will remain weak. This should boost gold, silver, and platinum.

Current forecasts are for stronger-for-longer prices for zinc and lead, before demand destruction kicks in next year. Macquarie suggests copper looks better further out than short term. LNG remains under threat of a severe price decline, while uranium, simply, is priced unsustainably low.

As with Deutsche Bank, Macquarie's top favourite stock to play the sector is Rio Tinto.

Morgan Stanley analyst Rahul Anand recently returned from a trip through China, Korea and Japan with the notion that heavy government subsidies in China are likely to translate into a noticeable jump in production from the local Electric Vehicles and batteries industry in 2018.

Earlier this month, UBS's update on base metals prices was equally dominated by improved expectations regarding demand for Electric Vehicles, but UBS analysts were equally quick to express their low enthusiasm to jump on stocks including Independence Group and Western Areas, despite higher price forecasts for nickel. Also, UBS sits above market consensus for gold prices in the four years ahead, targeting US$1400/oz but here too preaches caution and restraint.

Favourite sector exposures are Evolution Mining ((EVN)) and Northern Star ((NST)), as well as Perseus Mining ((PRU)) and Alacer Gold.

Peak Cost-Out

Stockbroker Morgans took a more company-specific angle in its commodity forecasts update at the beginning of October. While pointing out the economic cycle remains supportive for commodities demand in general, the December quarter is nevertheless seen as possibly triggering a "breather" for the sector.

Equally important is that producers in Australia and elsewhere in recent years have concentrated all their efforts on bringing down operational costs, which means operations are lean and mean and margins are high, with cash flow abundant, but this is where the trend approaches its natural conclusion. To put it in Morgans lingo: the sector has reached peak cost-out.

In this environment, argues the stockbroker, genuine value is harder to find. In terms of stock picks, Morgans suggests investors look for two key elements: whether a company is already holding value-accretive growth, or whether higher prices are not as yet priced in.

Morgans suggests Oil Search ((OSH)), OZ Minerals ((OZL)), BHP and Rio Tinto all satisfy these criteria. The broker also likes Senex Energy ((SXY)).

Rudi On BoardRoom.Media (Updated)

Audio interview from Tuesday, this time with charts:

http://boardroom.media/broadcast/?eid=59e578d2b729304c49eb32ab

2016 - L'Année Extraordinaire

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

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

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

All-Weather Model Portfolio

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

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

Rudi On TV

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

-Tuesday, 11.15am Skype-link to discuss broker calls -Thursday, 1pm-2pm, Trading Day Live -Thursday, between 7-8pm, interview on Switzer TV -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

- I will be presenting in Adelaide on November 14th to members of Australian Investors Association and other investors, 7pm inside the Fullarton Community Centre, 411 Fullarton Rd, Fullarton. Title of presentation: Investing In A Slow Growing World - An Update

(This story was written on Monday and Tuesday 16th & 17th October, 2017. This first part was published on the day in the form of an email to paying subscribers at FNArena, and again on the following Wednesday as a story on the website. This is Part two).

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

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

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

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

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

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

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

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

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

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


fn arena
PASSIONATE ABOUT FINANCIAL NEWS
Financial News for the Bright and the Uneducated. And for everybody else in between.
FN Arena News
Building the Future of Financial Journalism
www.fnarena.com
Trials are free and without any obligation