WEEK 11

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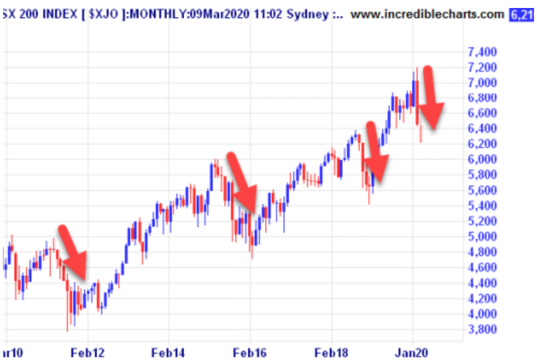
Friday, 13 March 2020

Who's Banking On Oil?

OPEC Pours Oil On Coronavirus Part 2



Bear Market Lessons And Observations

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AUSTRALIA

Who's Banking On Oil?

Amid myriad pressures resulting from ultra-low interest rates, how exposed are Australia's banks to the energy sector?

-Australia's energy majors now better positioned to handle weaker oil prices
-Asset quality issues could mean Bendigo and Adelaide offers some protection
-Higher funding costs should eventually be recouped

By Eva Brocklehurst

Oil prices have slumped in recent days as major producers stake out a price war. What does this mean for Australian banks, which have already suffered from a squeeze on margins emanating from ultra-low interest rates?

The banks have had to pass through, in full, the latest round of reductions to official interest rates. As the number of new cases of coronavirus rise across the globe central banks are also on emergency watch regarding their respective economies.

The US Federal Reserve has taken substantive action with an intra-meeting cut of -50 basis points to its Fed Funds rate and Australia's Reserve Bank has cut its cash rate to record low levels of 0.5%.

The drop in oil prices has been very sharp and sudden but has occurred before, most recently in 2016, JPMorgan notes. Recently the price of Brent dropped to US$33/bbl, which is its lowest since January 2016. Back then, actual losses for banks appeared immaterial, at least in **Commonwealth Bank**'s ((CBA)) energy book, which is the only bank to split out losses for the energy sector in isolation.

ANZ Bank ((ANZ)) and Commonwealth Bank are most exposed to a deterioration in asset quality in the energy sector, JPMorgan asserts. The broker estimates the sector makes up 0.8-0.9% of group exposure at default (EAD), which is the total value of a bank's exposure when a loan defaults. This equates to around half of these banks' respective resources exposure. Much of the exposure relates to large LNG projects.

If loss rates across the oil & gas sector were to revert to the peak levels experienced in the first half of FY12, JPMorgan calculates the impact would still be relatively benign for the major banks. Such a scenario would reduce FY20 earnings by -1% for ANZ Bank and Commonwealth Bank, and by -0.5% for **National Australia Bank** ((NAB)) and **Westpac** ((WBC)).

Critically, Morgan Stanley assesses Australian energy stocks are better positioned to handle weaker oil prices compared with the previous correction in the oil price (2014-16). In the previous period there were equity raisings across the industry as these companies invested in LNG construction. Now, balance sheets are more robust and operating costs are lower. There is also the option at this point in the cycle to halt or defer expansion plans.

Further falls in other commodity prices are also possible but the Australian mining companies are relatively lower on the global cost curve in most classes, JPMorgan points out.

<u>Other Commodities</u>

Morgan Stanley currently forecasts second half commodity revenue for **Macquarie Group** ((MQG)) will fall -30%, despite growth in client numbers and strong market conditions in the third quarter. A -10% fall is expected in FY21.

Commodity revenues are around 15% of Macquarie Group's total revenue. Around 60% is risk management products for clients, which may drop because of lower energy prices but also benefit from higher turnover, the broker explains.

Macquarie Group has around $400m invested in conventional energy and, Morgan Stanley calculates, a -20% write-down would affect FY21 estimates for earnings per share by -2%. Macquarie Group also has $1bn in green energy investments. Furthermore, a weaker Australian dollar and lower global rates are supportive for Macquarie Group.

As the market becomes increasingly concerned about asset quality related to coronavirus, JPMorgan believes **Bendigo and Adelaide** ((BEN)) could offer some relative shelter. More than 70% of the regional bank's loan portfolio is housing and a further 10% agricultural lending.

The bank has also reduced risk by significantly downsizing its commercial property portfolio over the last 2-3 years. While Bendigo and Adelaide's accelerated investment program is not without risks, the broker upgrades to Neutral from Underweight.

<u>Other Risks</u>

Other significant risks the banks face include higher credit costs if the economy deteriorates, while the unemployment rate is a key indicator.

While bank valuations appear increasingly attractive and still offer dividend yields of 5-6%, the growing risk to earnings from lower rates and slower economic activity as well as structural challenges to long-term profitability keep Macquarie underweight on the sector.

Macquarie asserts bank margins, having been recently supported by improved funding costs and mortgage re-pricing benefits, are now being buffeted by ultra-low interest rates and margin compression.

The broker suggests, unless the industry re-prices mortgages, margins will decline by -13-15 basis points over the next couple of years. Amid continued pressure on fees, revenues are expected to decline and returns on equity will be under extreme pressure.

Morgan Stanley was surprised by the decision taken by the banks to not re-price home loans in response to the latest cut to the cash rate. This creates significant downside risk to margin forecasts, particularly if there is another reduction in April, as expected.

In the absence of re-pricing of standard variable mortgage rates, the broker estimates the two rate cuts combined could reduce major bank margins by -7-8 basis points and earnings by an average of -6-7%.

Citi assesses the hit to bank earnings from the most recent reduction in the cash rate, and the prospect of another cut in April, is unlikely to be permanent. The decision to pass on the reduction in full was made in the context of the coronavirus emergency. Once the threat has moderated, higher funding costs can, and will, be recouped, the broker believes.

However, if the impact is severe, then quantitative easing through a direct bank funding model is probable and this should restore bank interest margins.

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COMMODITIES

Oil Prices A Casualty As Coronavirus Spreads

As the spread of coronavirus stymies travel and OPEC and Russia fail to agree on production cuts, ANZ analysts suggest there is only one likely direction for oil prices – down.

-Transportation sector most heavily impacted by coronavirus
-Hit to demand for oil could be around -1.6m b/d
-Current estimates for an oil surplus could rise sharply

By Eva Brocklehurst

OPEC (Organisation of Petroleum Exporting Companies) and the Russians appear to be parting company, having failed to agree to further production cuts. This comes as coronavirus impacts industrial production across the globe and severely affects the transportation sector.

Amid travel restrictions being imposed by various governments and the number of cases rising, the fall-out on the global economy is continually being reassessed - downward. The end result is the probability that oil prices will come under further pressure.

Russia has rejected the ultimatum from the oil cartel for an output cut of -1.5m b/d (barrels per day). Moreover, the current production agreement which expires at the end of March was not extended.

ANZ analysts suspect the **likelihood OPEC members will raise production is relatively high.**

Saudi Arabia is the key, as it warned production cuts will not occur without Russia's involvement. Saudi Aramco has already cut prices for crude sales into foreign markets and appears willing to endure low prices.

The globe's biggest oil producer can produce oil relatively cheaply, at a cost below US$20/bbl, but its reliance on oil revenue to fund government expenditure means the break-even price is above the cost of production.

The International Monetary Fund calculates Saudi Arabia needs a price of US$83.60/bbl to balance its budget. Saudi Arabia could opt for volume over value, and the analysts suspect output will rise to above 10m b/d in April if an OPEC deal is not reached in coming weeks.

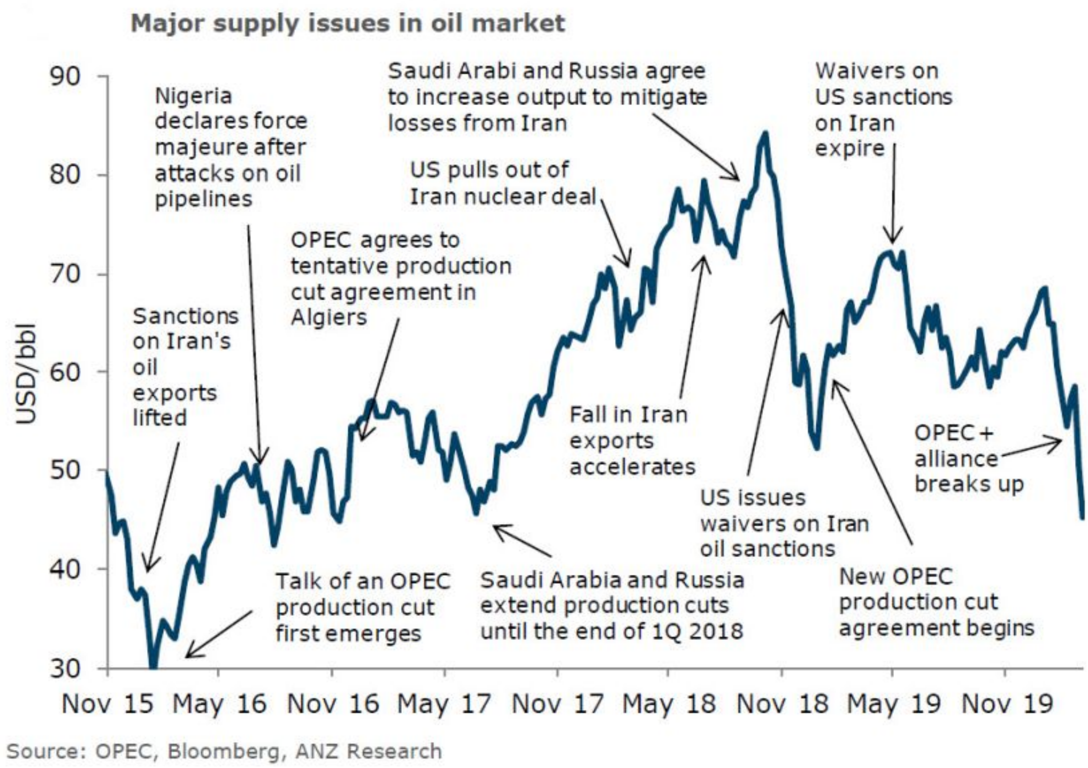
<u>China GDP</u>

The analysts calculate that, amid the disruption to industrial activity and travel, China's GDP growth will slump to 4.1% in 2020, and the hit to demand for oil will be around -1.6m b/d as coronavirus spreads around the world.

Their current estimate of a 300,000 b/d oil surplus was based on assumptions that the OPEC plus Russia agreement to cut production would be extended to the end of 2020. Hence, the analysts suggest this will blow out if OPEC production rises quickly.

There is no doubt oil prices will be under pressure as the market assesses the impact of a supply and demand shock of this magnitude and prices could test levels not seen since 2016, the analysts suggests.

Then the question will be how long prices remain at those levels. Unless OPEC can resurrect a production agreement the ANZ analysts suspect a "**long and painful period of low oil prices**".



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COMMODITIES

OPEC Pours Oil On Coronavirus Part 1

Where will the latest stoush among major oil producing companies land the global economy as the spread of coronavirus interrupts trade and frightens markets?

-Oil price slump exacerbates the widening of credit spreads
-Is the action by Russia, Saudi Arabia targeting US shale?
-When is Brent oil likely to bottom?

By Eva Brocklehurst

As the spread of coronavirus provided the ammunition, all it required to panic the market was a trigger, and OPEC (Organisation of Petroleum Exporting Countries) and Russia provided one on Friday.

Saudi Arabia had indicated it would not sanction a continuation of agreed production cuts if Russia wouldn't come to the party. And Russia refused. The current deal among OPEC members expires at the end of March and with no agreement, global oil production is likely to ramp up.

This comes at a point in time where airlines, some of the largest consumers of oil, are cutting back on capacity. **Air New Zealand** ((AIZ)) has withdrawn its profit guidance for FY20 based on cancellations and reduced forward bookings. UBS notes Air New Zealand is not alone, as a number of US airlines have withdrawn earnings guidance over the last few days.

Meanwhile, Saudi Arabia has reduced crude oil pricing by the largest amount in more than 30 years which affects around 14m b/d of global oil supply, as the price from other Gulf nations are tied to Saudi Arabia's price. Saudi Arabia intends to boost oil output to 10m b/d in April.

Rosneft, Russia's state producer may also potentially increase production by 300,000 b/d from April 1.To augment its stance, Russia has stated that it it has enough reserves to endure oil prices of US$25-30/bbl for "6 to 10 years".

Falling crude prices may be considered a stimulus when economies are sound and consumer intentions healthy, but Citi points out there are other issues making this complicated in the current scenario .

As oil prices have fallen, inflation expectations have dropped further and this may be pointing to recession, the broker adds. Declines in household wealth as a consequence of the drop in equity prices could restrain consumption patterns at the upper end of the market. Up for consideration too are the supply disruptions to western factories as inputs are not being shipped from Asia because of coronavirus.

The slump in oil prices exacerbates the widening of credit spreads and financial institutions could need to tighten lending standards even further. To the broker, credit-related drags could partially explain the price action in banks to date. Citi would become more worried if credit spreads widen out further and the cost of capital climbs.

The availability of credit for small business is the issue to watch in this regard, as there has been little stress exhibited to date.

Why dump oil on a market where demand is precarious?

Several analysts, including Commonwealth Bank, suggest Russia's reluctance to cut output may have more to do with the US shale oil sector, given the profitability issues that it faces. Russia is also unimpressed with US sanctions on its trading arm and attempts to halt a gas pipeline to Germany. Citi believes Russia is aiming at US shale and Saudi Arabia's decision to cut prices savagely is aimed largely at Russia, although this could also impact shale significantly.

Commonwealth Bank analysts note Saudi Arabia embarked on a similar strategy at the end of 2014, intending to drive higher-cost US shale producers from the market. Brent crude eventually settled in 2016 at under US$30/bbl.

However, 2020 may be different, given the shock oil markets are facing from coronavirus. The International Energy Agency expects global oil consumption to fall -90,000 b/d in 2020. Jet fuel and road transport demand other key areas where the virus is expected to have a significant impact on demand.

Coronavirus has reduced global growth to the weakest levels since the GFC, Citi asserts. The number of new cases in China may be slowing but they are rising in the US and Europe. This could result in demand shock outside of China. China's economy could benefit from lower energy costs, being a net crude importer, but lower crude prices are weakening the US dollar, Citi points out, which reduces China's competitiveness in export markets.

Where Could The Price Go?

Brent oil prices are now down -50% over the year to date. Macquarie forecasts a US$60/bbl average price for the next two years. Canaccord Genuity lowers forecasts for 2020 oil prices to US$45/bbl. The broker acknowledges some may consider this short-term forecast overly bullish but highlights that a number of major oil producing nations are unable to balance budgets at these levels.

Commonwealth Bank analysts expect Brent oil will now likely bottom in the US$20/bbl range during the next quarter before slowly recovering to US$60/bbl by the end of 2021. This is predicated on demand recovering as coronavirus eases, amid no new near-term production limits among oil producers.

Part 2 to follow.

COMMODITIES

OPEC Pours Oil On Coronavirus Part 2

Where will the latest stoush among major oil producing companies land the global economy as the spread of coronavirus interrupts trade and frightens markets? How will energy stocks fare?

-Most oil stocks trading well below JPMorgan base-case valuations
-Significant uncertainty over whether projects will be deferred
-Amcor a notable beneficiary of lower oil prices

By Eva Brocklehurst

[Editor's note: This article was sourced from analyst research published by Morgan Stanley on the evening of March 9, by JPMorgan on the morning of March 10 but dated March 9, and by Macquarie on March 10. On March 9 the Australian energy sector fell -19%, pre-empting a -25% plunge in oil prices on the Monday night. Of the three, Macquarie published after that -25% plunge, but research from the other two is no less relevant following share price falls on the Monday.]

Given the backdrop outlined in Part 1 of this article (https://www.fnarena.com/index.php/2020/03/10/opec-pours-oil-on-coronavirus-part-1/), it is no surprise energy stocks are under pressure. Morgan Stanley calculates Australian energy stocks are implying an oil price in the mid US$40s/bbl region. Nevertheless, the risk/reward appears more attractive compared with the position they were in circa 2014-16 as costs are lower, balance sheets are better and uncommitted expenditure can be pulled.

In 2014-16 Morgan Stanley points out a number of companies needed to raise equity because they were midway through a heavy LNG construction cycle. Now, expenditure has not commenced on many expansion opportunities and there is the chance to delay until the situation improves.

JPMorgan still finds value in the sector, as most stocks are trading well below base-case valuations. The oil sector is implying a price of just US$42/bbl and balance sheet risks could emerge, the broker acknowledges, should weak oil prices continue. Those most at risk are considered to be **Woodside Petroleum** ((WPL)), **Santos** ((STO)) and **Oil Search** ((OSH)).

Macquarie anticipates material risk for several oil stocks, including Santos, Woodside Petroleum, Oil Search, **Karoon Energy** ((KAR)) and **Carnarvon Petroleum** ((CVN)) at spot oil prices.

Beach Energy ((BPT)), **Cooper Energy** ((COE)) and **Senex Energy** ((SXY)) are less sensitive, given exposure to east coast gas. Canaccord Genuity notes gas makes up 95% of Cooper Energy's reserves and there are fixed-price contracts for FY21, where 86% of the company's expected production is contracted. Cooper Energy, therefore, remains the broker's preferred exposure.

The material slump in oil prices is likely to squeeze operating margins, with Macquarie calculating 2020-21 break-even prices for Woodside Petroleum, Santos and Oil Search are US$34/bbl, US$31/bbl and US$37/bbl respectively.

Delays

The slump in the oil price has also put **BHP Group**'s ((BHP)) petroleum growth plans at risk, as Macquarie notes both Scarborough and Trion are not generating an acceptable return at spot prices. The petroleum business accounts for around 14% of group operating earnings using Macquarie's forecasts but only 7% using spot prices. Morgan Stanley also suspects Scarborough is likely to be delayed.

Resolving the uncertainty over supply now remains the catalyst for the sector, as Macquarie notes Woodside, Santos, Oil Search and Beach Energy all have decisions to make regarding project approvals this year.

Growth projects include Scarborough/Pluto and Browse for Woodside, Barossa for Santos, Alaska for Oil Search and Waitsia stage 2 for Beach Energy. Dorado (80% Santos 20% Carnarvon) is still likely, Macquarie suggests, although the required expenditure of around US$1.2bn may be a hurdle. Should growth options be deferred for the majors, then respective balance sheets would remain robust at spot prices, in the broker's view.

Energy-exposed contractors are also expected to endure pressure. While **Worley** ((WOR)) has diversified its business with the acquisition of ECR, its energy division is 47% of revenue, which includes both oil & gas, and it remains the most exposed in the sector.

However, modification and sustaining capital expenditure is now 48% of revenue and major capital projects, which are more greatly exposed, are just 7%, Macquarie adds. **Monadelphous** ((MND)), is relatively less exposed, as oil & gas is 30% of revenue and most of this is maintenance related, as the construction portion has been reduced now Ichthys has rolled off.

At the other end, **Downer EDI** ((DOW)) has only small exposure to oil & gas while **CIMIC** ((CIM)) announced in January it was leaving the Middle East and is not exposed to further cash losses beyond existing debt guarantees/shareholder loans.

Morgan Stanley suggests the oil stocks are now starting to imply prices below even the most conservative long-term expectations and may be finding a floor, although remains less confident in the short term given coronavirus is still spreading.

Any stocks that may benefit?

Macquarie highlights **Amcor** ((AMC)) as the most defensive stocks under coverage. The company is expected to enjoy lower resin and other raw material costs stemming from a lower oil price. Citi agrees, noting significant falls in the oil price affect cost curves in products such as ethylene, PVC and urea, supportive for Amcor.

As shares sell off, the broker points out more opportunities are being created, although it may be too early to jump in. Fiscal stimulus could take time to evolve and rate cuts are not a cure for a virus.

The broker is also unsure about a rebound in 2021, unable to assess what the appropriate 2020 base for earnings per share actually is, in order to consider a recovery in profits.

Part 3 to follow.

COMMODITIES

OPEC Pours Oil On Coronavirus Part 3

Where are the hits and misses from the sell-off in oil likely to materialise?

-US oil producers/explorers experience the greatest equity destruction
-Sell-off in crude oil does not augur well for seaborne thermal coal
-Sell-off in crude stocks an opportunity to accumulate an energy position

By Eva Brocklehurst

As indicated in Part 2 of this series (https://www.fnarena.com/index.php/2020/03/11/opec-pours-oil-on-coronavirus-part-2/), Australian energy stocks are better prepared for the ructions caused by the huge drop in the price of oil as OPEC and Russia square off in their production war. Yet what are the individual global producers facing?

It is evident to many brokers that these oil producing nations have decided to confront the US oil industry, particularly the significant ramp-up in US shale production. As the fallout continues, US oil companies have experienced the greatest equity destruction, with major independent oil stocks now losing around -75% of equity value from their highs.

As background, Shaw and Partners notes OPEC has been cutting production for three years to support oil prices only to have this effect countered by rising US supply from shale. Yet most US onshore oil production, around 13% of global supply, lacks a profit base and has been supported in recent years by financing from junk bonds.

Now equity capital will cease to be a source of funds to service the US$320bn of junk debt that has accrued over the past three years. Capital for development will dissipate and this will hinder future supply growth.

Hence, Citi suspects, **with a sustained downturn in the oil price, bankruptcies among the private and some public producers could accelerate**. In the short term a large uptake of crude oil into storage is likely.

Macquarie assesses the dramatic sell-off in oil prices could mean a new risk for certain US economic jurisdictions. Texas, the country's key oil state, accounts for around 15% of the US housing market, and when oil sold off in 2015 the impact on employment, and thus housing, was noticeable.

However, this is a more resilient economy in 2020, with only 0.7% of private sector employment in the state directly in oil & gas. While there a number of variables in play and earnings risks are elevated, Macquarie calculates **James Hardie**'s ((JHX)) exposure to Texas is now around 12% of group revenues.

This has been diluted after acquisitions in Europe. Hence, the company stands out as a preference in the US-exposed building segment. Moreover, lower oil prices will help costs. James Hardie has significant underlying fuel cost exposure at around 5% of sales.

<u>Oil Projects</u>

Morgan Stanley acknowledges the fresh pressure from OPEC developments and lower oil prices but highlights global expenditure plans were already fragile, given the ear;ier trade tensions.

There are risks that capital expenditure plans are further reduced and projects cancelled but, the broker notes notes, with a lower starting point, stress is mostly confined to operating expenditure or production.

A more severe impact, not one Morgan Stanley currently envisages, is where pressure on upstream cash flow increases and drives a new level of capital discipline that covers more of the tertiary supply chain, particularly as oil & gas represents more than 25% of aggregate capital expenditure in the broker's global model.

Lower oil prices will stymie the growth in US shale production but may take time to play out, Shaw and Partners notes. Shutting in low-cost OPEC supply to boost prices was always going to be an unsustainable strategy anyway.

Oil prices at US$30-35/bbl are not high enough to generate enough supply to meet future demand and Shaw and Partners calculates US$65-75/bbl is required to incentivise supply, the price oil has averaged over the past 20 years.

Oil prices could conceivably fall through US$30/bbl in the short term while, Citi notes, near-term upside requires the OPEC agreement to be revisited along with a return to demand growth. The broker's oil price forecasts now reflect US$43/bbl on average for West Texas Intermediate in 2020 and US$49/bbl in 2021.

<u>LNG & Coal</u>

The sell-off in crude oil does not augur well for seaborne thermal coal, Macquarie points out. A large drop in the price of crude from rising supply usually pulls down gas prices. This reflects a lift in gas byproduct from crude production and substitution in the power sector.

China has now pushed back on cargoes, amid slowing demand, and Macquarie suspects another LNG surplus is in the wings. Europe took most of the 2019 spare LNG but this avenue is now limited. Gas storage also appears relatively full.

One possibility, the broker flags, is more LNG being diverted to northeast Asia but the economic incentives for large-scale switching, as occurred with Europe in 2019, are not there. Supply cuts of LNG are now increasingly likely, perhaps from a scaling back of utilisation in new US projects or from peripheral suppliers. But this is only of marginal value to the coal producers.

Macquarie suspects supply cuts to LNG to balance the market will only happen if gas prices remain near current lows for some time and, in turn, this will prevent any significant upside for thermal coal.

<u>Australian Oil Stocks</u>

Citi observes Australian companies can protect balance sheets by delaying growth expenditure and cutting down on exploration, which is a less dilutive path than raising equity.

Raising equity would only be necessary if growth funding was required immediately, which would then force the market to pay for that growth. The sector is, therefore, either oversold or pricing in distress, and Citi asserts the former is likely to be the case, as most Australian oil companies are well capitalised.

Shaw and Partners urges investors to focus on intrinsic value in domestic equities. Currently, the share prices are at a -40-50% discount to intrinsic value, the steepest in more than 10 years. Stocks that represent the best value in the broker's view are **Beach Energy** ((BPT)), **Oil Search** ((OSH)) and **Santos** ((STO)). On the positive side, markets have short memories and oil prices are cyclical.

Credit Suisse agrees that the recent sell-off is a rare opportunity to accumulate energy positions. Given the uncertainty that still prevails those that have more resistance to lower prices are preferred.

Of the larger names, the broker believes Beach Energy and **Woodside Petroleum** ((WPL)) provide the most resilience. **Strike Energy** ((STX)) and **Cooper Energy** ((COE)), too, as they have sold off too yet provide minimal exposure to oil prices.

Oil Search is considered most at risk, given the possible challenges in meeting its debt repayments if weakness is sustained. Citi assesses the PNG LNG covenants appear solid, unless oil prices dive below US$30/bbl for more than 12 months. Oil Search has US$300m in corporate debt due in September but expects to refinance this via undrawn facilities.

The broker forecasts a temporary breach of **Origin Energy**'s ((ORG)) debt-to-earnings ratio, required for its credit rating. However, the risk of raising more than $1.5bn in new equity if the credit are unavailable is priced into the stock.

In the case of M&A, targets can appear more attractive in terms of valuation but potential bidders may also have limited cash positions. The M&A opportunity could increase if weakness persists over coming months and Credit Suisse considers Oil Search and Strike Energy the more viable targets.

ESG FOCUS

ESG Focus: 21st Century Business Models

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https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

Increasing focus on ESG criteria is feeding into emerging new business models, and investors will be forced to pay attention

ESG Focus: 21st Century Business Models

-Changes in social trends are predicting changes in business and reshaping the global business landscape
-According to PGIM, these changes have led to the emergence of three on-the-rise business models; the weightless firm, the superstar firm and the purposeful firm
-Changes to business priorities may reshape the criteria investors use to calculate future investment choices

By Danielle Austin

Social trends continue to predict business trends according to PGIM, with new research showing that large corporations globally are increasingly in tune with the need for business models to demonstrate a focus on having a wider social impact.

With business models deprioritising physical capital and assets and refocusing on utilising technology, data and network effects, and renewing a commitment to a wider social purpose, the global business landscape is undergoing a redefinition as pressure mounts from investors and consumers for big business to be more accountable.

New Business Models On The Rise

Global asset manager PGIM, owned by US-based Prudential Financial, has identified that shifting trends have led to the emergence of three new business models which are quickly on the rise; weightless organisations, superstar organisations and purposeful organisations are saturating the markets and changing the way investors make decisions.

Research from PGIM indicated that corporates are shifting business priorities away from traditional tangible assets such as factories, machinery and equipment to move toward investing in **'capital-light' business models** where investments in intangible assets such as data, software and brands take priority.

These weightless organisations tend to require less capital than tangible-asset heavy organisations, and so rely less on public markets to increase their scale. The report showed that globally 64% of large organisations had plans to increase intangible asset investment, while 44% of small businesses were looking to increase their intangible asset investment.

The report also showed that **superstar firms** are on the rise with savvy companies able to leverage on emerging technology, data and networks to increase scale and productivity and outperform peers. The emergence of superstar organisations encourages a winner-takes-all environment across the business landscape, ultimately narrowing the field of big business.

It was found that while half the earnings of US public corporations came from a total of 109 companies in 1975, the same percentage of earnings in 2019 was generated by only 30 organisations.

PGIM describes these organisations as more effectively deploying available technology than their peers in order to drive growth in productivity. Through buying out or assimilating competitor startups, superstar organisations are capitalising on market domination and markets are becoming increasingly concentrated.

Driven by social pressure to be more accountable, corporates are also increasingly including a commitment to social change in their business models in response to pressure from customers, employees and shareholders with a vested interest in broader community values in the "**profit for purpose**" era.

20% of the companies surveyed by PGIM reported looking to strike a balance between profit maximisation and broader goals that tapped into wider social impacts as corporate boards recognise that positive social and environmental outcomes strengthen long-term enterprise value.

Among the arguments for increased ESG goals within business models was the ability to attract top talent, with surveys showing millennial employees valued a purposeful workplace over a higher salary. Other reasons included increasing profits through building a positive reputation and establishing long-term business viability in a contemporary market.

It's Happening In Australia Too

Australian corporates are already demonstrating a similar lean towards a profits with purpose goal. Companies including Koala, Biome Eco Stores and Australian Ethical are positioning themselves as agents of social change.

Similarly, Australian gig economy companies such as Airtasker and Freelancer ((FLN)) are paving the way for labour-light, tech-forward business models, while research conducted by global workspace provider Regus suggests that Australia's coworking office space is set to triple by 2030 as employer and employee preferences shift.

With lower capital requirements and a lower fixed-cost base, weightless organisations are less dependent on public markets, enabling them to stay private for longer. With a focus outside of traditional, tangible assets, these companies may not align with traditional risk models.

Those businesses leaning towards a profit for purpose approach may have ESG guidelines that no longer fit traditional risk models. For investors these factors have the potential to create opportunities in public and private debt markets and encourages them to reconsider their public-private evaluations.

Changes To Consider For Investors

According to PGIM these shifts in the business landscape should signal a change in asset allocation, valuation, risk assessment and investment framework for investors. Some things to consider:

- Investors looking to profit from rising efficiencies in companies focused on intangible asset investment should consider big business over smaller start-up companies;
- Capture growth opportunities by investing in larger, scaled companies that have proven effective in assimilating and acquiring new technologies, products and services;
- Alternatively, when investing in smaller startups, consider the landscape of the existing sector and how superstar organisations may impact startup growth;
- Look to sectors including digital payments, corporate security services and gaming for next generation superstar organisations;
- Purposeful business models may not align with current ESG metrics; with research showing that increased social commitment improves business reputation and longevity, investors should consider how current criteria to calculate investment choices factors in risk-adjustment in relation to ESG goals.

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
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FEATURE STORIES

February 2020 Result Season: The Wrap

The February result season started out well but faded as the month progressed. Subsequent developments nevertheless ensure past earnings results now have little relevance.

-Largely weak season
-Broker upgrades misleading
-In the lap of the gods

By Greg Peel

With the February result season now complete in 2020, the FNArena Corporate Result Monitor, which has been building throughout the month, is now complete and published in its final form (see attachment).

Guide

The table contains ratings and consensus target price changes along with brief summaries of the collective responses from FNArena database brokers for each individual corporate result, and an assessment of "beats" and "misses". Australian corporate results tend to focus on the profit line, with all its inherent potential for accounting vagaries, tax changes, asset write-downs and other "one-off" impacts. FNArena has focused mostly on underlying earnings results (more in line with Wall Street practice) as a more valuable indicator of whether or not a company has outperformed or underperformed broker expectations. There is also a level of "quality" assessment here rather than simple blind "quantity".

The Monitor summarises results from 314 major listed companies. By FNArena's assessment, 97 companies beat expectations and 84 missed expectations, for a percentage ratio of 31/27 or 1.1 beats to misses. The simple average of all resultant target price changes came in at a net 1.04% gain. In aggregate, the total increase to all price targets combined amounted to 3.9%.

In response to results, brokers made 72 ratings upgrades and 48 ratings downgrades, or a ratio of 1.5 to 1 upgrades to downgrades.

The first FNArena Corporate Result Monitor was published in the August season of 2013. See table:

FNArena Result Season Tracker

	#Stocks	%In-Line	%Beats	%Misses	Ratio	Up-grades	Down-grades	Ratio	%Target Change	Index Start	Index Finish	%Move
Feb-20	314	42	31	27	1.1	72	48	1.5	3.9	7017	6441	-8.2
Aug-19	316	50	24	25	1.0	65	72	-1.1	2.5	6813	6604	-3.1
Feb-19	308	34	33	33	1.0	31	93	-3.0	-0.1	5864	6169	5.2
Aug-19	311	48	28	24	1.2	47	84	-1.8	3.4	6280	6319	0.6
Feb-18	319	38	37	25	1.5	87	54	1.6	4.3	6037	6016	-0.3
Aug-17	319	46	27	27	1.0	48	62	-1.3	1.8	5720	5714	-0.1
Feb-17	320	38	35	27	1.3	55	66	-1.2	1.4	5620	5712	1.6
Aug-16	321	44	32	24	1.4	56	90	-1.6	3.7	5562	5433	-2.3
Feb-16	317	42	37	21	1.7	70	70	1.0	1.4	5005	4880	-2.5
Aug-15	315	50	30	20	1.5	116	40	2.9	1.2	5699	5207	-8.6
Feb-15	318	38	36	26	1.4	38	118	-3.1	5.6	5588	5928	6.1
Aug-14	269	44	30	26	1.1	55	90	-1.6	2.1	5632	5625	-0.1
Feb-14	269	48	30	22	1.4	64	74	-1.2	5.4	5190	5404	4.1
Aug-13	248	56	25	19	1.3	61	86	-1.4	2.2	5052	5135	1.6
Average		**44.1**	**31.1**	**24.7**	**1.3**	**61.8**	**74.8**	**-0.7**	**2.8**			

Notes:

#Stocks	Stocks covered by FNArena database brokers.
Beats/Misses	FNArena's own assessment based on net database broker responses.
Ratio	Expressed as positive when beats exceed misses, negative if misses exceed beats.
Up/downgrades	To ratings provided by FNArena database brokers.
Ratio	Expressed as positive if upgrades exceed, negative if downgrades exceed.
Target	The net simple average of FNArena database broker target price changes post result.
Index	Index start to finish taken from Jan 31/Jul 31 to Feb 28 (or 29)/ Aug 31.
%Move	Of the index over that period.

All in the Timing

Before we compare February 2020 to results seasons past, the number that stands out in the table above is -8.2% fall in the ASX200 from January 31 to February 28. It's not the biggest market move in a season – August 2015 saw -8.6% -- but what is important in the context is that up to February 20 the index had risen 2% before falling -10% in the last week of the month.

Up until February 20 the world was unperturbed about the coronavirus outbreak in China, believing it would bring merely a blip in global growth and would all be over rather swiftly, at which point things would quickly go back to business as usual. With that in mind local investors concentrated on largely net positive earnings results up to that point, and pushed the ASX200 to a new record intraday high. It was a reported step-jump in Chinese virus cases that triggered the subsequent correction – a correction which on March 9 hit -19.5% from that intraday high.

Thus we might say the February 2020 result season was "a game played in two halves" in terms of macro sentiment – the first three weeks on the one hand and the last week on the other. How the market responded, and how brokers responded, to earnings results, changed significantly.

In short, the result season, outlining earnings performance in the six months to December 31, has become somewhat redundant. It is important to note that while disappointing forward guidance can, by FNArena's analysis, constitute a "miss" of forecasts, in this instance guidance downgrades pertaining to the virus were not considered as such for this season, given the impact will be all in the six months to June 30. In December, the only "macro" influence on downgrades were the bushfires, and even they hit their peak in January.

Many a company reporting in that final week, as opposed to those reporting in the three weeks prior, either downgraded forward guidance due to the virus or simply withdrew guidance altogether given the uncertainty. Those managements that did deign to provide numerical assumptions all added a caveat of non-conviction, or if you like, "we really just don't know".

Many a company reporting in the three weeks prior have since issued virus-related warnings as well.

In terms of results to December 31, pre-virus impact, we can consider February 2020 as weak. While 31% of beats is smack on average, 27% of misses exceeds an average of 24.7%. The beat/miss ratio of 1.1 to one is short of an average 1.3.

A percentage of 42% in-line results is slightly below an average of 44%, but as has increasingly become the case many of those "in line" results were in line only with previously downgraded guidance. In reality, misses were more extensive than the numbers suggest.

On the other hand, a ratio of 1.5 to one broker upgrades to downgrades well exceeds the average of 0.7 to one downgrades to upgrades. However, this number is misleading in the context of the period ending December. Many of those broker upgrades occurring in the final week (and in some case first three weeks) reflected a belief investors had overly panicked in selling down the stock, and the reason for that panic was the virus, which we are trying to isolate in this assessment.

Such upgrades are thus misleading, and we might suggest, given the market continues to plummet, unfortunate, although as late as last week broker upgrades were still well exceeding downgrades.

Outlook

No idea.

Nor does anyone else have any idea.

What we do know is central banks have begun to respond monetarily and governments have been or are set to make fiscal injections into the economy. As to whether this will make the difference, they don't know either. This is not the GFC. A credit crunch can be, and was, brought to heel by massive stimulus. But stimulus will not stop a virus.

As noted, brokers continue to issue far more ratings upgrades than downgrades on the basis of the market having become overly panicked, but panic is just how these things work. That's why there's no toilet paper on supermarket shelves. Monday saw biggest single day's fall for the ASX200 since the correction began.

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.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 06-03-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday March 2 to Friday March 6, 2020
Total Upgrades: 36
Total Downgrades: 12
Net Ratings Breakdown: Buy 41.10%; Hold 44.39%; Sell 14.51%

Against a background of escalating concerns about the potential economic fall-out from the spreading covid-19 virus, FNArena's daily monitored seven stockbrokers issued no less than 36 recommendation upgrades for individual listed ASX entities, against twelve downgrades.

The instantaneous result of the large gap between both is that total Buy recommendations for the seven brokers made a giant leap forward, narrowing the gap with Neutral/Hold rating, while total Sell ratings have declined noticeably.

As percentages stand on Friday, 6th March 2020, circa 41% of all ratings now comprises of a Buy, with Neutral/Holds on 44.39% and Sell ratings taking up the remaining 14.5%.

Equally remarkable, only one of the seven stockbrokers (Morgans) is presently carrying more Buy ratings than Neutral/Holds, by a thin margin only.

Eight of the 36 recommendation upgrades stopped at Neutral/Hold. BHP Group received two fresh Buy ratings throughout the week, but Coles attracted three fresh upgrades to Buy. Bank of Queensland also received two upgrades, but both went up to Neutral.

Downgrades were limited to twelve in total and three of those shifted to Sell. Ansell, Flight Centre and National Australia Bank were the unlucky receivers.

Changes in price targets remained benign, with only Integral Diagnostics sticking above the cornfield, in a positive manner. There is a lot more happening in the week's overview for negative changes with Myer the week's biggest loser, followed by AP Eagers, Zip Co, WiseTech Global, and Flight Centre. All saw target price reductions in double digit percentages.

The week's tables for amendments to earnings forecasts equally shows a strong bias for negative updates. Those enjoying positive revisions were led by Costa Group, Senex Energy, and Webjet but most positive changes pale when compared to the sizable reductions that are dominating the local share market post February.

Humongous cuts befell Zip Co and Afterpay, followed by large reductions in earnings estimates for the likes of Myer, Unibail-Rodamco-Westfield, OceanaGold, Japara Healthcare, and many others.

With uncertainty about covid-19 and its economic impact continuing to grip global equities, it seems investors will have to look elsewhere than broker updates for encouragement. Though the large number of recommendation upgrades suggest there will be buying opportunities when the selling stops.

Upgrade

ARISTOCRAT LEISURE LIMITED ((ALL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 7/0/0

Credit Suisse upgrades to Outperform from Neutral amid continued momentum in the digital business. The broker also notes Cashman game upgrades have lifted revenue well above the trough.

A pandemic may have some impact on the land-based revenue, if people avoid casinos in North America and to a lesser extent Europe and Latin America.

However, in Macau, the broker estimates that the company has virtually no revenue share exposure, as casinos there prefer outright purchases. Target is steady at $35.

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

Ord Minnett notes the share price has fallen -23% over February. While FY20 guidance was lowered to the lower end of the prior range, amid uncertainty surrounding coronavirus, the broker still notes the stock has materially de-rated compared with software stocks globally.

While there is a risk guidance may still prove optimistic, looking ahead to FY21, the broker is comfortable with forecasts which imply revenue growth of 20%.

The stock now represents value to Ord Minnett and the rating is upgraded to Buy from Lighten. Target is reduced to $33.40 from $37.76.

AMCOR LIMITED ((AMC)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 6/1/0

Credit Suisse upgrades to Outperform from Neutral because of the recent fall in the share price. Value has emerged, in the broker's opinion, and Amcor did not fully participate in the recent market rally.

The broker suspects revenue is less likely to be affected by an economic slowdown associated with the possible coronavirus pandemic.

This stems from the fact Amcor manufactures packaging for defensive industries and its exposure to China is about 4% of revenue. Target is steady at $16.25.

ASX LIMITED ((ASX)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/3/4

Credit Suisse upgrades to Neutral from Underperform following the fall in the share price in recent weeks. Target is $70.

The broker considers ASX the most defensive stock in the sector, with earnings somewhat insulated during risk-off events through increased velocity in equity markets, increased futures trading as interest rates are cut and the ability to re-price.

ALUMINA LIMITED ((AWC)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/2/2

Alumina Ltd has been upgraded to Buy from Neutral as part of a sector stress-test undertaken by commodity analysts at Citi. Taking guidance from global interest rates, Citi's view is that 2020 will be a disappointing year for the sector overall.

Citi considers Alumina Ltd a sector stand-out given the company's ability to pay what is described as a "reasonable dividend", even in an environment of depressed alumina prices.

BHP GROUP ((BHP)) Upgrade to Add from Hold by Morgans and Upgrade to Accumulate from Hold by Ord Minnett.B/H/S: 3/4/0

While acknowledging there is difficulty in predicting the end of the equity market volatility or the immediate outlook for commodities, Morgans considers the current sell-off has pushed the big miners into value territory.

The broker upgrades to Add from Hold. Target is $36.46. The preference shifts to Rio Tinto ((RIO)).

Uncertain conditions in China are likely to be met with heavy stimulus while BHP Group's energy exposure could become a source of a new discount if oil prices continue to weaken, in the broker's view.

The company's share price is down -17% since the peak on January 20, amid significant uncertainty about how coronavirus will spread and the duration of the impact.

Ord Minnett takes the view that, by mid-year, the market will look through the economic impact and this should drive a re-rating for some of the miners.

Following the correction, BHP Group's valuation metrics appear compelling and the broker upgrades to Accumulate from Hold. Target is $42.

BANK OF QUEENSLAND LIMITED ((BOQ)) Upgrade to Hold from Reduce by Morgans and Upgrade to Equal-weight from Underweight by Morgan Stanley.B/H/S: 0/7/0

Bank of Queensland has unveiled its 5-year strategy and is now guiding to FY20 cash earnings being -4-5% lower than FY19.

Morgans increases cash earnings-per-share estimates, largely on expectations of higher home loan growth and lower operating expenses.

Rating is upgraded to Hold from Reduce and the target is raised to $7.60 from $7.20.

Morgan Stanley believes the bank's revised strategy provides potential to stabilise returns and deal with several years of underperformance. The broker lifts forecasts by 4% for FY20 and FY21.

However, cash profit forecasts remain below the lower end of guidance. While expecting ongoing revenue challenges, Morgan Stanley upgrades to Equal-weight from Underweight, given a clear strategy and a better cost outlook.

Target is raised to $7.60 from $7.50. Industry view is In-Line.

BREVILLE GROUP LIMITED ((BRG)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/2/0

UBS upgrades to Buy from Neutral, given strong top-line growth. The broker believes a premium multiple is justified because of the growth profile and business quality.

Direct entry to a new region could add up to $5 per share to the valuation, the broker calculates. The main risk is potential supply chain disruption from coronavirus although the company has not been materially affected to date.

Europe is now the second largest market for Breville and the broker forecasts more than $300m in sales by FY23. Target is raised to $22.70 from $17.85.

COMMONWEALTH BANK OF AUSTRALIA ((CBA)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/1/5

Credit Suisse downgrades earnings estimates on the back of the reduction in official cash rates but also taking note of an increase in bad debt provisions derived from economic stress.

Bad debt provision estimates are increased for FY20 and FY21 because of the economic impact likely from coronavirus, with regard to small businesses linked to the supply chain in the tourism and education sectors.

Rating is upgraded to Neutral from Underperform, given the bank's capital strength. Target is reduced to $77.00 from $77.60.

CROMWELL PROPERTY GROUP ((CMW)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/2/0

First half earnings were well ahead of expectations. This was driven by development and performance fees. Despite the beat on expectations being driven by non-recurring items, Macquarie suspects there is upside risk to FY20 guidance.

There is also a path for the funds management platform to generate stable earnings in the medium term. The broker upgrades to Neutral from Underperform. Target is reduced to $1.20 from $1.22.

COLES GROUP LIMITED ((COL)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Accumulate from Lighten by Ord Minnett and Upgrade to Outperform from Neutral by Credit Suisse.B/H/S: 3/1/3

Macquarie believes the market correction has provided an opportunity to buy a high-quality asset, and current supermarket trading is favouring Coles over Woolworths ((WOW)).

The first seven weeks of 2020 have shown Coles is gaining share. The broker considers the valuation attractive at current levels and upgrades to Outperform from Neutral. Target is $17.20.

Ord Minnett has become more confident in the supermarket industry as food inflation is now likely to persist. Moreover, the broker likes the Coles strategy based on cost savings and tailoring of range and formats.

Value now exists and the gap to Woolworths ((WOW)) is expected to continue narrowing. Rating is upgraded to Accumulate from Lighten and the target lifted to $16.75 from $15.00.

After FY20, Credit Suisse believes mid to high single-digit earnings growth will be largely driven by a targeted renewal program and the development of the supermarket range.

While liquor is not central to the investment case, earnings should lift in FY21 with a clean inventory position.

Fuel convenience remains the option, with earnings largely dependent on investment from Viva Energy ((VEA)) to drive fuel volumes.

However there is little downside envisaged for Coles in fuel convenience. Rating is upgraded to Outperform from Neutral. Target is raised to $17.80 from $17.72.

CROWN RESORTS LIMITED ((CWN)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/5/0

Since January 17, Macquarie notes the market has wiped around -21% of the company's market capitalisation. This is based on a mix of coronavirus-related concerns and the public hearing.

The broker continues to believe that, while impacts on VIP visitors will be material in the near term, coronavirus is temporary and the domestic business should be more resilient.

There is also material room for capital management following the opening of Crown Sydney in early 2021. Hence, Macquarie upgrades to Outperform from Neutral. Target is $11.95.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Add from Reduce by Morgans .B/H/S: 2/3/2

Morgans believes Domino's Pizza is well-placed, with limited exposure to coronavirus and a reasonably solid growth profile.

The broker points out there are few large cap stocks with double-digit growth profiles and defensive attributes.

Moreover, the company has noted its Japanese operations experienced a trading benefit during the SARS outbreak.

Rating is lifted to Add from Reduce and the target raised to $60.30 from $57.61.

FRONTIER DIGITAL VENTURES LIMITED ((FDV)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

2019 results were strong and above expectations. Commission-style transaction fees from real estate portals continue to be the main engine of growth.

Morgans observes the business has created significant value since investing in its portfolio companies and is expected to continue doing so.

As the stock is now well below valuation the rating is upgraded to Add from Hold. Target is $1.09.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Buy from Sell by UBS .B/H/S: 2/3/2

UBS suspects, given commodity volatility stemming from the coronavirus outbreak, China is likely to introduce commodity-intensive stimulus to soften any economic downturn.

The broker upgrades 2020 and 2021 iron ore prices by 9% and 7% respectively. With West Pilbara fines becoming a larger proportion of the product mix in late 2020, the broker lifts price realisation to 90%.

Rating is upgraded to Buy from Sell and the target is lifted to $10.20 from $9.30.

FREEDOM FOODS GROUP LIMITED ((FNP)) Upgrade to Add from Hold by Morgans .B/H/S: 3/0/0

First half operating earnings (EBITDA) beat Morgans' forecasts. The broker expects strong earnings growth because of strong demand for the company's products across Australia and Asia.

Following material share price weakness, the stock is now trading at an attractive forward multiple and the broker upgrades to Add from Hold. Target is steady at $5.16.

HARVEY NORMAN HOLDINGS LIMITED ((HVN)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/5/0

First half results were slightly ahead of Ord Minnett's forecasts. International and property were better than expected, while the core franchising operations disappointed.

However, the broker assesses the recent decline in the share price makes the valuation more attractive and the rating is upgraded to Hold from Lighten. Target is lowered to $3.75 from $4.00.

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/4/0

Iluka Resources has been upgraded to Buy from Neutral as part of a sector stress-test undertaken by commodity analysts at Citi. Taking guidance from global interest rates, Citi's view is that 2020 will be a disappointing year for the sector overall.

Price target has shifted to $9.80 from $9.70 on slightly higher forecasts for 2021.

IRESS LIMITED ((IRE)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 2/1/1

FY20 guidance was slightly below Ord Minnett's forecasts and the second half skew provides a slightly higher risk profile. However, the share price has fallen -15% throughout February and this is a noteworthy de-rating versus software stocks globally.

Ord Minnett is comfortable with forecasts and assesses, while market volatility could persist for a few weeks yet, the stock now represents value. Target is raised to $12.90 from $12.85 and the rating upgraded to Buy from Hold.

JB HI-FI LIMITED ((JBH)) Upgrade to Add from Hold by Morgans .B/H/S: 2/3/2

Morgans assesses investors will be best placed sticking with large, more defensive names such as JB Hi-Fi in the current environment. The company revealed resilient like-for-like sales growth in the recent results.

Moreover, online expansion was still doing the heavy lifting and the business reported one of the highest rates of growth in this segment. The broker upgrades to Add from Hold. Target is $40.66.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/4/3

Having reviewed the gold sector after the recent results, Ord Minnett notes guidance ranges were retained and balance sheets are not unduly stretched. The main headwind for production and costs are declining grades.

Newcrest Mining has pulled back recently so the broker upgrades to Hold from Lighten. Target is $26.

OIL SEARCH LIMITED ((OSH)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/3/0

Macquarie upgrades to Outperform from Neutral, given the recent fall in the share price. Despite the impasse on P'nyang, the broker highlights the stability of the current PNG LNG operations and the growth prospects in Alaska.

Target is reduced -3% to $6.20. Earnings estimates are also decreased amid a lower near-term Brent forecast.

REECE LIMITED ((REH)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/1

First half results were ahead of expectations. US sales revenue grew 19%. Morgans envisages a lot of potential in the US once the company deploys its accelerated bolt-on strategy and rolls out stores.

Margins are expected to continue improving. The main risk centres on the slowing downstream construction activity. The broker upgrades to Add from Hold and raises the target to $12.84 from $12.45.

RIO TINTO LIMITED ((RIO)) Upgrade to Add from Hold by Morgans .B/H/S: 3/3/1

While acknowledging there is difficulty in predicting the end of the equity market volatility or the immediate outlook for commodities, Morgans considers the current sell-off has pushed the big miners into value territory.

The broker upgrades to Add from Hold, shifting its preference to Rio Tinto among the large caps. Target is $97.25.

Uncertain conditions in China are likely to be met with heavy stimulus while BHP Group's ((BHP)) energy exposure could become a source of a new discount if oil prices continue to weaken, in the broker's view.

RHINOMED LIMITED ((RNO)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

First half net losses were extended and weaker than Morgans expected. Higher costs occurred across most expense lines. Revenue increased 24% from sales of the traditional Turbine and Mute devices.

Morgans revises forecasts lower in line with the higher operating cost base and lower sales traction but remains cautiously optimistic about new products. Target is reduced to $0.22 from $0.28.

Rating is upgraded to Speculative Buy from Hold because of recent share price weakness.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 2/3/1

Having reviewed the gold sector after the recent results, Ord Minnett notes guidance ranges were retained and balance sheets are not unduly stretched. The main headwind for production and costs are declining grades.

Regis Resources has pulled back recently so Ord Minnett upgrades to Hold from Lighten. Target is $3.90.

SONIC HEALTHCARE LIMITED ((SHL)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/1/1

Citi healthcare sector analysts have used a general re-assessment post the February reporting season to upgrade Sonic Healthcare to Buy from Neutral. There is always potential for upside through acquisitions, though Citi isn't forecasting any for the time being.

Outside further acquisitions, the analysts view Sonic Healthcare as a stable and well managed business. They remind investors organic revenue growth normally ranges from 3-6%, depending on the geography. In addition, it is rare for regulatory changes in multiple geographies in any given year.

Price target lifts to $33.75 from $33.50.

SUPER RETAIL GROUP LIMITED ((SUL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 7/0/0

Overall, Credit Suisse observes Super Retail has achieved solid revenue growth and built one of the better digital capabilities in the retail sector.

While BCF has underperformed, its influence on the investment case is minor.

The broker upgrades to Outperform from Neutral, believing the business is well-positioned for medium-term growth. Target is steady at $9.94.

TRANSURBAN GROUP ((TCL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/4/2

Ord Minnett increases earnings estimates and lifts free cash flow forecasts materially. This is based on tax stabilising at half previously assumed levels and lower capitalised interest for select developments.

Improved returns from WestConnex are also expected. Rating is upgraded to Accumulate from Hold and the target raised to $17.00 from $15.65.

WOODSIDE PETROLEUM LIMITED ((WPL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/3/0

Scarborough is progressing and set for a final investment decision in 2020. A tolling fee has been agreed and interest in the fields are now aligned for both Woodside Petroleum and BHP Group ((BHP)).

Gas will be processed through the Pluto train 1 and the train 2 expansion.

Woodside's ability to manage capital investment over returns to shareholders will be a key driver of the share price in the medium term, Macquarie suggests.

The broker upgrades to Outperform from Neutral, noting the payment of the dividend is now critical to a positive view. A 73% pay-out ratio is assumed for 2020. Target is reduced to $33 from $35.

WISETECH GLOBAL LIMITED ((WTC)) Upgrade to Buy from Lighten by Ord Minnett .B/H/S: 2/1/0

The share price has fallen -40% over February. Ord Minnett now assesses the stock is trading on a forward enterprise value/revenue multiple of 9.6x, around -40% below its two-year average.

While there is a risk FY20 guidance may still prove too optimistic, Ord Minnett believes the stock represents value at current levels and upgrades to Buy from Lighten. Target is reduced to $19.00 from $19.34.

ZIP CO LIMITED ((Z1P)) Upgrade to Add from Hold by Morgans .B/H/S: 3/0/0

First half net loss was greater than Morgans expected. The broker downgrades FY20 and FY21 forecast by more than -50%, given lower cash earnings margin assumptions.

While the Zip Co share price has retraced significantly, the broker envisages long-term value is re-emerging and therefore upgrades to Add from Hold. Target is reduced to $3.23 from $3.92.

Downgrade

AIR NEW ZEALAND LIMITED ((AIZ)) Downgrade to Neutral from Buy by UBS .B/H/S: 0/2/1

Air New Zealand's outlook is now binary, UBS notes. If the virus is contained and international travel normalises by mid-year then significant upside awaits. Under a global pandemic scenario, material downside awaits.

To reflect the heightened uncertainty, the broker has adjusted its valuation model, which leads to a target price drop to NZ$2.00 from NZ$2.85. Rating is pulled back to Neutral on the same basis.

ANSELL LIMITED ((ANN)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 1/4/1

Macquarie considers the downside risks to organic revenue growth have increased and outweigh support from various business initiatives.

This is particularly the case if confirmed cases of coronavirus continue to expand outside mainland China.

Rating is downgraded to Underperform from Neutral and the target lowered to $27.50 from $30.00.

ACCENT GROUP LIMITED ((AX1)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/0

Morgans continues to like the business and the growth potential. Surprises on earnings are being driven by the store roll-out profile, which may continue should some of the new concepts gain traction.

Yet, Morgans downgrades to Hold from Add, preferring other retail stocks at similar valuations in the current environment. Target is reduced to $1.92 from $2.15.

CHARTER HALL GROUP ((CHC)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/3/0

First half operating earnings were ahead of forecasts. Ord Minnett observes Charter Hall is a strongly performing business but commercial property transaction volumes in Australia are likely to slow in response to travel restrictions and uncertainty over asset values.

At least until the impact of coronavirus is better understood. The broker's main concern is that, if vendors are not willing to take assets to the market, then the company's growth in assets under management is likely to moderate.

Rating is downgraded to Hold from Accumulate and the target lowered to $12.50 from $14.20.

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

Credit Suisse downgrades to Neutral from Outperform, reversing its call from some weeks ago when it did not assume such a rapid and large decline in global cash rates. Target is reduced to $15.25 from $19.40.

In addition, equity market volatility and weaker activity levels could reduce employee share plan trading revenue, corporate actions and loan volumes in the mortgage servicing business.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/2/0

Ord Minnett suggests the current concerns regarding the impact of coronavirus are well-founded given its ability to spread quickly and the high mortality rate. This presents a toxic combination for travel agencies.

A number have suggested the virus could materially affect earnings for the remainder of 2020.

While analysis suggests the stock offers value at current levels, Ord Minnett downgrades Corporate Travel to Accumulate from Buy and reduces the target to $13.55 from $20.42.

FLIGHT CENTRE LIMITED ((FLT)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 3/3/0

Ord Minnett suggests the current concerns regarding the impact of coronavirus are well-founded given its ability to spread quickly and the high mortality rate. This presents a toxic combination for travel agencies.

A number have suggested the virus could materially affect earnings for the remainder of 2020.

Ord Minnett assesses Flight Centre has potential for further downside and downgrades to Lighten from Hold. Target is reduced to $25.49 from $35.52.

GOODMAN GROUP ((GMG)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/0

Asia represents 33% of Goodman Group's assets under management earnings, 23% of capital invested and 43% of development work in progress, UBS notes. Projects underway in Hong Kong are fully committed but in Japan it's 65% and China 25%. None of the projects are scheduled for completion in FY20 hence no risk to FY20 guidance.

Development sites in China are not yet operating but are anticipated to be operational in coming weeks. In FY20 to date, major tenants continue to implement long term supply chain initiatives. Virus-related risk is therefore a story for FY21-22, and on that risk UBS pulls back to Neutral. Target rises to $16.00 from $15.60 after updating for forex and net tangible asset valuation.

IDP EDUCATION LIMITED ((IEL)) Downgrade to Hold from Add by Morgans .B/H/S: 3/1/1

Given further deterioration in macro economic conditions on the back of the coronavirus contagion, Morgans has become more cautious. Rating is downgraded to Hold from Add.

The short-term nature of any impact makes the broker reluctant to change its long-term view but, at current multiples, the stock is more vulnerable to any impact from coronavirus. Target is $24.49.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 2/3/2

Credit Suisse downgrades earnings estimates on the back of the reduction in official cash rates but also taking note of an increase in bad debt provisions derived from economic stress.

Bad debt provision estimates are increased for FY20 and FY21 because of the economic impact likely from coronavirus, with regard to small businesses linked to the supply chain in the tourism and education sectors.

Rating is downgraded to Underperform from Neutral and the target lowered to $22.90 from $27.90, because of the bank's large exposure to the small-medium enterprise segment and lower relative capital position.

TPG TELECOM LIMITED ((TPM)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/5/0

First half net profit was below Ord Minnett's forecasts. The consumer business was better than expected because of recent NBN wholesale pricing changes.

TPG Telecom shares have also received a boost as the ACCC announced it would not appeal the court decision allowing the merger with Vodafone Australia. The broker updates its modelling to reflect the merger.

The stock is assessed as trading at fair value and the rating is downgraded to Hold from Accumulate. Target is raised to $8.25 from $7.25.

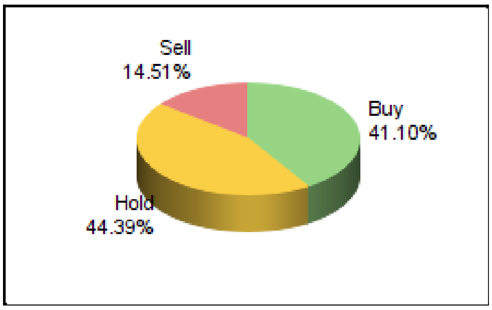
XREF LIMITED ((XF1)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

Or Minnett notes a slowing growth profile in sales has meant management has turned attention to self-activation via Xref Light and Template builder.

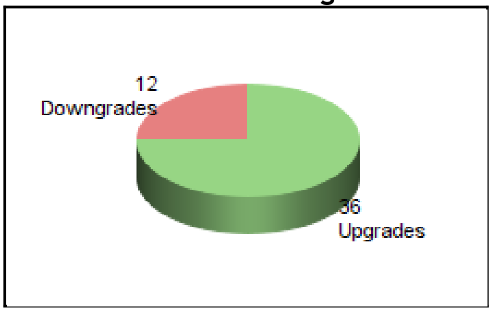
There are no material signs yet the strategy is taking hold and the broker will need to witness a marked improvement in sales and a rationalisation of costs in the second half to become more confident.

In the interim, the rating is downgraded to Hold from Speculative Buy and the target lowered to $0.25 from $0.60.

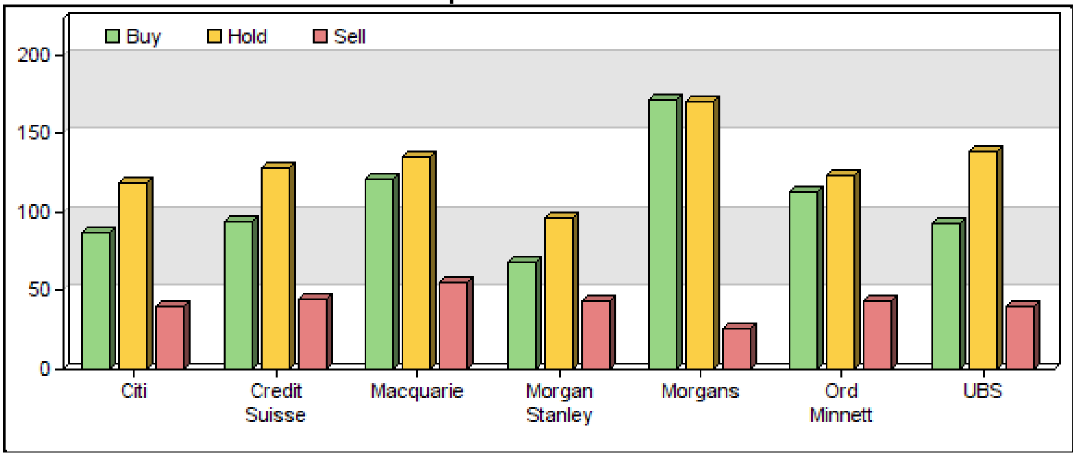
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ALTIUM LIMITED	Buy	Sell	Ord Minnett
2	ALUMINA LIMITED	Buy	Neutral	Citi
3	AMCOR LIMITED	Buy	Neutral	Credit Suisse
4	ARISTOCRAT LEISURE LIMITED	Buy	Neutral	Credit Suisse
5	ASX LIMITED	Neutral	Sell	Credit Suisse
6	BANK OF QUEENSLAND LIMITED	Neutral	Sell	Morgans
7	BANK OF QUEENSLAND LIMITED	Neutral	Sell	Morgan Stanley
8	BHP GROUP	Buy	Neutral	Morgans
9	BHP GROUP	Buy	Neutral	Ord Minnett
10	BREVILLE GROUP LIMITED	Buy	Neutral	UBS
11	COLES GROUP LIMITED	Buy	Neutral	Macquarie
12	COLES GROUP LIMITED	Buy	Neutral	Credit Suisse
13	COLES GROUP LIMITED	Buy	Sell	Ord Minnett
14	COMMONWEALTH BANK OF AUSTRALIA	Neutral	Sell	Credit Suisse
15	CROMWELL PROPERTY GROUP	Neutral	Sell	Macquarie
16	CROWN RESORTS LIMITED	Buy	Neutral	Macquarie
17	DOMINO'S PIZZA ENTERPRISES LIMITED	Buy	Sell	Morgans
18	FORTESCUE METALS GROUP LTD	Buy	Sell	UBS
19	FREEDOM FOODS GROUP LIMITED	Buy	Neutral	Morgans
20	FRONTIER DIGITAL VENTURES LIMITED	Buy	Neutral	Morgans
21	HARVEY NORMAN HOLDINGS LIMITED	Neutral	Sell	Ord Minnett
22	ILUKA RESOURCES LIMITED	Buy	Neutral	Citi
23	IRESS LIMITED	Buy	Neutral	Ord Minnett
24	JB HI-FI LIMITED	Buy	Neutral	Morgans
25	NEWCREST MINING LIMITED	Neutral	Sell	Ord Minnett
26	OIL SEARCH LIMITED	Buy	Neutral	Macquarie
27	REECE LIMITED	Buy	Neutral	Morgans
28	REGIS RESOURCES LIMITED	Neutral	Sell	Ord Minnett
29	RHINOMED LIMITED	Buy	Neutral	Morgans
30	RIO TINTO LIMITED	Buy	Neutral	Morgans
31	SONIC HEALTHCARE LIMITED	Buy	Neutral	Citi
32	SUPER RETAIL GROUP LIMITED	Buy	Neutral	Credit Suisse
33	TRANSURBAN GROUP	Buy	Neutral	Ord Minnett
34	WISETECH GLOBAL LIMITED	Buy	Sell	Ord Minnett
35	WOODSIDE PETROLEUM LIMITED	Buy	Neutral	Macquarie
36	ZIP CO LIMITED	Buy	Neutral	Morgans
Downgrade				
37	ACCENT GROUP LIMITED	Neutral	Buy	Morgans
38	AIR NEW ZEALAND LIMITED	Neutral	Buy	UBS
39	ANSELL LIMITED	Sell	Neutral	Macquarie
40	CHARTER HALL GROUP	Neutral	Buy	Ord Minnett

41	COMPUTERSHARE LIMITED	Neutral	Buy	Credit Suisse
42	CORPORATE TRAVEL MANAGEMENT LIMITED	Buy	Buy	Ord Minnett
43	FLIGHT CENTRE LIMITED	Sell	Neutral	Ord Minnett
44	GOODMAN GROUP	Neutral	Buy	UBS
45	IDP EDUCATION LIMITED	Neutral	Buy	Morgans
46	NATIONAL AUSTRALIA BANK LIMITED	Sell	Neutral	Credit Suisse
47	TPG TELECOM LIMITED	Neutral	Buy	Ord Minnett
48	XREF LIMITED	Neutral	Buy	Ord Minnett

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	ALU	ALTIUM LIMITED	33.0%	-17.0%	50.0%	3
2	COL	COLES GROUP LIMITED	-7.0%	-50.0%	43.0%	7
3	MYR	MYER HOLDINGS LIMITED	50.0%	10.0%	40.0%	5
4	FNP	FREEDOM FOODS GROUP LIMITED	100.0%	67.0%	33.0%	3
5	CMW	CROMWELL PROPERTY GROUP	-17.0%	-50.0%	33.0%	3
6	Z1P	ZIP CO LIMITED	83.0%	50.0%	33.0%	3
7	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	-7.0%	-36.0%	29.0%	7
8	WTC	WISETECH GLOBAL LIMITED	67.0%	38.0%	29.0%	3
9	BHP	BHP GROUP	36.0%	14.0%	22.0%	7
10	IDX	INTEGRAL DIAGNOSTICS LIMITED	88.0%	70.0%	18.0%	4

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	AX1	ACCENT GROUP LIMITED	33.0%	67.0%	-34.0%	3
2	IEL	IDP EDUCATION LIMITED	30.0%	50.0%	-20.0%	5
3	GMG	GOODMAN GROUP	50.0%	67.0%	-17.0%	6
4	RHC	RAMSAY HEALTH CARE LIMITED	14.0%	29.0%	-15.0%	7
5	CPU	COMPUTERSHARE LIMITED	-36.0%	-21.0%	-15.0%	7
6	ANN	ANSELL LIMITED	-7.0%	7.0%	-14.0%	7
7	NAB	NATIONAL AUSTRALIA BANK LIMITED	-7.0%	7.0%	-14.0%	7
8	SIQ	SMARTGROUP CORPORATION LTD	20.0%	33.0%	-13.0%	5
9	APE	AP EAGERS LIMITED	50.0%	60.0%	-10.0%	5
10	CHC	CHARTER HALL GROUP	40.0%	50.0%	-10.0%	5

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	IDX	INTEGRAL DIAGNOSTICS LIMITED	4.633	4.386	5.63%	4
2	COL	COLES GROUP LIMITED	16.096	15.834	1.65%	7
3	ING	INGHAMS GROUP LIMITED	3.590	3.542	1.36%	5
4	RHC	RAMSAY HEALTH CARE LIMITED	71.769	70.817	1.34%	7
5	GMG	GOODMAN GROUP	16.680	16.463	1.32%	6
6	TCL	TRANSURBAN GROUP	14.890	14.697	1.31%	7
7	SCG	SCENTRE GROUP	3.824	3.787	0.98%	5
8	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	57.987	57.603	0.67%	7
9	SHL	SONIC HEALTHCARE LIMITED	32.521	32.486	0.11%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	MYR	MYER HOLDINGS LIMITED	0.544	0.658	-17.33%	5
2	APE	AP EAGERS LIMITED	10.296	12.442	-17.25%	5
3	Z1P	ZIP CO LIMITED	3.643	4.163	-12.49%	3
4	WTC	WISETECH GLOBAL LIMITED	23.667	26.910	-12.05%	3
5	FLT	FLIGHT CENTRE LIMITED	38.521	43.266	-10.97%	7
6	AX1	ACCENT GROUP LIMITED	1.987	2.163	-8.14%	3
7	SIQ	SMARTGROUP CORPORATION LTD	7.972	8.615	-7.46%	5

8	OGC	OCEANAGOLD CORPORATION	3.700	3.930	-5.85%	4
9	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	21.500	22.645	-5.06%	6
10	FNP	FREEDOM FOODS GROUP LIMITED	5.787	6.053	-4.39%	3

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CGC	COSTA GROUP HOLDINGS LIMITED	12.540	8.376	49.71%	5
2	SXY	SENEX ENERGY LIMITED	1.005	0.872	15.25%	6
3	WEB	WEBJET LIMITED	65.100	59.160	10.04%	5
4	A2M	THE A2 MILK COMPANY LIMITED	46.901	43.832	7.00%	7
5	S32	SOUTH32 LIMITED	7.344	7.129	3.02%	7
6	CMW	CROMWELL PROPERTY GROUP	8.233	8.033	2.49%	3
7	RIO	RIO TINTO LIMITED	849.944	833.554	1.97%	7
8	BHP	BHP GROUP	292.583	288.425	1.44%	7
9	ALU	ALTIUM LIMITED	44.349	43.849	1.14%	3
10	APE	AP EAGERS LIMITED	45.444	45.066	0.84%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	Z1P	ZIP CO LIMITED	-12.033	-2.367	-408.37%	3
2	APT	AFTERPAY LIMITED	-13.767	5.300	-359.75%	6
3	MYR	MYER HOLDINGS LIMITED	3.650	87.260	-95.82%	5
4	URW	UNIBAIL-RODAMCO-WESTFIELD	20.025	45.479	-55.97%	4
5	OGC	OCEANAGOLD CORPORATION	15.513	27.601	-43.80%	4
6	JHC	JAPARA HEALTHCARE LIMITED	3.200	4.625	-30.81%	4
7	FNP	FREEDOM FOODS GROUP LIMITED	11.133	14.867	-25.12%	3
8	FLT	FLIGHT CENTRE LIMITED	175.143	229.943	-23.83%	7
9	ORE	OROCOBRE LIMITED	-5.080	-4.411	-15.17%	7
10	NXT	NEXTDC LIMITED	-4.500	-3.950	-13.92%	6

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: The Nuclear Debate

Moves are afoot once again in Australia to lift bans on both uranium mining and nuclear power. The uranium spot price has slipped once more.

-U3O8 spot prices fall again
-Nuclear debate reopens in Australia
-History suggests it will be no easy road

By Greg Peel

This week's uranium report could simply be left as "nothing happened". At least nothing of major uranium industry implication. The same issues remain in place, so rather than rake over old ground yet again, as to why uranium prices are in the doldrums, this week we'll zoom in Australia's nuclear dilemma.

For the record, industry consultant TradeTech reported ten transactions completed in the uranium spot market last week totalling 1mlbs U3O8 equivalent. As buyers were again largely MIA, prices fell gradually during the week. TradeTech's weekly spot price indicator has fallen -US50c to US$24.40/lb.

Term price indicators remain at US$28.25/lb (mid) and US$33.00 (long).

How to React?

The nuclear power debate has heated up in Australia once more. Driving fresh debate is the pending shutdown of ageing coal-fired power stations that provide Australia's base load electricity. The federal government wants to build new coal-fired power stations. This policy already had its critics but as a result of this season's bushfire disaster, an electoral groundswell is calling for the government to recognise climate change and act accordingly before it's too late.

Australians are now generally opposed to both coal-fired power and new thermal coal mines. But not all Australians. The country is the world's largest exporter of coal. The coal mining industry employs thousands, and thousands more are supported indirectly by that industry. The surprise victory for the coal-friendly Coalition at last year's federal election was in part due to support from Queensland-based electorates, Queensland being Australia's premier coal producing state.

Nuclear power has long been proposed as an alternative source to meet Australia's electricity needs, if for no other reason Australia boasts the world's largest known reserves of uranium. But from Three Mile Island to Chernobyl and Fukushima, successive governments have considered nuclear power to be electoral suicide. The debate is now back on again nevertheless, to lift bans on uranium mining and build nuclear reactors.

Australia is a federation of six sovereign states and two federal territories. Of those six states, four have bans on uranium mining. Tasmania has no known commercial uranium deposits, leaving South Australia as the only state with operating uranium mines. Of those four operating mines, two are currently under care & maintenance pending improved uranium prices, leaving only BHP Group's ((BHP)) Olympic Dam and the foreign-owned Beverley in operation. A fifth mine – Ranger in the Northern Territory -- is currently producing uranium but only from stockpiled ore.

Over a decade ago, the then Queensland premier decided to lift the state's ban on uranium mining. So swift and brutal was the backlash from the coal lobby, the premier very quickly changed his mind. In the interim, one Western Australia state government lifted the ban on uranium mining, only to have the next government ban it again. Two mines under construction on the basis of the prior policy were exempted.

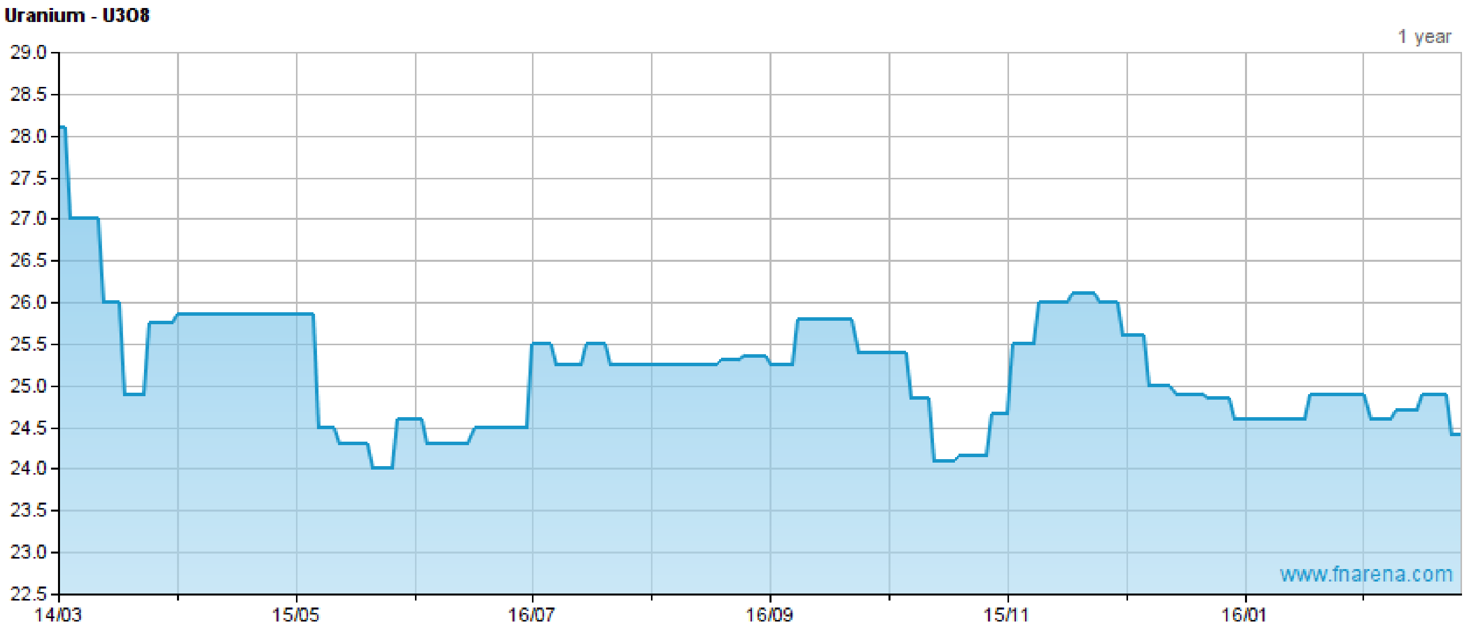
The Australian federal government previously limited the number of allowable uranium mines, but that policy has since been abandoned. The federal government is currently content to restrict the number of countries Australia can export uranium to.

Last week the New South Wales deputy premier supported a bill in state parliament to overturn a nuclear power ban, after a parliamentary inquiry recommended that the law prohibiting uranium mining and nuclear facilities should be repealed. The bill has the support of the Minerals Council of Australia, and the Australian Workers Union, which supports uranium mining and nuclear power for the jobs both will create. But the AWU's stance puts it at odds with the Australian Council of Trade Unions, which has long been anti-uranium for what we might call Fukushima reasons.

And support for uranium mining and nuclear power is not split down party lines at either federal or state level. The debate is splitting parties.

A lifting of state uranium mining bans would likely not achieve much in the near term. The marginal cost of new production well exceeds current uranium trading prices. To not build nuclear reactors, on the other hand, when the issue of Australia's future base load power and electricity prices is paramount, and Australia has abundant uranium resources, is seen by supporters as pure folly.

The debate will rage on, but in the short term at least, likely go nowhere.



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

WEEKLY REPORTS

The Short Report - 12 Mar 2020

See **Guide** further below (for readers with full access).

Summary:

Week ending March 5, 2020

Having fallen -7.5% the week before, last week the ASX200 fell another -4% after a couple attempts at finding a bottom failed. This week it's been net downhill again.

Another week, another sharp drop due to the virus, with the February earnings results season now but a distant memory. It is not clear whether the shorters are simply shell-shocked, but for the first time in quite a while there were no short position changes of one percentage point or more last week. Maybe they're just waiting to see how far this goes.

We can note a little bit of profit-taking in long-time short favourite JB Hi-Fi ((JBH)), along with more recent 10%-plus club dwellers Costa Group ((CGC)) and Webjet ((WEB)). The latter has as of time of writing fallen -54% from its February high.

Also notable is a steady move up in short positions of investment managers. Perpetual ((PPT)) leads the charge, having crept up during the virus sell-off and as at last week 9.5% shorted. Further down the table, IOOF Holdings ((IFL)) is steady at 5.7% shorted while AMP ((AMP)) and Challenger ((CGF)) have reappeared at 5.5% and 5.2% respectively.

We also note that having popped back in the week before, Nine Entertainment ((NEC)) has popped back out again. While the stock has not escaped the sell-off, the thinking is media companies will benefit from the virus as everyone desperately follows the news, and stays at home.

As to whether this will translate into greater ad revenues is a questionable, although I do note travel agents, cruise lines and the Trivagos of this world continue spend.

Good money after bad, I would have thought.

No Movers &Shakers this week.

Weekly short positions as a percentage of market cap:

10%+
GXY 20.1
SYR 17.9
ORE 13.9
SDA 13.2
ING 13.2
MTS 12.6
NEA 11.1
GWA 10.6
NCZ 10.3

In: NCZ   Out: CGC, JBH, WEB

9.0-9.9

BEN, JBH, PPT, CGC, WEB, CTD, PLS, BGA

In: JBH, CGC, WEB, PPT, PLS   Out: NCZ, SUL

8.0-8.9%

NXT, SUL, BOQ, CUV, BKL

In: SUL, BOQ Out: PPT, PLS

7.0-7.9%

MYR, HVN, IVC, DMP

Out: BOQ, KGN

6.0-6.9%

BIN, A2M, SGM, NUF, KGN, MYX, RSG, HUB

In: KGN, MYX, RSG

5.0-5.9%

SEK, RWC, IFL, CLH, AMP, COE, BUB, FLT, CLQ, CGF, AWC, DCN, GEM

In: AMP, CGF , GEM Out: RSG, NEC, MND, CSR

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	0.7	0.6	NCM	0.9	0.8
ANZ	0.6	0.6	RIO	4.7	3.9
BHP	3.8	3.5	SCG	0.3	0.7
BXB	0.2	0.2	SUN	0.8	0.8
CBA	0.6	0.7	TCL	0.4	0.4
CSL	0.1	0.1	TLS	0.4	0.3
GMG	0.2	0.1	WBC	0.6	0.7
IAG	0.8	0.6	WES	0.4	0.6
MQG	0.4	0.3	WOW	0.7	0.5
NAB	0.6	0.6	WPL	1.2	1.0

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

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.

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

SMALL CAPS

Rural Funds Group Beefs Up Growth Outlook

Cattle in, poultry out as Rural Funds Group firms up its growth outlook, with property-related income exceeding forecasts in the first half.

-No assets materially impacted by drought or bushfire
-Deploying capital to improve productivity
-Rental review process commencing and likely to be favourable

By Eva Brocklehurst

After a busy first half, in which Rural Funds Group ((RFF)) sold its poultry assets and acquired six cattle properties, brokers assess the outlook is firming up well. The net impact of transactions undertaken during the first half have improved both the growth outlook and tenant covenants.

Related party conflicts are reduced along with associated market concerns. Moreover, no assets have been materially affected by drought or bushfire, which provides confidence in the company's agricultural investments.

First half revenue was up 18% to $38m, while the distribution was in line with Bell Potter's expectations at 5.42c. Distribution guidance for FY20 is 10.85c per unit, rising to 11.28c in FY21. Property-related income rose 20% and exceeded forecasts, while net debt fell.

The broker points out, since 2016, Rural Funds Group has invested around $268m in the cotton and cattle sector and is intent on deploying capital to improve the productive capability of the assets. Bell Potter believes this should be a catalyst for further favourable revaluations and rental reviews commencing in FY21, providing **a five-year tail in rental income growth**.

There is also an upcoming meeting of shareholders to approve an extension to the J&F guarantee, to $100m. If approved, Bell Potter suggests adjusted free funds from operations (AFFO) in FY20 are likely to lift around 5% to 14.2c per unit. AFFO guidance for FY20 is currently 13.5c per unit.

Cash conversion pleased Wilsons, along with the revaluations, and with positive rent reviews validate the longer-term appeal of moving capital into cattle and out of poultry. Positive revaluations were received for macadamia orchards and cattle properties during the first half.

Productivity improvements were much in evidence, as the company booked a revaluation gain on the Natal cattle property aggregation with an implied value uplift of around 17%. This was broadly consistent, Wilsons observes, with that achieved on the Rewan cattle property in June 2019. The broker makes modest upgrades to forecasts and retains an Overweight rating with a target of $2.19.

Gearing is 26.4%, with sufficient capacity to settle remaining acquisitions and explore future opportunities, UBS observes. The broker, with a Buy rating and $2.30 target, adjusts estimates downward by -4-6% for FY20-22 to reflect the sale of the poultry assets, offset to some extent by the cattle acquisitions.

The company, a listed agricultural real estate investment trust (A-REITs), has a portfolio of almond orchards, vineyards, cattle, cotton and macadamia assets. Bell Potter, which has a Buy rating and $2.38 target, notes the assets are some of the most productive in the industry and boast high-quality tenants including Treasury Wine ((TWE)), Select Harvests ((SHV)) and Australian Agricultural Co ((AAC)).

Caveat: So as not to be unfair to analysts, note that above ratings and targets were set prior to this week's stock market washout and thus may be subject to review, albeit fundamentals should remain unchanged at this point.

SMALL CAPS

Senex Energy Moves To Calm Investor Nerves

Senex Energy, having been battered along with other energy stocks, has decided to point out how well its operations are performing and, in doing so, calm investor nerves.

-Well reductions enable lower capital expenditure and operating expenses
-Hedging substantially de-risks exposure to commodity prices
-Outlook for more stable cash flow as the CSG asset ramps up

By Eva Brocklehurst

Despite the current turmoil, Senex Energy ((SXY)) shines brightly among energy sector stocks as key developments are nearing plateau production, forecast for FY22. A large proportion of its future production is gas, and the company has limited exposure to the volatility in benchmark commodity prices because of its fixed-price contracts.

Nevertheless, the stock has been battered so the company took the opportunity to show how operations are performing and, in doing so, calm investor nerves. With well performance ahead of expectations this has positive implications for capital expenditure and operating expenses.

Ord Minnett points out the impact from lower sustaining capital expenditure more than offsets reduced near-term earnings forecasts. One of the concerns the broker had was the quality of the Queensland assets, but better-than-expected sub-surface performance has meant a reduction in the number of wells needed to fill both the Roma North and Atlas compression plants.

Roma North has now achieved 16 TJ/day, exceeding the company's forecasts. Production at Atlas and Roma North has outperformed, allowing the drilling campaign to be reduced to 50 wells at Atlas from the original 60 and 35 at Roma North from the original 50.

The reduction in wells is partly offset by increased capital expenditure on water treatment facilities. All up, the company expects a -$15m reduction in Surat Basin capital expenditure. **Production growth from Atlas will**

reduce earnings leverage to oil prices in favour of term supply agreements into the east coast domestic gas market.

Of the company's FY22 guidance for more than 3.6mmboe Atlas is expected to account for around 2mmboe. Management has signalled peak debt will occur in the September quarter and once the assets achieve full production free cash flow should be $100-110m.

Ord Minnett considers the stock extremely attractive at current prices and the free cash flow estimates also imply a 33-37% yield. Hence, the broker upgrades to Buy.

Canaccord Genuity, not one of the seven stockbrokers monitored daily on the FNArena database, also has a Buy rating with a $0.47 target. The broker considers the stock cheap, although notes in the current environment investors appear to be erring towards those that are generating cash flow now with higher levels of earnings certainty.

Canaccord Genuity also notes the company has raised the potential for capital management post completion of the Surat Basin gas developments, although it intends to pursue growth in brownfield operations before doing so. In the second half details of the potential expansion at Roma North by 8TJ/day are expected to be finalised.

De-Risked

Citi also upgrades to Buy, believing the stock has materially de-risked, and suggests the share price is now inferring assumptions that do not add up. The base business valuation appears to be at a 40% premium to the last closing share price.

Citi explains that typical project finance will not have the usual covenants applied until a project is completed and monetising the debt. Yet, because of hedging, even if oil prices were US$20/bbl, the ramp up of cash flow from Atlas means Senex Energy can still cover its FY20 and FY21 expenditure.

Morgan Stanley calculates that at US$50/bbl oil the free cash flow yield for Senex Energy will approximate 9-10%, increasing to 13-14% at US$60/bbl. Importantly, the length of the reserve position is long, at around 20 years once production reaches full capacity.

The main risk is the portion of gas that is yet to be contracted at Atlas. The company has indicated that around 40% of Surat Basin gas is uncontracted in 2022. Still, Morgan Stanley expects prices will remain healthy, just below those contracted 12 or so months ago.

The weakness in global LNG markets is likely to feed through to lower domestic gas prices and **Morgan Stanley suspects the debate for Senex Energy will shift to the value of the gas assets from the production assessments.**

The company has highlighted breakeven at a Brent oil price of less than US$30/bbl, which includes sustaining capital expenditure. FY20 production guidance was reaffirmed at 1.8-2.0mmboe with operating earnings guidance of $40-50m provided. Net debt is expected to peak at less than $80m in the first quarter of FY21.

Bell Potter believes the recent weakness in the share price provides an "excellent" opportunity to acquire a stock with an outlook for more stable cash flow as the CSG asset ramps up.

Meanwhile, the medium-term supply of gas to Australia's east coast is challenged and the broker expects prices will be supported by term contracts. This should provide substantial earnings and growth in free cash flow over the next two years.

Bell Potter, also not one of the seven, has a Buy rating and $0.44 target. The database has six Buy ratings and the consensus target is 42.8c, signalling 104% upside to the last share price.

RUDI'S VIEWS

Bear Market Lessons And Observations

Dear time-poor reader: As yet another Bear Market announces itself, what can we learn from past experiences?

Bear Market Lessons And Observations

By Rudi Filapek-Vandyck, Editor FNArena

According to the ruling narrative, the current bull market for global equities started in March 2009, is thus almost eleven years old and it looks like it might come to an end in similar fashion as the previous bull market that started in 2003 and finished with a spectacular fall of -50% (or more) between late 2007 and early March 2009.

That narrative, however, though popular and dominant, is based upon an extremely narrow and subjective assessment of what has occurred in global financial markets over the period.

On my analysis, which I think is more accurate and useful for investors, the current Bear Market is the fourth since the really big one in 2007-2009. The first conclusion therefore should not be that something extraordinary is happening in markets today.

Central bankers might be inclined to think they have managed the post-GFC period rather splendidly, but in reality economies and financial markets have become more vulnerable to regularly re-occurring shocks.

Back in 2011 Europe was on the brink of implosion, while four years later global trade kept sliding downwards, feeding market concerns China might be facing its day of reckoning. By late 2018 an over-confident Federal Reserve was seriously underestimating the impact of its policy reversal on the US economy.

In all three cases, eventually a solution was found and the downtrend in global risk appetite reversed, allowing equities to continue their uptrend towards new all-time highs. This principle applies to every Bear Market, big and small, investors have witnessed throughout their lifetime.

In the short term, fear and confusion feed into uncertainty, which usually triggers selling, which triggers more fear and uncertainty, and thus more selling. It's not easy to separate oneself from the psychological impact that a panicked run-for-the-hills, sell-everything reflex has, like the one we are experiencing on Monday.

The question on every investor's mind is: how long before we can resume business as usual? But that's not an easy question to answer. It entirely depends on how long the news flow will remain negative, whether central banks and governments can calm animal spirits and offer a reasonable way out of the present downtrend, but also whether the current economic slowdown might expose more weaknesses.

In the latter regard it is worth reminding investors the high yield corporate bond market in the US comprises of lower quality balance sheets in the mid-cap and small cap oil and gas sector. Now that OPEC and Russia have abandoned their joint production limit agreement, causing crude oil prices to collapse, with further downside seen by sector analysts, scenarios of mass-defaults on US corporate junk bonds are once again a real and tangible threat.

It is for this same reason the energy sector was the worst performing in early 2016 and it is back into that same position this time around. Santos ((STO)), in the Australian context, is not an iddly piddly micro-cap explorer/producer but on Monday its share price is trading down in excess of -25% on the day, taking total losses since mid-January close to -45%.

To add to the sector's misery, Oil Search ((OSH) shares lost -35% off their value. Karoon Energy ((KAR)) lost close to -47%. On. The. Day.

While commentators elsewhere are pointing out cheaper oil prices are beneficial to consumers of fossil fuel, and thus possibly part of the ultimate solution/recovery, the danger is that troubles inside the high yielding corporate debt market in the US flow on to much bigger problems for lenders and (lower quality) corporate credit in general, just like sub-prime mortgages and related derivatives did back in 2008.

In other words: while markets will remain eagle-eyed on statistics and further developments regarding covid-19 in China and elsewhere, this year's problems have already well-exceeded the question whether and when the world will be able to contain this new virus spreading.

The core question now is whether investors should prepare for a recession, whether such a recession might be short and mild, and whether this economic slowdown triggers deeper problems inside the global financial system.

One wise and experienced market commentator once pointed out that in the moment of extreme duress, our minds tend to focus on worst case scenarios, while such scenarios have a habit of not materialising.

That may well be true, and certainly the experiences with Bear Markets in 2011, 2015 and 2018 underlines such observation, it is also true that sometimes a bad situation can become a lot worse before a recovery announces itself.

That certainly was the case in 2007 when initial problems started accumulating throughout the year, but financial markets only started selling off in a violent manner from January 2008 onwards, and the continuous slide downwards would not stop until after the first week of March 2009.

(Admittedly, there also was a brief flash-crash in mid-2007).

<u>Lessons To Remember</u>

So are there any lessons investors can draw from the three previous Bear Markets?

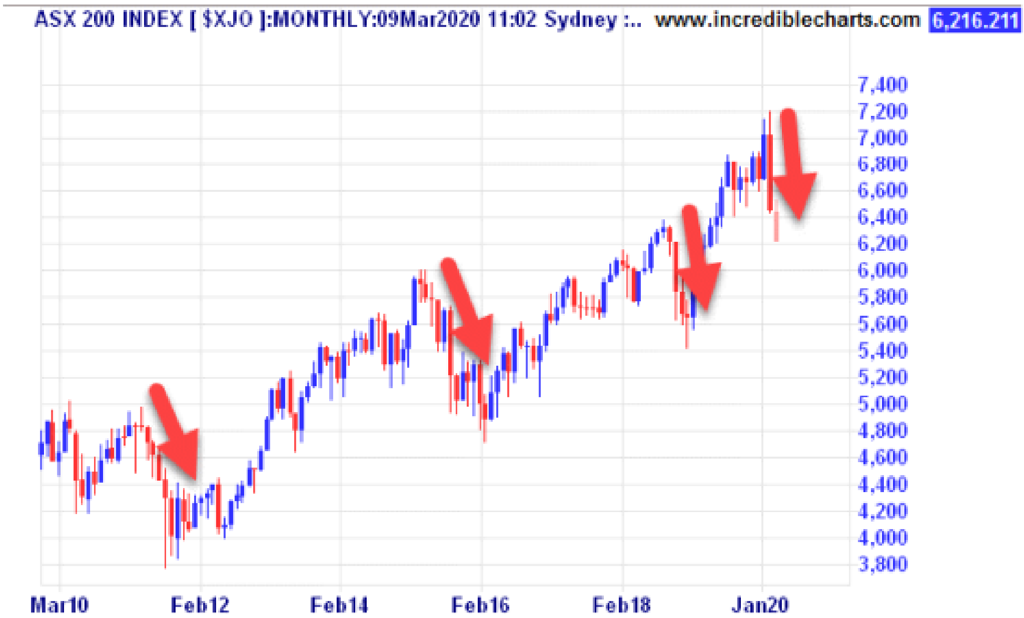
Lesson number one appears to be that **impatience now is every investor's worst enemy**. The Bear Market that started in 2011 continued to pull share markets lower for seven consecutive months without respite. The chart below shows three downward pointing arrows for each Bear Market period, including the present downturn which represents the fourth on the far right.

The bars shown are monthly share indices performances which is a wonderful way to show the bigger trend without getting lost in day-to-day volatility. Of course, share prices went up as well as down throughout those seven months, but at the end of each successive month they traded at a lower level than at the beginning of each month.

Such is the nature of Bear Markets. By the time they end, impatient investors have long thrown in the towel.

Not quite sure whether the second Bear Market of 2015-early 2016 has a more optimistic story to tell. Judging from the chart below, it can be argued this particular Bear Market lasted for twelve months, during which only three months managed to generate a positive performance (bars in blue).

In 2018, the final four months of the calendar year pushed equity prices lower and lower, until the Federal Reserve got the message.



Equally important to remember is that every Bear Market has **times of indiscriminate selling**; days when nothing seems to be worth anything, and everything that is listed goes out with the bathwater. But Quality and defensive qualifications will rise to the surface. That even happened during the Bear Market of 2008-2009.

For investors it is not only important to decide how much of their portfolios goes into cash to weather out the short-term turmoil and continued uncertainty, it is equally of paramount importance portfolios are re-positioned for the new reality that **earnings forecasts need to re-set lower**, potentially a lot lower.

The key message here is that **not every listed stock is equal** - see Santos et al earlier. The cardinal mistake many investors make is believing that low quality, weak and vulnerable companies are good places to hide because their share prices are already much cheaper valued than popular Quality outperformers such as Woolworths ((WOW)), CSL ((CSL)) and ResMed ((RMD)).

It usually doesn't take long before this myth is burned and buried. Take Myer ((MYR)) for example. Its share price weakened from 65c to 35c between the release of FY19 financials in September last year and last week's interim report. After that interim report the share price has fallen to 27c, widening the losses for loyal shareholders since September from -46% to -58.5%.

This might be as opportune as any other time to remind investors of that old share market joke: what's a stock that has fallen by -90%?

That's a stock that first fell by -80%, and then halved in price.

Risks To Watch

Bear Markets show no mercy with any form of weakness or vulnerabilities, as such:

-**small cap companies** are more exposed to funds outflows than larger cap peers
-**cyclicals** and other companies leveraged to economic growth are more vulnerable than utilities, infrastructure owners and healthcare services providers
-absolute no-nos include **weak balance sheets** (too much debt) and unprofitable business models, in particular if there is a chance a company might need to raise additional capital

Post the recent February reporting season there is extra incentive for continued selling of stocks in companies that heavily disappointed. See Myer. See AMA Group ((AMA)). See Amaysim Australia ((AYS)). See Citadel Group ((CGL)), and many others.

Investors have been quick in selling out of airlines, hotels, airports, travel agents and tourism operators on the back of consumers changing attitude and spending as the spreading virus triggers panic, but investors would be wise to also focus on which companies will be disadvantaged by **further interest rate cuts** as central bankers are likely to continue pushing on a string in order to prevent worst case scenarios.

The first sector that comes to mind are Australian banks. Not only is the RBA likely to deliver at least one more rate cut, it is but logical to expect bad debts will start rising. Other companies disadvantaged by lower interest rates and bond yields include platform operators such as Netwealth Group ((NWL)) and Hub24 ((HUB)), as well as Computershare ((CPU)).

The one good thing that might come out of the current crisis (because that's what we are in) is that governments around the world will finally have to step in and abandon their policy of leaving everything to central banks.

Whether such interventions will prove timely and efficient, only time will tell, but judging from Monday's price action, markets are making it abundantly clear no government can continue to sit on the sidelines with empty promises and no real fiscal action or targeted stimulus.

Reading all of the above, many an investor must be wondering why bother? Might as well sell everything and see what happens next from the sideline.

The reality is such a move always looks like the correct one when markets push lower in an indiscriminate and significant manner, but volatility works both ways. Markets might not necessarily remain in lock-step with negative news flow.

Anecdotal evidence suggests many investors who sold out of equities in late 2018 only returned by late last year, and unless they sold out quickly in February, these investors missed out on dividends and the big rally last year, plus they are now underwater on their return into the market.

Harry Hindsight will tell us, it was prescient to sell everything at the start of each of the past Bear Markets, and only return once the trend started moving upwards. In practice, this is much more difficult to execute. History suggests the world will find a way out of the current bad news flow, but at the same time, things can get a lot worse first.

Hence my suggestion for investors is to **find a balance between the two opposing scenarios**. Raise cash up to a level that makes you comfortable. Stick with High Quality and Low Vulnerability in the share market. Reduce risk. Abandon bad decisions that won't come good anytime soon. And watch further developments closely. You can add gold or government bonds if you want extra short-term protection, but best to stay clear from high yield US corporate debt.

Contrary to what many (bearish) traders and commentators will have you believe, there is no certain outcome from what is happening in financial markets. This is a process that needs to run its course.

At the same time, let's not be naive about what is happening. Back in 2007, the real problem was hiding in ninja home loans (no income, no job & no assets) and fraudulent sales practices by virtually all American lenders and investment banks.

We don't know yet what might come out of the woodwork this time around. Then again, nothing such sinister appeared from left field in either 2011-12 or 2015-16 or the final four months of 2018.

Always difficult to predict when or what weakness in the system will reveal itself, or if it does at all. Whatever you do, don't panic. Make sure you are comfortable (as good as can be).

FNArena subscribers interested in my research into **All-Weather Performers** might be pleased to know most of the High Quality performers identified on the dedicated section of the website have held up much better than your average share market exposure these past few extremely volatile weeks.

While I will continue monitoring and updating my selections, to date any changes made have been few and far between.

Looking Through The Valley Of Pain

Market stategists at **Wilsons** suggest the best strategy for investors is to focus on two types of stocks in the share market:

-Great Businesses One Should Own
-Companies that are likely to recover relatively quickly from initial covid-19 impact

As one would expect, the first selection by Wilsons carries significant overlap with my own research into All-Weather Stocks. As such, Wilsons has selected CSL, Cochlear ((COH)), Breville Group ((BRG)), Nick Scali ((NCK)), ARB Corp ((ARB)), Collins Foods ((CKF)), TechnologyOne ((TNE)), Xero ((XRO)), Seek ((SEK)), Carsales

((CAR)), Iress ((IRE)), Monadelphous Group ((MND)), BHP Group ((BHP)), Rio Tinto ((RIO)), Orica ((ORI)), JB Hi-Fi ((JBH)), Premier Investments ((PMV)), Super Retail Group ((SUL)), Woolworths ((WOW)), Wesfarmers ((WES)), Macquarie Group ((MQG)), and CommBank ((CBA)).

The second basket of stocks, consisting of companies that should recover shortly after the covid-19 virus impact is subsiding, consists of Webjet ((WEB)), Flight Centre ((FLT)), Qantas ((QAN)), WiseTech Global ((WTC)), Woodside Petroleum ((WPL)), Star Entertainment Group ((SGR)), Qube Holdings ((QUB)), Crown Resorts ((CWN)), Treasury Wine Estates ((TWE)), Santos ((STO)), Sky City Entertainment ((SKC)), Tabcorp Holdings ((TAH)), Cochlear, Fortescue Metals ((FMG)), Ansell ((ANN)), Rio Tinto, Sydney Airport ((SYD)), OZ Minerals ((OZL)), Auckland International Airport ((AIA)), Seek, and Vicinity Centres ((VCX)).

Market strategists at **stockbroker Morgans** made the brave call the Australian share market should be close to finding a bottom, with prices likely to whip around for a while in line with further covid-19 newsflow.

Morgans has updated its list of Best Ideas; stocks investors should be looking to pick up on a sustained pullback. This list consists of Telstra ((TLS)), Macquarie Group, Westpac ((WBC)), Sonic Healthcare ((SHL)), Sydney Airport, Transurban Group ((TCL)), APA Group ((APA)), JB Hi-Fi, and Coca-Cola Amatil ((CCL)) among large caps,

Among Quality large and midcap names, Morgans likes Aristocrat Leisure ((ALL)), Domino's Pizza ((DMP)), Magellan Financial Group ((MFG)), ResMed, and Bapcor ((BAP)).

The list also contains a selection of Key Value Picks; Aurizon Holdings ((AZJ)), Beach Energy ((BPT)), Origin Energy ((ORG)), and OZ Minerals.

Market strategists at **UBS** recently identified five groups of stocks they think should be front of mind for today's investor in the Australian share market; Defensive Growth, Income, Offshore Earners, Housing, and Mining Services.

-Defensive Growth. Most preferred are CSL, a2 Milk ((A2M)), Goodman Group ((GMG)), and Nanosonics ((NAN))

-Income. Most preferred are Dexus Property ((DXS)), Tabcorp Holdings, AusNet Services ((AST)), and Telstra.

-Housing. Most preferred are Webjet, Flight Centre, James Hardie ((JHX)), CSR ((CSR)), and Harvey Norman ((HVN)). The selection of Webjet and Flight Centre is not an error. UBS clearly sees them as beneficiaries of a housing-led recovery in Australia.

-Offshore Earners. Most preferred are James Hardie, Appen ((APX)), CSL, and Aristocrat Leisure.

-Mining Services. Most preferred are Worley ((WOR)), Perenti Global ((PRN)), NRW Holdings ((NWH)), and Monadelphous Group.

Part Two of this week's Weekly Insights will be closing off the February reporting season observations and conclusions, on top of further Conviction Calls updates. It will be published on Friday morning as Rudi's View.

(This story was written on Monday 9th March, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

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- 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.
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RUDI'S VIEWS

Rudi's View: Are You Sleeping At Night?

Dear time-poor reader: as global equities are experiencing their toughest time since 1987, let's all hope this doesn't turn into a repeat of the 1930s

By Rudi Filapek-Vandyck, Editor FNArena

One week ago, Gerry Harvey, founder of retailer Harvey Norman, reportedly instructed his stockbroker to invest $15m in 15 ASX-listed stocks, including the Big Four banks, BHP Group, Rio Tinto, Woodside Petroleum, as well as the retail company he still runs in close cooperation with his wife.

Within a few days, the $15m investment was worth -$1.5m less, and it would be worth even less today. Like every other investor who makes a decision that turns out ill-timed amidst extreme share market turmoil, Gerry Harvey is seeking solace in the knowledge he doesn't need the money tomorrow, and he has a long-term view.

According to the most recent AFR Rich List, Harvey's net worth is about $1.9bn. Most of us don't have a spare $15m, and we certainly cannot stomach a quick loss of -$1.5m, and counting.

Which is why the savviest advice to investors during any Bear Market -brief or long, shallow or sharp- is to make sure you are comfortable enough with your portfolio so you can still sleep at night and are not at risk of blowing up your career or family fortune. Nobody needs to be 100% invested at all times, but sitting 100% in cash might not be suitable either.

The "can I sleep at night" factor should never be underestimated. On Monday, I wrote there have been four Bear Markets post-GFC and while none of the three before the present one came anywhere near the length and the severity of the 2008 carnage, they all had in common that on some days, at times on successive days, literally nothing is guaranteeing your capital won't shrink.

Not gold. Not government bonds. Certainly not bitcoin. Only cash. Cash generates no income and no return (to speak of) but at least it doesn't depreciate by double digit percentage in front of our eyes, triggering responses on social media and headlines through financial media that have the ability to significantly impact on the necessary good night's sleep.

In the midst of sharply falling share prices, it is extremely difficult not to be affected, and this applies even more when it is your own money that is at stake. So rule number one is to remain as comfortable as one can be given the circumstances. If this means you'll be joining others in selling parts of the portfolio, so be it.

The shortest of the three previous Bear Markets consisted of four months of relentless selling in late 2018. And while some might have forgotten the severity of the selling that occurred back then, it was no different from what is happening in global equities today. Again, on Monday I wrote these Bear Markets last for as long as until authorities find a solution to stop the downward spiral.

Investors around the globe had become accustomed to the fact that central banks had turned themselves into the cavalry that comes galloping over the hill whenever the financial or economic situation turns precarious, but that won't work this time around. This time we need to see governments use their clout and their influence to stop the world economy grinding to a halt.

Earlier this week, I have to admit, I was still relatively comfortable with what had been happening in global markets because it was clear the necessary governmental response was forthcoming, on top of the fact that central banks will not stop cutting interest rates, including here in Australia, where Quantitative Easing, or QE, is becoming inevitable, so it seems.

The alternative acronym for QE in Australia is YCC, which stands for yield curve control which is essentially what all and sundry predicts will be the next step in the RBA toolbox; communicating with the bond market where it would like to see bonds trade at.

I am by no means suggesting governments in Europe, the US and in Australia will solve this problem quickly and we can all forget about it and continue with our lives, but at the very least, I thought, it might stop the relentless selling. As long as investors can have a reasonable level of confidence that we can avert worst case scenarios, for now.

Unfortunately, as I am writing these sentences on Thursday, it is clear that disappointment has overtaken market sentiment once again. It would appear some politicians have a much better understanding about what needs to happen than others.

Australia Got The Message

Let's start with the positive news first. The Morrison government has detailed a financial stimulus package roughly of the size of the Rudd stimulus back in 2008 (step one, when measured against the respective sizes of the domestic economy back then and today) and it is aimed at those who need it most; small businesses in strife and vulnerable consumers in distress. If it works, it'll keep Australia's unemployment numbers from shooting up (see apprentices, etc), while assisting small businesses with staying in business (the ATO is in on the act too).

With a healthy dose of luck, it might yet prevent a second consecutive quarter of negative GDP growth. The latter is being described as a technical recession by economists. It's the one event that Australia hasn't experienced since 1991; 29 years ago.

Note how I wrote "a second consecutive quarter of negative growth". Just about everyone is convinced the current quarter will print negative growth in Australia.

The second positive characteristic about the Morrison government's initiative is that it will be complemented by state governments putting in their own, additional effort. The third positive factor is the RBA is not going to stop trying either. Fourthly, and probably the most important factor for investors is that this will only be step one in the federal government's "keep Australia in business" program. By mid-year, as the world has hopefully put premium anxiety about covid-19 behind it, there will most certainly be a step two program aimed at reinvigorating economy-wide spending.

In effect, the Australian government's plan of action has a lot in common with the coordinated policy-response announced less than 24 hours earlier in the UK where the Bank of England cut rates by -50bp to 0.25% while the British government launched a package that includes unlimited funds for the healthcare sector to deal with covid-19, alongside a dedicated credit scheme for small businesses (SMEs) and households.

The government led by Boris Johnson opted for a stronger response to the crisis with fiscal measures and increased liquidity estimated at 16.5% of UK GDP. According to economists, the program will probably prove growth neutral, but it will provide a significant buffer to the British economy, and that should, in return, help to sooth market anxiety. New Zealand did the right thing too, and early.

It is clear behind the scenes G7 countries are coordinating efforts in order to address the broadening global crisis. The European Central Bank is expected to be in on the act as well. As is China.

Unfortunately, the disappointment du jour came from the US where germaphobe and self-declared genius President Trump announced a rather lightweight response to the crisis, which might actually depress economic activity more as a result of the 30 days travel ban slapped on Europe ex-UK. Not what markets were hoping to hear, and unfortunately disappointment from the US is outweighing any potential positives from elsewhere.

<u>The Situation Can Get A Lot Uglier</u>

Irrespective of short-term tribulations, investors should not underestimate the shift in global sentiment that is happening this month. What started off as a panicked response to an emerging pandemic, with many having a laugh about supermarket crowds going nuts hoarding toilet paper and hand sanitisers, has now led to investors and analysts zooming in on the global economic impact.

The immediate result is that, all of a sudden, the word "recession" has made a sharp come back. A **global recession** (irrespective of the exact methodology behind the term) is now seen by many as a near certainty. For investors, the key thing to understand is that such a recession is not yet priced in equity markets and corporate credit.

Even so, a recession can still be quick and shallow, instead of long and nasty as we experienced back in 2008. I would argue a coordinated response from central banks and governments from key economies can tip the odds in favour of the first scenario, but as the Trump administration showed on Thursday, there is no such thing as a guarantee in life, let alone during a Bear Market for global equities.

Incidentally, global suspicion is growing the US administration is simply not well-prepared to deal with this pandemic, and this feeds into fear the situation in the world's largest economy might yet get a lot worse.

What equity investors are grappling with (apart from sheer panicked selling) is the uncertainty about corporate earnings, both locally and overseas. The February reporting season in Australia showed the majority of ASX-listed businesses are struggling to find momentum, in best cases, or barely keeping it together in most cases. Add covid-19 and what will we end up with?

The dilemma for Australian investors is not made any easier since many portfolios are stacked with high dividend paying stocks, which might be about to reveal their weakness during economic duress. Cue G8 Education. Cue Southern Cross Media. Cue Scentre Group. Cue the Big Four Banks.

It goes without saying, weaknesses and vulnerabilities inside corporate Australia are not solely confined to high yielding stocks. Small cap miners or energy companies, biotechs with no recurring revenues, balance sheets with lots of debt and no certainty about level of earnings, technology disruptors that won't be able to maintain their high rate of growth; the list of companies best to avoid is a lot longer than for the companies that most likely will turn out just fine

And this doesn't even take into account the fact that, on days of peak anxiety, the good stocks will go down as well, while many a smaller cap stock might just get clobbered, because it's a small cap, irrespective of the company's outlook, history or credentials.

Look no further than **Wilsons Conviction Insights** if you want any evidence of the latter. Usually, the selection of stocks with High Conviction by the analysts at Wilsons is responsible for above average investment returns. Since inception, total returns per annum are running at 14.67% but in February the Portfolio of Conviction stocks deflated by no less than -18.20%.

Stocks included are EML Payments ((EML)), ReadyTech ((RDY)), Whispir ((WSP)), ARB Corp ((ARB)), Collins Foods ((CKF)), Nuchev ((NUC)), Integral Diagnostics ((IDX)), ImpediMed ((IPD)), Pacific Smiles ((PSQ)), Telix Pharmaceuticals ((TLX)), Mosaic Brands ((MOZ)), Mastermyne ((MYE)), Perenti Global ((PRN)), and Whitehaven Coal ((WHC)).

With a potential recession looming for Australia, and a number of other countries, it is imperative investors weed out as many risks and obvious vulnerabilities as possible. Saudi Arabia is again targeting the fracking industry in the US. This means lower for longer for oil and gas prices. It also means a negative flow-on impact from cheaper LNG on thermal coal.

Businesses trying to establish a successful turnaround now even have a tougher challenge at hand, with less chance of success in the medium term. The market is closed for capital raisings. Bond yields will remain even lower for (much) longer. Don't assume it will be business as usual for tourism, leisure, and international travel.

Chapter One of the How Best To Survive A Bear Market guide starts by acknowledging the world has changed. Yesterday is now in the past. Today is about not owning stocks that are about to issue a profit warning, or for which the environment has changed so dramatically they can no longer be seen as an attractive proposition.

For those relying on research from analysts to make up their mind, or to find guidance, be mindful that many an analyst is now searching for answers as well. And those forecasts and valuations from yesterday won't be necessarily updated tomorrow.

If you are a paying subscriber, I'd still recommend you read The Australian Broker Call Report every day, while keeping in mind that no recession has been embedded in forecasts as yet, plus a price share that looks too cheap will attract Buy ratings, but it doesn't mean it's an investment you need anytime soon.

A few facts that attracted my attention this week:

-Medical app developer ResApp Health ((RAP)) received a 'no' from the US FDA and its share price target from stockbroker Morgans has now tanked to 8.6c. That's exactly where the share price is at, having been at 40c in October last year;

-Shares in Computershare ((CPU)) tanked from $18 to $10 and with the company issuing a profit warning, analysts revised price targets are essentially following the share price down;

-Shares in Webjet ((WEB)) lost an additional -19.65% on Thursday after the company issued a profit warning and with the US administration banning European travelers. Prior to that, the share price had lost -50% in less than one month;

-Amcor ((AMC)) shares have become the latest target of an offshore shorter, Spruce Point Capital

Equally noteworthy, I think, is the fact that analysts at Citi predict global earnings estimates have to come down to circa -10% year-on-year for 2020 (from neutral now for many countries).

The positive news is that those same analysts have revised targets for most share markets that indicate shares are offering positive returns between now and year-end. Having said so, Citi does not exclude entry levels can potentially go lower, still.

As one would expect, forecasts in cyclicals, especially Energy, Materials and Financials, look most at risk.

This week saw truly extraordinary market moves in Australia with local indices tanking in excess of -7% on both Monday and Thursday, on extraordinary high volumes too. While it may not seem to be making a difference on the day itself, investors who own High Quality performers that are unlikely to issue a profit warning next will be duly rewarded by the time the blind panic has run its course.

Unfortunately, there is no set timing for these processes, and in the meantime we can all distinguish investors that are less worried from others. The first group has a larger proportion of the portfolio sitting in cash.

This will become even more apparent after European markets and US equities had a true wash out the night after Trump's address to the US nation.

Paid subscribers have access to my research into All-Weather Performers via a dedicated section on the website: https://www.fnarena.com/index.php/analysis-data/all-weather-stocks/

See also:

-Bear Market Lessons And Observations https://www.fnarena.com/index.php/2020/03/12/bear-market-lessons-and-observations/
-Lose The Losers, Back The Winners
https://www.fnarena.com/index.php/2020/03/05/lose-the-losers-back-the-winners/

On Thursday afternoon, **UBS** made a **technical recession for Australia** now its base case assumption. On UBS's projections, global GDP will sink to -1.9% annualised in the March quarter (Q1), with further downside risks seen if covid-19 does not stabilise over the next 4-6 weeks. If the latter proves to be the case, global GDP can jump back sharply to a decade high 4.5% in GDP in the June quarter.

For Australia, Q1 and Q2 are forecast to print negative GDP of respectively -0.5% and -0.2%. The latter would translate into 0.4% year-on-year which will be the weakest performance on record over the past 29 years. If the lucky country retains its label, growth can recover in H2. Otherwise, a slower recovery should be assumed.

Equally important is that UBS expects households will largely save the government stimulus initially, which means overall consumption will weaken further despite the government anticipating otherwise.

P.S. Now we have been reminded why your average real estate investor has a natural dislike for the share market

(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.)

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