WEEK 35

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Friday, 27 August 2021

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AUSTRALIA

Labour Pressures Weigh On NRW Holdings

Alleviation of labour cost pressures, as projects shift from iron ore to new projects, plus a growing order book bode well for NRW Holdings, but broker's note labour market tightness lingers

-NRW trades at a major discount to peers
-Increased wage & equipment costs could weigh on near-term margins
-Earning guidance points to a recovery in margins across civil division
-Shift in contract mix and geography to alleviate labour pressure

By Mark Story

Given that the covid pandemic significantly impacted NRW Holding's ((NWH)) throughout the financial year, the market was quick to show its recognition of what was a stronger-than-expected FY21 by nudging the share price over 13% higher.

What was particularly pleasing to the market, notes Canaccord Genuity, who maintains a Buy rating on NRW, was the **company's ability to retain margins in the face of resource availability and labour cost pressures.** While margins were a shade lower than expected due to the integration process, the minerals, energy & technologies (MET) segment was boosted by the Primero acquisition which has hit the ground running.

A key takeaway from NRW's financial performance metrics, notes Canaccord, is the expectation for gross cash conversion, which was soft in FY21, to recover close to 100% in FY22. NRW is carrying $68m in claims, however, the company noted that claims currently submitted are much higher.

Interestingly, the broker believes this implies that the company booked the costs but less revenue than it intended in FY21. What this essentially means, adds Canaccord, is that margins were potentially artificially lowered. While $75m of claims were agreed and paid in FY21, the broker expects some claims to unwind, and notes growth will still require some working capital investment.

Despite the challenges NRW faced during the year, the diversified contracting service provider posted FY21 revenue and earnings up 11.5% and 6.7% on FY20 respectively. Operating cash flow of $147.4m was 9% ahead of Macquarie's forecasts which delivered a 17% beat in free cash flow of $69.5m in the period.

Equally encouraging, NRW provided FY22 revenue guidance of $2.4-2.5bn, and earnings guidance of $145-155m –excluding the Primero uplift -- which Macquarie notes imply earnings margins of around 6.0% in FY22, above FY21, and highlighting alleviation of some cost pressures.

After incorporating the FY21 result and FY22 guidance, Macquarie has modestly decreased earnings per share forecasts -2-4% for FY22 and beyond. Macquarie's earnings forecasts are below consensus for FY21-23. **The broker expects lower margins due to increased wage and equipment costs over the next three-year period.**

But based on bullish margin indications and guidance above Canaccord's estimates, the broker has increased earnings forecast by 14% in FY22/FY23.

Labour constraints

Equally important, UBS, which has a Buy rating on NRW (target price $2.40), believes FY22 **earnings guidance of $145-155m confirms the recovery in margins across civil,** which experienced a sharper-than-expected decline, as labour headwinds reduce.

Due to border restrictions, the access to workforce was severely constrained, with 30% of its WA personal typically sourced from the east coast or overseas. As a result, the company witnessed the highest level of staff turnover in first half FY21 than it has seen at any time historically.

On project rollover, the Pilbara workforce has declined from 3,000 to 900 year-on-year. Due to these wage and cost pressures, **earnings margins decreased from 6.8% in FY20 to 5.2% in FY21.**

While labour challenges haven't gone away, Moelis, which has a Buy rating on NRW (target price $3.10), believes a shift in contract mix and geography should alleviate some pressure.

The broker notes NRW's mix of work and labour requirements is shifting away from hotspots like the Pilbara - due to iron ore project completions - and more towards new projects (like Strandline), and mining work with more stable workforces (like Karara) and alliance-style contracts.

Given that reported labour and mobility challenges have arguably deteriorated since Moelis last published estimates in February, the broker views last week's result as a strong outcome. The broker notes despite the recent share price reaction, NRW is still trading on 6.5x EV/FY22 earnings, a 28% discount to its peer average of 9x.

Strong pipeline

Overall, Macquarie believes the company's acquisition of Primero Group in March, and the installation of pit crushing and conveying solutions - to reduce its carbon emissions by at least 75% - add to the positive outlook for the company.

NRW's order book at the end of FY21 totalled $3.4bn, and the broker expects this to grow to at least $4.4bn on conversion of the Curragh extension letter of intent valued at $1.0-1.4bn, to work to at least 2026.

NRW has also stated that its tender pipeline of $14.5bn, up from $12.9bn in the previous period, remains strong and the recent conversion of tender to orders has been 50%.

While NRW is highly leveraged to iron ore capital spend and infrastructure spend - both of which have significant current tailwinds - UBS expects this to be offset by increased civil infrastructure capability and a healthy level of replacement capex projects from both Rio Tinto ((RIO)) and BHP Group ((BHP)).

Canaccord also expects the next phase of iron ore sustaining capex to provide a boost during 2022.

On the mining front, NRW has stated that the $700m, 5-year Karara project will require $170m in capex - $140m in FY22 and $30m in FY23. The Karara contract is scheduled to commence in March 2022 and the broker expects it to provide $40m revenue in FY22 before an even bigger boost to FY23.

The Karara project is owned by Gindalbie Metals ((GBG)) and China's AnSteel.

Meanwhile, given that the outlook for the civil business is less clear at this stage, Jarden believes winning a greater share of this business underpins future earnings revisions. Given the longer-term nature of these projects, the broker which retains an Overweight rating on NRW (price target $2.90), suspects this may take time.

In the interim, Jarden thinks contract repricing and rise/fall clauses might be enough to offset higher wage costs, provided labour churn rates stay in line with expectations and industry labour supply experiences no further contraction.

Key risks to Jarden's positive investment view on NRW include sustained cost pressures due to labour market tightness/churn beyond contracted rates, slowing contract wins for mining or the Primero business, and industry activity moderating or civil infrastructure investment delays.

However, the broker notes NRW is confident mining earnings margins, which improved half-on-half in second half FY21, can be held into FY22.

Jarden is encouraged by the deleveraging of NRW's balance sheet and forecasts the company to move to "net cash" by FY24, provided the broker's earnings forecasts are accurate.

NRW returned a fully franked dividend of 9.0cps in FY21, and Jarden expects this to grow 37% to 12.3c in FY22 and 13.5c in FY23.

FNArena's database has two Buy ratings, and the consensus target is $2.30, suggesting a 25% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 4.9% and 5.4%.

AUSTRALIA

Firm Foundations Underpin Charter Hall

Fund manager Charter Hall remains the beneficiary of demand for logistics assets and, in a low interest-rate environment, has probably provided conservative guidance

-Strong track record, so market quickly prices in guidance upgrades
-Performance fees should be a material contributor again in FY22
-Main risk lies with a significant increase in bond yields

By Eva Brocklehurst

Fund manager Charter Hall Group ((CHC)) provided a bullish outlook for FY22, and what many brokers suspect is conservative guidance. The business remains a beneficiary of the demand for logistics assets along with low interest rates.

UBS points out Charter Hall undertakes projects that traditionally do not fit into existing fund development mandates while realising profits from the legacy Folkstone fund. The projects in focus that should deliver earnings going forward as they are de-risked include properties in Adelaide, Parramatta, Brisbane and logistics developments at Horsley Park and Bringelly.

The market quickly moved to price in guidance upgrades, as Charter Hall has a strong track record of achievement. Its market-leading position is the envy of many platforms yet, at current pricing on revised forecasts, UBS cannot justify a Buy rating and downgrades to Neutral.

The broker was most impressed with guidance, which signals more than 23% growth in earnings per security (EPS) in FY22. The main drivers are performance fees, with UBS now expecting $144m, as well as development investment income. The broker increases estimates for funds under management (FUM) by 8% and expects this will reach $72bn in FY24, factoring in diversified capital sources and a range of asset types.

Citi anticipates upside to guidance, given the potential for strong transaction activity and increases in

book values, particularly in the case of industrial or long WALE assets.

Furthermore, there are seven funds that will generate performance fees for Charter Hall in FY22. The broker forecasts earnings per share of 80.9c and expects the market will also upgrade forecasts as the year gets underway.

Credit Suisse asserts a large amount of confidence is required in backing management's track record, given Charter Hall does not disclose its target FUM amount or all-in management fee expectations for the year ahead.

Nevertheless, the broker assesses there is plenty of capital to fund turnkey acquisitions as well as developments and there is a high degree of visibility over the base earnings in FY22, noting 97.7% occupancy with a WALE of 9.1 years across the investment platform.

Sale and leaseback remains the potential driver of growth, with management indicating reductions to fees in order to grow FUM is not part of its strategy.

Finding capital partners has also not been a problem, with the main uncertainty being timing and quantum. Credit Suisse believes there is scope for continued improvement in management margin as economies of scale are achieved.

Macquarie notes, too, while several groups have flagged an intention to increase fund initiatives, Charter Hall is not observing any pressure on its fees. The main highlights for the broker in the results were the 29% growth in FY21 FUM and guidance for 23% growth in EPS.

Macquarie calculates guidance can be reached via a combination of $100m in performance fees and $4bn in acquisitions. In terms of the latter the broker forecasts $6bn, and, therefore, has higher forecasts for operating earnings per security, at 82.1c.

Performance fees are typically lumpy items yet should be a material contributor again in FY22 and Ord Minnett suggests Charter Hall's ability to deploy capital is better than other property fund managers, with notable success in sourcing sale and leaseback opportunities.

Guidance is slightly below prior forecasts yet, the broker agrees, it is typical for Charter Hall to guide conservatively and upgrade throughout the year. For FY22, Ord Minnett assumes 16% growth in FUM and continuing modest margin expansion.

Risks

In Citi's view the main risk is a significant increase in bond yields and UBS agrees the risk lies in the macro environment, rather than execution. Moreover, the outlook for performance fees has substantially improved given cap rate compression in logistics and long WALE assets.

While revenue margins could decline, this should be offset by improvement in property funds management margins. UBS forecasts, for the latter, an earnings (EBIT) margin of 68% over FY22-25.

The risk of growth slowing down is limited, in Jarden's view, and accrued performance fees could be significant. While earnings may be a little more volatile than some peers, the broker welcomes the company's tendency to book profits as they occur rather than smoothing them out.

Hence, despite the strong outperformance, Jarden, not one of the seven stockbrokers monitored daily on the FNArena database, reiterates a Buy rating and retains a $20.30 target.

Moreover, Jarden envisages 10-11% potential upside to its new target and a price/earnings discount to other fund managers. While the incentive for corporate and governments to sell assets could be limited, given the low cost of debt, the broker suspects more and more management teams will be looking for ways to crystallise value.

Macquarie observes, on the negative side, headwinds to tenant demand for office space could have implications for Charter Hall, not only in the case of property investment earnings but also valuation and acquisitions. Deployment into office has historically been a key driver of growth.

Still, the main impact from the pandemic is via shopping centre retail, and Macquarie points out, in Charter Hall's case, this segment comprises just 7% of FUM. The majority of the exposure is more defensive as well.

Morgan Stanley suggests **the challenge for Charter Hall centres on utilising the platform to capture capital deployment opportunities** as it currently has around $6.7bn of cash and undrawn debt as well as an undisclosed amount of committed and unallocated equity.

Guidance implies a pay-out ratio of just 54% in FY22 which would help ensure that gearing remains low as the business continues a capital-light approach, the broker adds.

FNArena's database has four Buy ratings and two Hold. The consensus target is $19.85, suggesting 8.5% upside to the last share price. Targets range from $18.87 (Credit Suisse) to $21.00 (Citi).

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AUSTRALIA

Niche Products To Keep Ansell On Firm Footing

What will business be like for Ansell beyond the heights of the pandemic? Demand is expected to be solid and emanate from other areas beyond PPE

-Pandemic-related demand for PPE expected to ease back
-Yet recovering industrial/surgical activity provides support
-Manufacturing issues loom for Ansell in South East Asia

By Eva Brocklehurst

A notable beneficiary of the pandemic, Ansell ((ANN)) is now contemplating what business may be like beyond covid-19, particularly in the case of protective equipment (PPE) such as single-use gloves.

FY22 guidance is for earnings per share of $1.75-1.95 implying, as Morgans asseses, net profit could be down -9% to up 2%, amid multiple risks such as supply imbalances and logistical headaches. The company is also going to undergo a change of CEO.

Nevertheless, the broker believes the re-based business has strengthened, with a much greater focus on PPE and hygiene than before the pandemic. Customers are also looking for long-term agreements and supply certainty.

Organic volumes are expected to remain solid, albeit below the unparalleled levels of FY21, while unprecedented demand for PPE is likely to slow eventually yet not fall off a cliff, the broker adds, as support shifts to other products.

Citi expects growth rates will return to more normal levels beyond FY22, anticipating a contraction of -4% in both sales and earnings in that year, while **upside risk remains if permanently high use of PPE occurs in**

some health care and industrial settings.

Ansell should be net cash by the end of FY23 and the broker expects an ungeared balance sheet beyond the pandemic will offer further upside for acquisitions or buybacks, although these are not included in forecasts.

Margin pressure is likely, Ord Minnett suggests, noting the price of gloves and PPE used during the pandemic has started to fall. The broker expects the impact will be shared between both suppliers and customers.

Yet this has been countered by a recovery in activity, particularly in developed countries, that has in turn supported industrial and surgical gloves. Production has not met demand and shortages exist in surgical gloves, even as inventory is building up in other areas.

Supply Uncertainties

Ord Minnett remains cautious about the Delta wave of coronavirus, which may require extended lockdowns in those countries where vaccination rates are lower. The focus is particularly on South East Asia, including Vietnam and Thailand.

The latest round of lockdowns in South East Asia is disrupting supply across the industry and Morgan Stanley, too, expects this should weigh on the first half results. Still, the broker believes earnings guidance remains achievable, noting the company is exhibiting confidence it can hold on to elevated profits in FY22.

Ansell believes it has mitigating strategies to allow for an expected contraction in examination/single-use gloves such as a shift to higher margin product.

Risks, such as lower demand for chemical body protection and undifferentiated single-use gloves as well as supply disruptions stemming from South East Asian manufacturing are still likely to affect the first half, Morgan Stanley points out. Freight costs and shipping delays may persist throughout FY22.

The sales trajectory of examination/single-use gloves remains difficult to predict, Citi asserts, noting many South East Asian countries that are struggling with covid outbreaks produce the bulk of single-use gloves. On the other hand, the pandemic has also increased demand from the pharmaceutical industry for Ansell's life sciences product.

Credit Suisse is cautious, expecting FY22 earnings will contain some lingering demand related to the pandemic, particularly in the case of the Delta variant, and pricing will be elevated.

The broker, despite management's confidence that earnings growth can be delivered over the medium term, forecasts FY23 earnings will be higher compared with pre-pandemic levels, supported by higher volumes and operating efficiencies, but around -20% below the peak of FY21. Earnings growth is expected to return in FY24.

Results

Unsurprisingly, the company's health care division stood out in the FY21 results with scale gained during the pandemic along with high-efficiency new manufacturing. All key segments such as examination and single-use gloves provided strong volume growth.

The healthcare segment grew 34.8% amid price increases for single-use gloves, while growth in other areas of health care was mainly about volume and appears more sustainable, Citi concludes.

The industrial segment revenue grew 7.1% as demand picked up from the global economic recovery. Ansell generally expects continued strong growth in demand, with the exception from areas that benefited from the pandemic.

Ord Minnett attributes a rapid lift in working capital in the June half to higher input costs and the building up of surplus stocks of examination gloves. The position is anticipated to unwind during coming months as supplies ease because of the production challenges.

While recognising the multiple is undemanding, Credit Suisse considers earnings uncertainty in the short term requires a Neutral rating while Morgan Stanley finds reasons to be Overweight, including a better-than-expected retention of Ansell's market position and the downside risk being isolated to examination/single-use gloves.

FNArena's database has four Buy ratings and three Hold. The consensus target is $44.03, suggesting 17.2% upside to the last share price.

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AUSTRALIA

Nanosonics Unveils Its New Product

While some brokers maintain valuation concerns, the Nanosonics share price rallied strongly on bullish revenue guidance and prospects for the launch of a new product in 2023.

-Revenue growth of 3% in FY21, while profit fell -15%
-Second half average consumables revenue rose strongly
-Potential revenue from new product to match Trophon?
-Independent review shows a rising addressable market
-Costs estimated to rise by 25% in FY22

By Mark Woodruff

Nanosonics ((NAN)) has demonstrated significant second half improvement in FY21 and momentum is expected to continue in FY22.

The company manufactures and distributes the fully automated system called trophon2 for disinfecting ultrasound probes and its associated consumables and accessories. It is also involved in the research, development and commercialisation of infection control and decontamination products.

There was a strong recovery in both capital device and consumables sales, confirming elective procedures are returning despite the ongoing pandemic. Consumable sales had been significantly affected due to restricted hospital access.

On results day, the share price responded with gusto to upgraded guidance and details of the next major product which has been much anticipated for over two years. The new Coris platform for automated endoscope cleaning is scheduled to launch in 2023.

Some features of the FY21 result included a 3% rise in revenue to $103m, while profit declined -15% to $8.6m after operating expenses increased by 9%.

There was **a 24% increase in average consumables revenue per installed device in the second half**, while the installed base itself increased by 20% in second half compared to the first. The US continues to be the major market, generating 86% of group revenues and accounting for the vast majority of the group's global installed base.

Management has guided to double digit revenue growth and a **gross margin of around 75%.**

Addressable market grows

An independent review of the ultrasound market in the US resulted in **an increase in the estimated total addressable market (TAM) to 60,000 units from 40,000.** This implies Nanosonics has a market share of 39% compared to the prior estimate of 49%.

A review of the European and rest of the world (ROW) markets has not been undertaken but is assumed by management to be understated.

Following the strong second half performance, Morgans thinks it likely that installed base growth of 2,700 to 3,000 units is a reasonable forecast moving forward. The broker increases its target price to $7.26 from $6.57 and lowers its rating to Hold from Add as a result of the recent share price rally.

Outlook

The increase in consumables revenue per device in the second half drives US$5.5m in additional revenues, estimates Bell Potter. It's expected the increased utilisation rate will continue into FY22 and is a key factor in the analyst's material upgrades to forecast revenues.

The broker, not one of the seven stockbrokers monitored daily on the FNArena database, lifts its price target to $6.35 from $4.50 and maintains its Sell rating (last close $7.00).

After costs fell short of management's guidance in FY21, management has predicted they will lift by nearly 25% in FY22 to $90m. As a result, Ord Minnett reduces its earnings forecast by -23%. This comes after operating expenses rose to a run-rate of about $82m in the final quarter of FY21.

New product

The company expects to enter the flexible endoscope re-processing market, potentially in 2023, with its new technology "Nanosonics Coris". It is a completely new approach to high level disinfection of these devices.

Bell Potter believes **the annual value of revenues in Australia, the US and Europe is likely to be at least as large as the Trophon market.**

While too early to place clear metrics on the opportunity, Ord Minnett has added 60 cents to its company valuation, given the increased certainty the product will proceed to market. The broker retains its Hold rating and increases its target price to $6.40 from $5.40.

Bell Potter agrees and lifts its price target to $6.35 from $4.50, largely because of decreased execution risk attached to the new technology platform. The broker, not one of the seven stockbrokers monitored daily on the FNArena database, retains its Sell rating in the absence of meaningful earnings growth.

Wilsons, also not one of the seven, drives home the importance of the new product by assigning $2.46 of valuation for Coris. It's thought the platform may generate $20-25m in earnings (EBITDA) after 3-5 years from the launch date.

As a result the broker raises its rating to Market-Weight from Underweight and lifts its target price to $7.18 from $4.00. This also incorporates an 18% increase in the Trophon valuation due to the aforementioned TAM upgrade and increased usage of consumables to levels at or above pre-covid.

FNArena's database has four broker ratings with one Buy ratings, two Holds and a Sell with a consensus target price of $6.24, which signals -10.9% downside to the last share price.

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AUSTRALIA

Has Reliance Worldwide's Upswing Peaked?

While the pandemic has been a net positive for Reliance Worldwide, brokers now see the longevity of the covid-related spending boost as the biggest uncertainty

-Synchronised uptrend across all 3 geographiess continues into early-August
-Macquarie revisions underpinned by forex changes
-Global plumber shortage blurred by supply chain disruptions
-Uncertainty over future growth rates

By Mark Story

While covid has added to staffing and supply chain challenges for Reliance Worldwide Corporation's ((RWC)) 15 manufacturing plants, 24 distribution hubs, and five R&D centres around the world, the delta wave has perpetuated unprecedented demand for the plumbing supplies manufacturer's products which emerged early in 2020.

A global uptick in repair and remodel (R&R) – due to more people working, resting, and playing at home -- plus new housing construction markets have arguably helped Reliance deliver a 63% increase in underlying profit to $211.9 million for the 12 months ended June 30, with sales up 15% to $1.3bn.

By segment, earnings increased 52% in the Americas – due in part to a 'winter freeze' event in Texas -- 50% in Asia Pacific, and 45% in Europe, Middle East, and Africa (EMEA), and the uptrend has continued into early-August.

Slight detractors from an otherwise quality result were the accounting for a $10.9m profit on stock and the exclusion of a $8.5m restructuring cost associated with reconfiguration of warehousing capacity in the US ($6.3m) and UK ($2.2m) from underlying results.

While the rate of growth has slowed, underlying demand remains robust, with the company achieving positive sales growth in July in all three geographies, with net sales up 9%, and up 6% on a constant currency basis.

Following a stronger than expected result in FY21 and strong underlying conditions in the company's key markets, Ord Minnett, which has a Buy on the stock (target price $7.00) has increased FY22/23 earnings forecasts by 11.7% and 12.3% respectively. With the company's three key geographies in synchronised upswing, the broker is forecasting further earnings improvements in the period.

However, while Macquarie admits the underpinnings of the market context remain solid, **the broker believes growth has now peaked**. While Macquarie believes the company is executing well in this context, the broker concludes that the stock is fairly valued and reiterates a Neutral rating (target $5.70).

Macquarie notes while FY22, FY23, and FY24 earnings per share (EPS) forecasts are up 5.9%, 3.6%, and 1.1% respectively, revisions **are largely driven by the broker's forex changes.** While Macquarie admits in the current time-pressured supply chain, Reliance could well drive conversion faster than normal, the broker still regards the broader growth headwind as hard to overcome.

The broker reminds investors that while Reliance did not provide specific FY22 guidance, **the group expects growth rates to slow significantly.**

Despite the strong FY21 result, Morgan Stanley, which has a Hold rating on the stock, (target $6.00) also expects modest growth over the next two years.

Growth outlook

While underlying indicators remain positive, UBS believes that slowing DIY, supply chain pressures, and a non-recurring FY21 one-off US$42m in freeze event benefit, means Reliance unlikely to see above-normal volume growth going forward.

Following a period of strong share performance, and a softer outlook, UBS downgrades the company to Neutral from Buy and has lowered its target price to $5.80 from $6.16.

While management expects price increases (6%) to limit margin dilution to less than 100bps despite significant cost pressure, UBS is factoring in a -150bps decline in earnings margins year-on-year.

The discrepancy, explains UBS, is based on the broker's expectation that Reliance is likely to see an uptick in selling, general and administrative expense (SG&A) in the Americas, as discretionary costs return and non-recurrence of the freeze benefit to margins in second half FY21. While UBS's long-run Americas earnings margin of 17.5% remains unchanged, the broker notes some upside risk with the spot copper price declining to US8,900/t.

Overall, UBS's FY22 net profit forecast declines -4% on lower top-line growth given non-recurrence of the freeze benefit and moderating R&R growth rates, with margins broadly unchanged at a group level.

Based on strong underlying demand, Morgans which has an Add rating on the company (target price $6.50), forecasts FY22 group net sales (in USD) to be up 4%. Morgans move earnings forecasts to USD from AUD, in line with Reliance's reporting currency from FY22 onwards, and on a like-for-like basis, the broker's FY22-24 underlying earnings estimates rise by 6%, while underlying net profit increases by 7-10%.

While not strictly visible in consensus forecasts for FY22 revenue growth, Credit Suisse observes the **potential for a large FY22 reversion to have been a key investor concern.**

But given the good operating performance and above-market growth, which Credit Suisse **contends will see Reliance re-rate to a sustainably higher multiple -** as concerns over retaining FY20 growth unwind – the broker retains an Outperform (target price $6.40) and increases its FY22 and FY23 net profit forecasts by 8%.

The broker expects a key driver of revenue growth over all three geographies to be an increase in FY22 pricing growth assumptions from 5% to 6%.

Threats and weaknesses

While Morgans sees Reliance as a high-quality business with a well-regarded management team, strong balance sheet, and solid long-term growth, the broker reminds investors the company is exposed to adverse forex movements given it operates in multiple countries.

Other vulnerabilities highlighted by Morgans include relatively high customer concentration, with the top two customers representing around 30% of group revenue, while movements in raw material prices can also impact earnings.

Macquarie notes that while trading could continue to surprise on the upside as covid dwells and drives consumer spending on homes, there's downside risk if spend is diverted faster to pre-covid endeavours.

Morgan Stanley expects any continuation of strong demand in FY22 to be partly being offset by supply constraints in the building industry. Management has noted that while there are plumber shortages in all major markets, they are currently being masked by supply chain disruptions and notably port shutdowns in China.

Management also noted that while Sydney's lockdown hadn't caused a slowdown yet, it was likely coming.

Capex/M&A

While an aggressive capex plan to boost production capacity reflects buoyant housing markets and management's confidence to meet such demand, Ord Minnett believes potential acquisitions and/or capital management could add to growth prospects.

FY22 capex increased to $81.5m versus $38.9m prior, which management indicates is 'catch-up' in an attempt to build capacity and improve efficiency to drive growth.

While management is actively looking for M&A opportunities, it noted that valuations remain high, and hence will continue to be patient and disciplined. In the absence of investment opportunities, management also suggested it will consider share buybacks, although this is not considered to be a priority.

FNArena's database has four Buy ratings, and two Holds. The consensus target is $6.29, suggesting 13.8% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 2.5% and 2.7%, respectively.

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AUSTRALIA

New Work The Catalyst For Monadelphous

Soaring labour costs and reduced productivity are currently hampering Monadelphous, yet LNG projects and the clean energy transition represent new catalysts

-Productivity hit by labour shortages in Western Australia
-Newly-secured contracts include elevated pricing
-LNG projects and clean energy transition the new catalysts

By Eva Brocklehurst

Challenges besetting Monadelphous Group ((MND)) are likely to stick around for several months despite the company being a strong services operator in the resources industry in Western Australia.

Labour challenges are affecting costs and productivity. While earnings growth of 18% was delivered in FY21 the company has run up against border restrictions and strong demand for labour in Western Australia's iron ore sector.

This has resulted in labour cost inflation and difficulties with recruitment, with a resultant drop in project productivity. Operating margins have been hit, with the second half EBITDA margin declining -90 basis points to 5.1%, a record low. Monadelphous expects revenues will be lower in FY22 as major iron ore construction projects are completed and before new contract are awarded into FY23.

Morgan Stanley suspects a timing issue is a major reason FY22 revenue is likely to be lower than FY21, as the macro environment remains supportive of longer-term growth. Investors are likely to focus on FY23 metrics in terms of valuation and set targets using this year. One of the risks is the recent pull-back in iron ore prices may start to impact activity over the medium term.

Yet, at this stage, the broker does not believe this will occur, although considers the issue worth putting on a "watch". On the other hand, activity in oil & gas is likely to gradually increase. Revenue from the oil & gas sector was subdued in FY21, albeit more than offset by the contribution from iron ore. Management provided no specific guidance other than highlighting the persistent uncertainty.

A rebound in the share price is expected, amid a clearer understanding of the step-up in FY23, back towards historical averages, at which Monadelphous has traded at a premium to peers because of a niche service offering and robust balance sheet.

UBS remains attracted to the company's leading position in the resource construction market in Western Australia yet finds the outlook subdued, and unprecedented labour shortages are resulting in uncertainty. Still, these factors appear largely priced into the stock.

Credit Suisse agrees the stock captures the near-term uncertainty around earnings and points out Monadelphous sources 40-50% of its workforce from outside Western Australia. As it is not clear when borders could re-open sustainably, higher prices have been secured for contracts, which provides some relief from rising labour costs.

The broker expects cost pressures will continue as long as traffic to and from Western Australia is impeded. On the positive side, the newly-secured contracts with elevated pricing could translate to margin expansion from the second half of FY22.

<u>Margins</u>

Credit Suisse factors in 40 basis points of earnings (EBIT) margin improvement in FY22 with momentum accelerating in the second half. As the operating environment normalises, Ord Minnett, too, finds no reasons why Monadelphous would not be able to expand margins and profitability, at which point it will trade at a higher price.

The broker has upgraded to Buy from Hold following the sell-off on the release of the results and assumes no margin improvement in FY22 along with a -16% decline in construction revenues, but believes the market is pricing in a much more negative scenario where management would be unable to recover margins.

The completion of work, priced before the pandemic, remains the impetus for more normal margins, Bell Potter asserts. Once these construction projects are completed in the first half the order book should be significantly de-risked. Subsequently, the broker forecasts a return to operating earnings (EBITDA) margins above 6% in the second half.

Still, a difficult first half is likely and the broker, not one of the seven stockbrokers monitored daily on the FNArena database, maintains a Hold rating and $11.00 target.

To Jarden there is only upside potential from what is priced into the stock currently. The broker forecasts EBITDA margins to trough in the first half, then expand to 6.2% along with cash conversion improving to 95.4% over the course of FY22.

Jarden does not envisage any difficulties for Monadelphous to cover its dividend and, also not one of the seven, retains an Overweight rating and $11.80 target.

<u>New Work</u>

The company is notably talking up oil & gas opportunities for the first time in some years, Macquarie observes. For example, the broker notes Scarborough is a US$12bn potential project for which Woodside Petroleum ((WPL)) will make a final investment decision later this year.

While Monadelphous has been a clear "loser" from the pandemic, Macquarie suggests the incorporation of elevated costs in new contracts represents a catalyst. There is also Australia's transition to clean energy as new wind farms are coming onto the market in the next few years, particularly as electrical grid access improves in NSW and Victoria.

There are also opportunities for the company in the hydrogen sector. **Even though iron ore construction work will come off peak levels there is still enough expenditure in the broker's view to sustain high levels of work.**

In June, Monadelphous announced $250m in work across the resources construction and maintenance business. New contracts include Olympic Dam smelter maintenance for BHP Group ((BHP)) and Gudai-Darri iron ore services and construction as well as new contracts in Chile for Rio Tinto ((RIO)). Heavy lifting and haulage services were also picked up from Fortescue Metals ((FMG)) at Iron Bridge.

On the negative side in the results, Monadelphous has noted a large volume of construction work is in the final stage of completion so the measure of outstanding claims has gone up. Macquarie suggests this is largely because of timing. FY21 net profit of $47m was below the broker's estimates, yet largely related to tax.

The Australian Taxation Office has notified the company that amended assessments required to facilitate a refund for R&D incentives will not be issued, and the company has lodged an objection. On the positive side, there is a substantial improvement in safety performance, Macquarie notes, while the Buildtek business in Chile is performing well.

The database has two Buy ratings and three Hold. The consensus target is $10.97, signalling 3.1% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 4.2% and 5.2%, respectively.

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 20-08-21

By Mark Woodruff

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 August 16 to Friday August 20, 2021
Total Upgrades: 14
Total Downgrades: 23
Net Ratings Breakdown: Buy 53.39%; Hold 38.67%; Sell 7.94%

For the week ending Friday 20 August, there were fourteen upgrades and twenty three downgrades to ASX-listed companies by brokers in the FNArena database.

It was surprising, in such a busy week of the reporting season, there were no material changes to price targets by brokers. There were, however, several companies which received ratings changes from two separate brokers.

Ebos Group and Netwealth Group had twin ratings upgrades while ARB Corp, Aventus Group, Baby Bunting, Brambles and Sims experienced dual downgrades. The reasoning behind these changes is available at the FNArena Corporate Results Monitor. (https://www.fnarena.com/index.php/reporting_season/)

While the link also provides commentary on those companies that experienced material changes to earnings forecasts by brokers last week in the FNArena database, the following paragraphs highlight the largest moves.

Corporate Travel Management had the largest percentage earnings upgrade last week, after revealing a strong fourth quarter. Credit Suisse can see upside to consensus FY23 earnings, an undemanding valuation, and the likelihood of more M&A, while Ord Minnett forecasts improving margins and efficiency improvements.

Macquarie, the most negative of all seven brokers that cover the stock in the FNArena database, downgraded its rating to Neutral from Outperform due to heightened risk from the delta variant, while also pointing out activity in both North America and Europe picked up in the fourth quarter, with revenue increases of 48% and 84%, respectively.

Next up was BlueScope Steel. Morgan Stanley noted an in-line FY21 result, a significantly higher dividend and a $500m buyback, but the key surprise was guidance around 50% ahead of consensus expectations. As a result, Macquarie also highlighted a strong upcoming first half and lifted FY22 and FY23 EPS estimates by 28% and 8%.

AGL Energy had the largest percentage earnings downgrades by brokers in the FNArena database last week. As mentioned in last week's article, FY22 guidance for underlying profit fell -36% short of Morgans' expectation and Morgan Stanley anticipates near-term underperformance for the stock. Meanwhile, UBS still expects margin compression as east coast gas prices are expected to rise through to FY23-24 as supply tightens.

Coming second on the list for earnings downgrades last week was Star Entertainment Group, though brokers were accentuating the positives. While FY21 results were below UBS forecasts there was continued strength in trading conditions in Queensland, which delivered a record profit. Macquarie maintained its Outperform rating and can envisage a pathway in which leverage drops below 2 times in FY23, allowing dividends to be reinstated.

Total Buy recommendations take up 53.39% of the total, versus 38.67% on Neutral/Hold, while Sell ratings account for the remaining 7.94%.

Upgrade

BEACON LIGHTING GROUP LIMITED ((BLX)) Upgrade to Add from Hold by Morgans .B/H/S: 2/0/0

FY21 results demonstrate the significant potential of the company's push into the trade market, Morgans asserts. Net profit was up 69%.

The broker suspects earnings will normalise in FY22, although not as much as consensus assumes, and then resume a positive growth trend in FY23.

Morgans transfers coverage to another analyst and upgrades to Add from Hold. Target is raised to $2.30 from $2.01.

BEACH ENERGY LIMITED ((BPT)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/0

Citi upgrades to Buy from Neutral. FY21 results beat estimates yet FY22 production guidance has disappointed the broker.

Citi believes the weakened share price has factored in the lows for FY22 without paying for what are considered quality growth prospects.

The broker reduces the target to $1.27 from $1.36.

See also BPT downgrade.

CARINDALE PROPERTY TRUST ((CDP)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 1/0/0

Carindale Property Trust's funds from operations increase beat Ord Minnett by 5.5%, assisted by a -$1m decline in property outgoings in the second half versus the first. Guidance is for a distribution increase in FY22 of at least 9% above FY21.

Carindale’s current share price implies a further -20% write-down in the value of Carindale Shopping Centre. The broker believes this is too negative for a centre that continues to perform well, with sales growth of 7.6% versus FY20 and slightly ahead of pre-covid levels.

To that end the broker upgrades to Buy from Hold. Target rises to $5.20 from $4.80.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/3/0

FY21 results were ahead of expectations from a combination of revenue and lower costs. UBS believes aspirations to grow yield by 12% over the medium term are achievable.

Listing volumes for FY22 are considered "virtually impossible" to forecasts at this stage, given the unpredictability of lockdowns and a looming federal election.

Yet the broker takes a more positive view of the medium-term outlook and upgrades to Buy from Neutral. Target is raised to $5.70 from $5.20.

EBOS GROUP LIMITED ((EBO)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0

Macquarie notes solid FY21 results, which reflected continued momentum in community pharmacy, in turn supporting earnings growth in the short to medium term.

Management provided no specific guidance but expects earnings growth in FY22, with risk caveats related to the pandemic. The broker finds earnings momentum quality supportive and upgrades to Outperform from Neutral. Target rises to NZ$35.49 from NZ$33.70.

Ebos Group posted a strong FY21 result in-line with Morgans forecasts, with the highest recorded return on capital employed (ROCE), reflected by double digit earnings growth. The broker increases its rating to Add from Hold and raises its target to $31.68 from $31.03.

Announcements were made for strategic investments/acquisitions, a pet manufacturing facility and a medical device distributor. No FY22 guidance was provided though management remained positive that growth is expected to continue.

GWA GROUP LIMITED ((GWA)) Upgrade to Add from Hold by Morgans .B/H/S: 2/2/0

GWA Group's FY21 result was ahead of Morgans and Bloomberg consensus estimates, with improvement in the balance sheet and strong operating cash flow being key highlights. The broker lifts its rating to Add from Hold and adjusts its target to $3.28 from $3.30.

Despite the result being above expectations, the analyst is more conservative on growth in FY22 due to the uncertainty around lock downs and timing of a recovery in the higher margin commercial segment. However, the balance of risks is thought to be to the upside.

Management expects continued momentum in detached housing on the back of HomeBuilder and healthy consumer sentiment. Residential/commercial repair and remodel (representing around 61% of revenue) is expected to be stable to slightly positive.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Outperform from Underperform by Credit Suisse and Upgrade to Buy from Hold by Ord Minnett.B/H/S: 3/2/0

Mostly driven by a lower-than-expected revenue margin, Netwealth Group reported FY21 net profit -2% below consensus and -3% below Credit Suisse.

The group guided to FY22 flows of around $10bn, in line with expectations.

The platform operator announced a sizeable step up in expenses in FY22 to maintain its position of leadership with differentiated tech/offerings, support new services to generate revenue, and allow the business to scale with investment in the underlying technology infrastructure.

Credit Suisse assumes 20-25% cost growth in FY22 with an additional $2m increase in lease expenses, which the broker thinks should allow the group to deliver a 53-54% earnings margin in FY22, broadly stable with second-half FY21 levels.

Credit Suisse updates Netwealth to Outperform from Underperform and the target is lowered to $15.80 from $16.50.

Ord Minnett upgrades it rating to Buy from Hold and lifts its target to $17.50 from $16. While the FY21 result was just below expectations, there's believed to be upside risk to net flow guidance and significant scope for increased organic growth.

The final dividend of 9.5cps was just below the analyst's 9.9cps forecast, while revenue was up 16.9% over the year though also below forecast. Guidance is for around $10bn of net flows in FY22, which compares to $9.8bn in FY21.

The analyst sees potential for market share gains in a rapidly changing marketplace.

OZ MINERALS LIMITED ((OZL)) Upgrade to Add from Hold by Morgans .B/H/S: 4/1/1

A larger dividend was the main surprise in the first half results. While it is clear that OZ Minerals expects to unlock value in the Prominent Hill expansion over time, Morgans still finds the project economics underwhelming at face value.

The broker upgrades to Add from Hold as a cooling of macro sentiment and a subdued response to the expansion update could crystallise an opportunity at lower prices. Target ratchets up to $24.45 from $24.44.

PACT GROUP HOLDINGS LIMITED ((PGH)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/1/1

With Pact Group restoring its packaging business, growing volume, and positioning for the future in a sustainable plastic industry based on recycling, Credit Suisse has upgraded the company to Outperform from Neutral and raised the target $4.95 from $3.65.

The broker believes the group's access to capital, large customer base (2,000+), diversified packaging formats and industry-leading output gives it an advantage in securing waste for recycled plastic resin.

Credit Suisse notes while the trading update for first-quarter demand is "good" so far, guidance was for non-prescriptive "earnings resilience", with first-quarter expecting margin reduction from higher raw material and international freight costs.

Dividend payout ratio to remain at 40% until FY25.

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

FY21 results were slightly below forecasts. Morgans decides to take a longer-term view, believing that while the worst may be yet to come, the potential in earnings and growth is strong.

The rating is upgraded to Add from Hold as earnings expectations appear to be re-based. Target is reduced to $4.83 from $4.88.

SOUTHERN CROSS MEDIA GROUP LIMITED ((SXL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/0/1

FY21 results were in line with forecasts. Macquarie notes the costs related to the pandemic have returned in FY22 although the impact will be moderated by a recovery in advertising markets. Earnings are expected to trough in FY22.

The broker considers Southern Cross Media offers a compelling income proposition and a stable exposure to advertising markets through its radio assets. Rating is upgraded to Outperform from Neutral. Target is steady at $2.10.

WEST AFRICAN RESOURCES LIMITED ((WAF)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/0/0

West African Resources has announced underground diamond drilling at the M1S mine has found strong gold intersections outside the mine plan, offering early potential for the growth of the mine according to Macquarie.

The company plans to undertake further drilling in the fourth quarter of FY21 and the second quarter of 2022 to deliver resource estimation and mine planning in 2022.

Given recent share price weakness, the rating is upgraded to Outperform and the target price of $1.15 is retained.

Downgrade

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED ((ANZ)) Downgrade to Sell from Neutral by Citi .B/H/S: 3/2/1

Citi downgrades its rating to Sell from Neutral and lowers its target price to $28 from $29.50 in the belief weak core profits are set to
drive future performance.

A sharp plunge in volatility and trading conditions in Markets is set to expose significant weaknesses in second half core profit, explains the analyst. Underlying revenue, ex Markets, has declined sharply in the last year, with elevated Markets revenues mitigating the impact.

Recent peer results suggest a sharp reversal of Markets revenues, and the broker now expect 2H21 core profit to miss consensus estimates by -9%.

ARB CORPORATION LIMITED ((ARB)) Downgrade to Underperform from Neutral by Macquarie and Downgrade to Hold from Accumulate by Ord Minnett.B/H/S: 0/3/1

Macquarie lauds the record result for FY21, with pre-tax profit up 92%. The broker believes this is a quality business with growth options yet valuation remains stretched.

Demand continues into FY22, underpinning the first half, and the broker expects this should remain elevated into the second half.

Despite revising pre-tax profit estimates to $157m for FY22, Macquarie downgrades to Underperform from Neutral. Target is raised to $44.00 from $40.10.

On further assessment of ARB Corp's result (see yesterday's entry), which beat the broker, Ord Minnett has increased its target to $48 from $45. However on recent share price performance, the broker pulls back to Hold from Accumulate.

Ord Minnett expects demand to remain strong in the near term given solid 4WD and SUV demand, reflected in a solid order book, while store network expansion and further penetration into offshore markets also provide upside.

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

FY21 net profit was slightly ahead of UBS forecasts. While ASX has an attractive diversified exchange, it still remains in the investment phase, the broker points out, with elevated costs growth relative to revenue.

As the stock has traded 20% higher since the February results, UBS downgrades to Sell from Neutral. Target is $70.

AVENTUS GROUP ((AVN)) Downgrade to Neutral from Buy by UBS and Downgrade to Neutral from Outperform by Macquarie.B/H/S: 0/5/0

FY21 results were in line with forecasts. UBS downgrades to Neutral from Buy on valuation grounds following the outperformance versus the A-REIT sector over the last 12 months.

The broker suggests growth in asset values is increasingly being priced into the portfolio. Moreover, there are income headwinds from lockdowns and higher overheads to come in FY22. Target is raised to $3.29 from $3.00.

Aventus Group posted FY21 funds from operations in line with forecast. In the current climate, no FY22 guidance was provided. That said, Macquarie notes that as of this week, 80% of the REIT's stores were trading, with 32% offering click & collect.

The broker believes Aventus' tenant base will be relatively less impacted by rent relief requirements compared to large mall peers, but is not immune, given 11% of tenants have requested rent relief.

The balance sheet stands ready for acquisitions but the problem is a lack of opportunities. With limited valuation support, and risk to discretionary spending, the broker downgrades to Neutral. Target falls to $3.30 from $3.33.

BAPCOR LIMITED ((BAP)) Downgrade to Neutral from Buy by Citi .B/H/S: 5/2/0

Citi downgrades to Neutral from Buy, envisaging few catalysts over the medium term. The broker assesses increasing risks around disruptions from the pandemic to FY22 while acquisitions appear less likely than previously anticipated.

FY21 results beat estimates and FY22 and FY23 net profit estimates are upgraded by 5% and 6%, respectively. Target is reduced to $8.24 from $9.55 as earnings changes are offset by higher net debt and increased working capital requirements.

BABY BUNTING GROUP LIMITED ((BBN)) Downgrade to Hold from Add by Morgans and Downgrade to Neutral from Buy by Citi.B/H/S: 3/2/0

In the wake of Baby Buntings' FY21 3% profit beat, Morgans downgrades its rating to Hold from Add on valuation. However, the company is considered very well positioned to further grow market share and compound growth for investors.

The broker highlights strong second half gross margin expansion comfortably offset higher opex. The analyst lowers FY22 and FY23 EPS forecasts by - 2% and reduces the target price to $6 from $6.39.

Mature store level margins now sit at 19% from 17% previously, which provides upside to the long-term group earnings (EBITDA) margin target of 10%, likely now 12%, estimates Morgans.

In the wake of FY21 results, Citi believes long-term growth prospects are still intact. Should the impacts of covid-19 continue for longer than expected, the company is considered better placed than most other listed retailers given the category's non-discretionary nature.

In the short term, the broker sees some headwinds though highlights like-for-like sales have improved into the positive since week four of the new financial year. Also, it's felt the opening of eight stores over FY22 should offset the New Zealand rollout delay.

Citi lowers its target price to $5.90 from $6.22 on forecast earnings changes and downgrades its rating to Neutral from Buy on concern the FY22 multiples don't adequately reflect the risk of covid-19 disruption.

BEACH ENERGY LIMITED ((BPT)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 4/2/0

Macquarie assesses Beach Energy's FY21 result was ahead of estimates and consensus though FY22 production guidance and outlook comments were disappointing.

Western Flank oil production declined -15-20% per quarter through FY22, which points to a longer production tail for the asset (i.e. lower value), explains the analyst. The broker lowers its rating to Neutral from Outperform.

Macquarie lowers its target price to $1.20 from $1.60 on a more cautious stance on Western Flank oil declines and Otway forward capex. The broker cautions on an upcoming elevated capex period, which carries a greater degree of execution risk.

See also BPT upgrade.

BRAMBLES LIMITED ((BXB)) Downgrade to Hold from Add by Morgans and Downgrade to Equal-weight from

Overweight by Morgan Stanley.B/H/S: 3/3/0

Morgans assesses FY21 results were largely in-line with expectations though on a constant FX basis, earnings were slightly ahead of forecasts. After forecasting a low single digit 12-month total shareholder return, the broker downgrades its rating to Hold from Add.

The analyst highlights all regions delivered margin expansion despite cost headwinds, group return on invested capital (ROIC) increased 80 bps to 17.8% and the balance sheet remains healthy. The broker's target price rises to $12.23 from $12.11.

CHEP Americas was the key highlight for the analyst with earnings (EBIT) (constant FX) up 15% on the back of pallets volume growth, increased pricing and surcharges. This more than offsets higher plant and transport costs.

Brambles FY21 result edged out the broker but Morgan Stanley urges caution, noting an imminent capital expenditure step-up and an absence of guidance.

The broker expects the company's September 13 investor day should be telling and in the meantime, cuts the target price to $12.50 from $12.90.

Rating falls from Overweight to Equal Weight. Industry view: In line.

CARSALES.COM LIMITED ((CAR)) Downgrade to Hold from Add by Morgans .B/H/S: 2/3/0

Morgans downgrades its rating to Hold from Add, after a strong recent share price run prior to yesterday's FY21 profit release, which came in at the top-end of guidance. Management pointed to a number of product initiatives to drive long-term growth.

The broker makes minor changes to near-term earnings forecasts, though larger changes in the longer term, on increased confidence in the transactional opportunities in all businesses. The price target rises to $24.03 from $20.82.

The analyst points out second half revenue growth bodes well for FY22, with the second half cost base (margins down -350bps on the first half) more reflective of a normalised cost base going forward.

CHORUS LIMITED ((CNU)) Downgrade to Sell from Neutral by UBS .B/H/S: 0/1/1

UBS notes the share price has rallied since the draft Commerce Commission regulated asset base review. UBS considers this an overreaction as it appears to be treating Chorus the same as other regulated utilities.

The broker disagrees with that assessment and also believes increased competition from wireless will constrain fibre revenue and long-term distributions. Rating is downgraded to Sell from Neutral. Target is steady at NZ$6.30.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 6/1/0

Corporate Travel Management's FY21 underlying earnings of -$7.3m were in line with Macquarie's expectations, while revenue was ahead of forecast.

Macquarie notes that activity in both North America and Europe picked up in the fourth quarter, reporting revenue increases of 48% and 84% respectively.

Despite this, due to heightened risk from the delta variant Macquarie reduces confidence in its forecasts. The broker has updated earnings per share forecasts by -14 and -1% for FY22 and FY23 respectively.

The rating is downgraded to Neutral from Outperform and the target price increases to $21.80 from $20.75.

HOMECO DAILY NEEDS REIT ((HDN)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/1/0

HomeCo's FY21 result proved broadly in-line with Ord Minnett's expectations. The reaffirmation of FY22 guidance is taken as a positive with the broker pointing out this is the only REIT to provide guidance thus far.

Guidance is for FY22 funds from operations (FFO) and DPS of 8.3cpu and 8.0cpu respectively. The broker highlights the REIT reported a portfolio valuation uplift of $47m in FY21, resulting in the NTA increasing to $1.36/unit (prior to post June 2021 acquisitions).

As the share price has approached the target, Ord Minnett has downgraded to Accumulate from Buy. The target price rises to $1.54 from $1.52.

IMDEX LIMITED ((IMD)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Despite covid-related challenges, Imdex delivered strong FY21 results, beating Macquarie expectations by 16%. Revenue was up 11% to $264m and underlying earnings were up 39% to $75.5m.

It is Macquarie's view that solid industry demand will continue accelerating into FY22. The broker notes Imdex has also reported a positive start to the new financial year, with strong demand for ImdexHub-IQ connected technologies.

Macquarie has increased earnings per share forecasts by 17% and 12% for FY22 and FY23 respectively. The rating is downgraded to Neutral and the target price increases to $2.56 from $2.10.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Neutral from Buy by Citi .B/H/S: 6/1/0

While FY21 results were ahead of estimates with record underlying net profit, Citi notes guidance for FY22 indicates a softer year ahead. FY22 group production guidance is below 2.0m ounces while Lihir is also below expectations.

Production is nevertheless expected to lift in FY23/24 while upcoming feasibility studies should provide more clarity. Citi downgrades to Neutral from Buy and lowers the target to $27 from $30.

ORORA LIMITED ((ORA)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/7/0

Results were "solid" in Citi's view. Yet, going forward, the broker observes less positive news may weigh on the stock. Particularly this involves the need to replace lost glass capacity and tougher North American growth as the business cycles the easy wins.

As the risk/reward is more balanced, the rating is downgraded to Neutral from Buy.

The broker also remains cautious about acquisitions, given the focus on adjacencies and new markets which inherently mean a lack of operating experience. Target is raised to $3.26 from $3.20.

SG FLEET GROUP LIMITED ((SGF)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

SG Fleet Group's full year results were around a -5% miss on Macquarie's expectations. New vehicle supply constraints impacted second-hand vehicle pricing and provided a boost to end-of-lease income.

However, Macquarie notes pipeline and recovery commentary is positive heading into FY22, with strong FY21 order growth moving a significant pipeline of orders into FY22. It is expected that delivery constraints will continue, causing further lengthening of the order book.

The rating is downgraded to Neutral and the target price decreases to $2.98 from $3.07.

SIMS LIMITED ((SGM)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Neutral from Buy by UBS.B/H/S: 2/4/0

Despite a sales miss in FY21, Macquarie notes Sims reported underlying earnings and net profit of $284.1m in line with the broker's expectations.

A strong outcome from SA Recycling, supported by ANZ and UK Metals, has driven the broker to update earnings per share estimates by 30.8%, 4.4% and -8.0% through to FY24.

Macquarie expects improving volume trends to continue into FY22.

The rating is downgraded to Neutral and the target price decreases to $18.20 from $19.80.

UBS found operating cash flows underwhelming although believes the company has done a good job of boosting earnings on elevated scrap prices.

There was hope Chinese demand could lead to higher global prices and volumes but the broker does not envisage any meaningful upside for Sims in FY22-FY23 from policy changes.

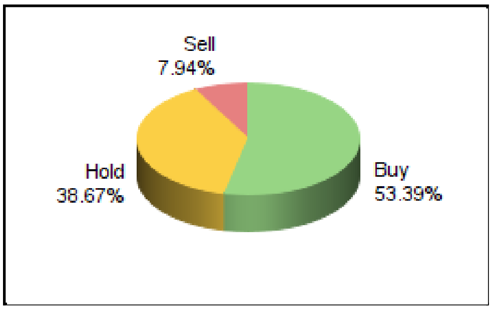
UBS downgrades to Neutral from Buy and reduces the target to $17.30 from $18.00.

VICINITY CENTRES ((VCX)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/5/1

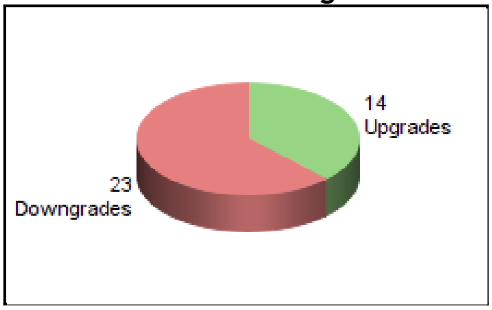
Following a re-basing of earnings and the FY21 result, Macquarie reduces medium-term expectations. In the absence of any evidence of successful execution of the strategy to grow earnings and reposition the business, the broker considers the growth outlook limited.

Moreover, Macquarie is cautious about a rebound in trading associated with a re-opening. Rating is downgraded to Neutral from Outperform and the target reduced to $1.66 from $1.70.

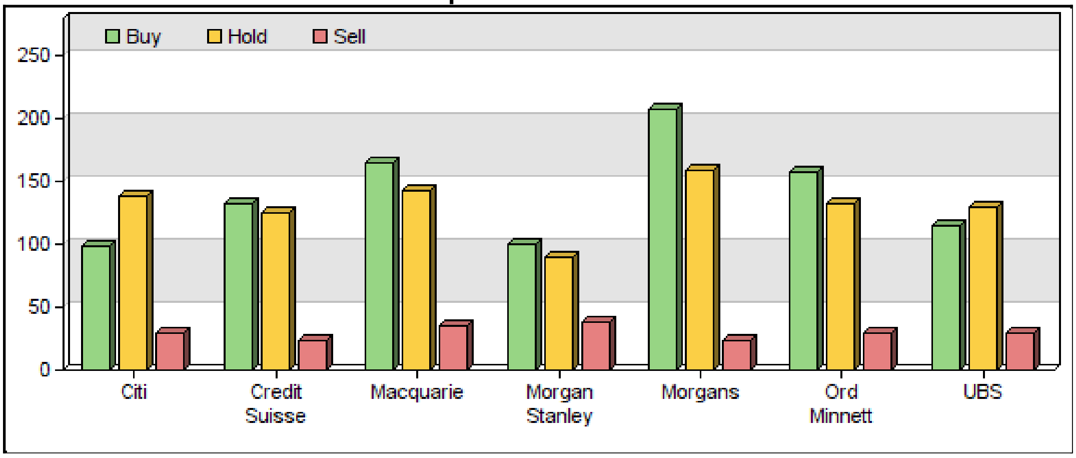
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BEACH ENERGY LIMITED	Buy	Neutral	Citi
2	BEACON LIGHTING GROUP LIMITED	Buy	Neutral	Morgans
3	CARINDALE PROPERTY TRUST	Buy	Neutral	Ord Minnett
4	DOMAIN HOLDINGS AUSTRALIA LIMITED	Buy	Neutral	UBS
5	EBOS GROUP LIMITED	Buy	Neutral	Morgans
6	EBOS GROUP LIMITED	Buy	Neutral	Macquarie
7	GWA GROUP LIMITED	Buy	Neutral	Morgans
8	NETWEALTH GROUP LIMITED	Buy	Sell	Credit Suisse
9	NETWEALTH GROUP LIMITED	Buy	Neutral	Ord Minnett
10	OZ MINERALS LIMITED	Buy	Neutral	Morgans
11	PACT GROUP HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
12	REDBUBBLE LIMITED	Buy	Neutral	Morgans
13	SOUTHERN CROSS MEDIA GROUP LIMITED	Buy	Neutral	Macquarie
14	WEST AFRICAN RESOURCES LIMITED	Buy	Neutral	Macquarie
Downgrade				
15	ARB CORPORATION LIMITED	Sell	Neutral	Macquarie
16	ARB CORPORATION LIMITED	Neutral	Buy	Ord Minnett
17	ASX LIMITED	Sell	Neutral	UBS
18	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Sell	Neutral	Citi
19	AVENTUS GROUP	Neutral	Buy	UBS
20	AVENTUS GROUP	Neutral	Buy	Macquarie
21	BABY BUNTING GROUP LIMITED	Neutral	Buy	Morgans
22	BABY BUNTING GROUP LIMITED	Neutral	Buy	Citi
23	BAPCOR LIMITED	Neutral	Buy	Citi
24	BEACH ENERGY LIMITED	Neutral	Buy	Macquarie
25	BRAMBLES LIMITED	Neutral	Buy	Morgans
26	BRAMBLES LIMITED	Neutral	Buy	Morgan Stanley
27	CARSALES.COM LIMITED	Neutral	Buy	Morgans
28	CHORUS LIMITED	Sell	Neutral	UBS
29	CORPORATE TRAVEL MANAGEMENT LIMITED	Neutral	Buy	Macquarie
30	HOMECO DAILY NEEDS REIT	Buy	Buy	Ord Minnett

31	IMDEX LIMITED	Neutral	Buy	Macquarie
32	NEWCREST MINING LIMITED	Neutral	Buy	Citi
33	ORORA LIMITED	Neutral	Buy	Citi
34	SG FLEET GROUP LIMITED	Neutral	Buy	Macquarie
35	SIMS LIMITED	Neutral	Buy	Macquarie
36	SIMS LIMITED	Neutral	Buy	UBS
37	VICINITY CENTRES	Neutral	Buy	Macquarie

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	NWL	NETWEALTH GROUP LIMITED	60.0%	20.0%	40.0%	5
2	EBO	EBOS GROUP LIMITED	60.0%	20.0%	40.0%	5
3	GWA	GWA GROUP LIMITED	50.0%	25.0%	25.0%	4
4	FBU	FLETCHER BUILDING LIMITED	60.0%	40.0%	20.0%	5
5	AGL	AGL ENERGY LIMITED	-40.0%	-60.0%	20.0%	5
6	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	50.0%	33.0%	17.0%	6
7	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	-8.0%	-25.0%	17.0%	6
8	BSL	BLUESCOPE STEEL LIMITED	67.0%	50.0%	17.0%	6
9	OZL	OZ MINERALS LIMITED	36.0%	21.0%	15.0%	7
10	PMV	PREMIER INVESTMENTS LIMITED	42.0%	30.0%	12.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	BBN	BABY BUNTING GROUP LIMITED	60.0%	100.0%	-40.0%	5
2	ARB	ARB CORPORATION LIMITED	-25.0%	13.0%	-38.0%	4
3	SGM	SIMS LIMITED	33.0%	67.0%	-34.0%	6
4	BXB	BRAMBLES LIMITED	50.0%	83.0%	-33.0%	6
5	COL	COLES GROUP LIMITED	33.0%	60.0%	-27.0%	6
6	GMG	GOODMAN GROUP	75.0%	100.0%	-25.0%	6
7	BHP	BHP GROUP LIMITED	20.0%	43.0%	-23.0%	5
8	CAR	CARSALES.COM LIMITED	40.0%	60.0%	-20.0%	5
9	IGO	IGO LIMITED	-10.0%	8.0%	-18.0%	5
10	ANZ	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	25.0%	42.0%	-17.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	113.388	99.593	13.85%	6
2	FBU	FLETCHER BUILDING LIMITED	8.400	7.600	10.53%	5
3	BSL	BLUESCOPE STEEL LIMITED	29.050	26.573	9.32%	6
4	GMG	GOODMAN GROUP	24.397	22.318	9.32%	6
5	CAR	CARSALES.COM LIMITED	24.026	22.240	8.03%	5
6	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	23.649	22.221	6.43%	7
7	EBO	EBOS GROUP LIMITED	31.393	29.577	6.14%	5
8	ARB	ARB CORPORATION LIMITED	46.513	44.163	5.32%	4
9	COL	COLES GROUP LIMITED	18.570	17.872	3.91%	6
10	GPT	GPT GROUP	4.983	4.810	3.60%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	AGL	AGL ENERGY LIMITED	7.392	7.824	-5.52%	5
2	GWA	GWA GROUP LIMITED	3.193	3.375	-5.39%	4
3	BHP	BHP GROUP LIMITED	48.380	51.107	-5.34%	5
4	WPL	WOODSIDE PETROLEUM LIMITED	26.180	27.384	-4.40%	5
5	NCM	NEWCREST MINING LIMITED	30.711	32.119	-4.38%	7

6	BAP	BAPCOR LIMITED	8.807	9.133	-3.57%	7
7	IGO	IGO LIMITED	7.490	7.725	-3.04%	5
8	NWL	NETWEALTH GROUP LIMITED	16.530	17.020	-2.88%	5
9	OZL	OZ MINERALS LIMITED	23.686	24.141	-1.88%	7
10	WSA	WESTERN AREAS LIMITED	2.582	2.627	-1.71%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	44.716	-26.184	270.78%	7
2	BSL	BLUESCOPE STEEL LIMITED	505.300	222.283	127.32%	6
3	HDN	HOMECO DAILY NEEDS REIT	8.250	3.975	107.55%	4
4	S32	SOUTH32 LIMITED	29.183	14.373	103.04%	7
5	SXY	SENEX ENERGY LIMITED	18.950	9.717	95.02%	6
6	TPW	TEMPLE & WEBSTER GROUP LIMITED	14.037	7.500	87.16%	3
7	DRR	DETERRA ROYALTIES LIMITED	25.386	15.778	60.89%	5
8	SGM	SIMS LIMITED	194.400	125.633	54.74%	6
9	TRS	REJECT SHOP LIMITED	26.067	17.633	47.83%	3
10	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	8.202	5.842	40.40%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	AGL	AGL ENERGY LIMITED	43.183	85.348	-49.40%	5
2	SGR	STAR ENTERTAINMENT GROUP LIMITED	7.625	12.333	-38.17%	6
3	TCL	TRANSURBAN GROUP LIMITED	9.614	13.720	-29.93%	6
4	SUL	SUPER RETAIL GROUP LIMITED	91.014	129.843	-29.90%	7
5	NCM	NEWCREST MINING LIMITED	143.409	191.827	-25.24%	7
6	EML	EML PAYMENTS LIMITED	5.833	7.700	-24.25%	3
7	EVN	EVOLUTION MINING LIMITED	17.210	21.984	-21.72%	7
8	LLC	LENDLEASE GROUP	46.593	58.590	-20.48%	6
9	HUM	HUMM GROUP LIMITED	11.633	14.600	-20.32%	3
10	WPL	WOODSIDE PETROLEUM LIMITED	158.314	191.427	-17.30%	5

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Dual Role For Nuclear Reactors?

As the uranium spot price reaches a year high for 2021, the US Department of Energy explores the benefits of onsite hydrogen production at a nuclear facility.

-Exelon Corporation's grant to explore hydrogen production
-Sprott Physical Uranium Trust buys 900,000lbs of uranium
-Uranium spot price rises by nearly 8% for the week

By Mark Woodruff

Nuclear reactors could be given a new lease of life by providing ideal conditions to produce green hydrogen on a large scale.

In potentially significant news last week, the US Department of Energy (DOE) is providing Exelon Generation a grant to explore the potential benefits of onsite hydrogen production at its Nine Mile Point nuclear station in New York State. The DOE is looking at ways to develop new technologies through its H2@Scale initiative to efficiently scale-up the production of hydrogen.

Nuclear is considered to have the most economic hydrogen prospects of the green approaches, including wind and solar, that can provide the electrical power needed to drive the reaction that separates hydrogen from water.

Currently hydrogen is used for oil refining and ammonia production. However, there is a growing demand for it to be used in steel manufacturing, in transportation to power vehicles and a number of other applications.

Exelon noted "The project will generate an economical supply of hydrogen, a natural by product of nuclear energy, to be safely captured, stored, and potentially taken to market as a 100% carbon-free source of power for other purposes".

This process would allow utilities to produce and sell hydrogen regionally as a commodity in addition to providing clean and reliable electricity to the grid. It would also help build an economic case to keep the nation's at-risk reactors up and running.

Company news

ASX-listed **Boss Energy** ((BOE)) last week reported its shares were upgraded to the middle tier of the over-the-counter (OTC) market for US stocks.

This is due to growing international demand and the fact that over 20% of the company's share capital is held by US-based investors. Management noted the upgrade offers the opportunity to build visibility, expand liquidity and diversify its shareholder base in the US.

The company is looking to restart its flagship asset, the 100%-owned Honeymoon Uranium Project in South Australia.

Uranium pricing

TradeTech's Weekly **Spot Price** Indicator is US$33.00/lb, up US$2.50 from last week. Since early March, the Indictor has increased 20%, which marks a year-high spot price for 2021. It has increased nearly 9% so far in 2021 and over 8% in the last week.

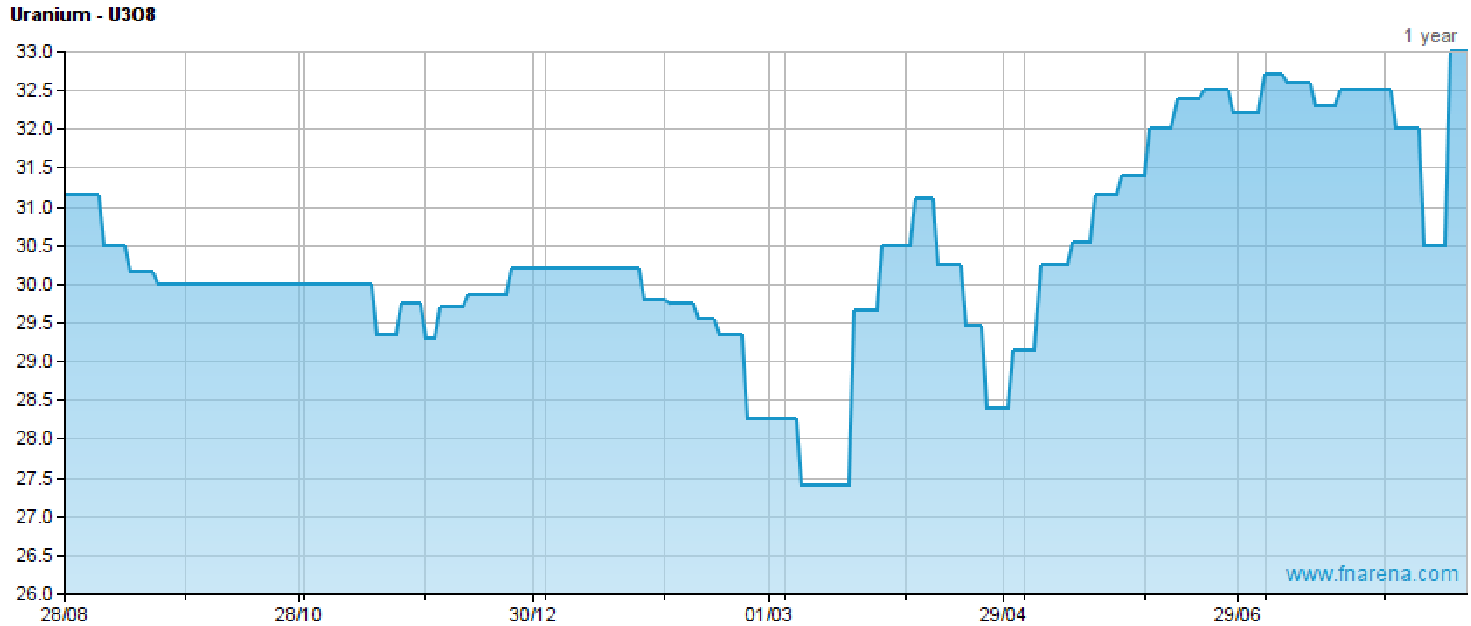
The average weekly Spot Price Indicator in 2021 is US$30.57/lb, US$0.86 above the 2020 average.

The Sprott Physical Uranium Trust used some of the proceeds of its recent at-the-market (ATM) fundraising to purchase 900,000lbs of uranium, comprising the majority of the weekly spot volume of 1.5mlbs.

Meanwhile, Denison Mines Corp and Uranium Royalty Corp announced they also intended to raise funds with ATM offerings, which appear likely to be used to make further physical purchases.

TradeTech's **term price** indicators are US$33.50/lb (mid) and US$35.00/lb (long).

Utility buyers in both the mid-and long-term markets are seeing lower offers than other buyers though TradeTech feels this may shift if the spot uranium price continues on its upward trajectory.



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WEEKLY REPORTS

The Short Report - 26 Aug 2021

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

Summary:

By Greg Peel

Week Ending August 19, 2021.

Last week saw the ASX200 drop -2.5% on concerns over delta, Chinese slowing and Fed tapering. The index has since tried to graft slowly back, but is down again as I write.

Last week was the first in which the August result season began to have a noticeable impact at the micro level.

In last week's Report I highlighted Redbubble's ((RBL)) appearance at the bottom of the short table on 5.5%. At the time of writing that Report, Redbubble had just reported earnings, and the stock was down -11%.

I was thus confused to find that by the end of the day, the stock was up 19%. And soared again the following day, for a net 40% gain post-result. It has bounced around daily since, but is not far off that peak level today.

The surge was not about short-covering. Last week Redbubble shorts rose to 6.7%. I have noted prior Redbubble is trading as if it were a "meme" stock. Perhaps it is.

Speaking of short covering, up to today Flight Centre ((FLT)) has rallied 23% this week and Webjet ((WEB)) 19%. All because the prime minister told the states they must abide by the "national plan", to which they all agreed, with fingers crossed behind their backs. This implies we'll all be able to fly interstate for Christmas.

Hence the travel agent rebound. Last week Webjet shorts moved up to 11.6% from 11.0%, and Flight Centre to 11.6% from 9.9%. We'll need to wait for next week's ASIC data to assess to what extent this week's rallies have been driven by short-covering.

Flight Centre reported this morning, and is up 3% as I write.

Weekly short positions as a percentage of market cap:

10%+
WEB 11.6
FLT 11.6

In: FLT

9.0-9.9

Z1P

Out: FLT

8.0-8.9%

EOS, KGN, ING

No changes

7.0-7.9%

TGR, PNV

No changes

6.0-6.9%

RBL, RSG, TPW, IVC, MSB, MTS, COE, AMA, PLL

In: RBL, COE, AMA, PLL Out: A2M

5.0-5.9%

A2M, BGL

In: A2M Out: COE, AMA, PLL

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	MQG	0.1	0.1
ANZ	0.5	0.6	NAB	0.6	0.6
APT	1.2	1.3	NCM	0.1	0.1
BHP	4.2	3.8	RIO	0.4	0.5
BXB	0.3	0.3	TCL	0.5	0.6
CBA	0.4	0.4	TLS	0.2	0.2
COL	0.5	0.5	WBC	0.6	0.6
CSL	0.2	0.2	WES	0.2	0.2
FMG	0.9	0.9	WOW	0.2	0.2
GMG	0.3	0.1	WPL	1.5	1.3

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.

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SMALL CAPS

Emerging Technology Key To PWR Holdings

Emerging technologies in the automotive industry are expected to propel PWR Holdings towards substantial earnings growth in FY22

-New car designs for F1 in 2022 likely to increase business
-Potential upside from the large contracts on offer
-Including cooling systems for defence and aerospace industries

By Eva Brocklehurst

Customised cooling solutions are being provided by PWR Holdings ((PWH)) at an ever increasing rate to the automotive industry. Moreover, the company has emerging technologies in its sights while expanding its exposure to areas outside of motorsports.

Original equipment manufacturers (OEMs) are now the third largest area of revenue after motorsports and the automotive aftermarket. Revenue in FY21 was up 20.5%, supported by OEMs and emerging technology.

No formal guidance was provided for FY22 but the company maintains a strong balance sheet, with $19.9m in cash and debt reduced to $8.5m. The operating earnings (EBITDA) margin in FY21 was 36.6%. A scaling up of staff is occurring with more than 87 extra expected by December 2022 and there is also significant capital investment being committed to plant and machinery.

Moelis expects net profit growth of 18-26% for FY22-24, supported by 2022 Formula One rules that are regulating a new car design, in which unrestricted components should attract increased R&D expenditure by the teams.

There are also new OEM projects going into production that will contribute to PWR Holdings' growing order book. The company's aftermarket business is robust and the online store has been rolled out, providing further increases to US market penetration.

Morgans is enthused by the opportunities and dismisses the probability that revenue may have disappointed in

FY21, attributing this to the motorsports division where F1 used the same cars in 2021 as for 2020, which meant there was less development work.

Other racing categories have also been slow to ramp back up because of the pandemic. Additionally, OEM revenue was affected by delays to vehicle production because of the global semiconductor chip shortage.

Valuation

Valuation appears relatively high, Morgans acknowledges, but a premium is considered justifiable because of the strong growth outlook and the potential upside from large contracts as well as a healthy balance sheet. The broker has an Add rating and $8.50 target.

Despite downgrading estimates for FY22 and FY23, Bell Potter continues to expect strong double-digit growth for both revenue and earnings, noting the pay-out policy remains between 40-60% of net profit. The broker's target of $7.25 reflects a modest discount to the share price and as a result a Hold rating is retained.

Moelis asserts emerging technologies have double-digit earnings growth potential, underscored by the company's leading product offering and a strong balance sheet. Still, these factors are captured in the share price and the broker retains a Hold rating with a $7.70 target.

Emerging Technologies

PWR Holdings is moving into applications where cooling solutions are required in the wider automotive industry and brokers anticipate emerging technology will be the driver of the next leg of growth. This division includes cooling systems for the defence and aerospace industries, electronics, battery and communication systems.

Morgans is impressed with emerging technologies, where revenue grew 113% in FY21 and now accounts for 11% of total revenue, asserting there is potential for this segment to contribute a much larger portion of revenue over the long-term.

The company recently achieved the AS9100 certification, a global aerospace and defence standard which should enable the amount of work being undertaken to expand substantially.

PWR Holdings has provided further detail regarding the 16 programs in emerging technology that are in production in FY22, ranging from $100,000 to $50m. There is also the prospect of quoting on many more, extending to at least FY24. Moelis assesses emerging technology, in its base case, will be the size of the motorsport segment by FY25.

SMALL CAPS

Re-Rating In View As Beacon Lighting Expands

For Beacon Lighting, enjoying a heightened domestic focus on housing, revenue upside revolves around the expanding trade and international business

-Buoyant housing market, low interest rates supporting Beacon Lighting sales
-Current mix towards trade/international could be a headwind to margins in the first half
-Is international expansion an underestimated opportunity?

By Eva Brocklehurst

Beacon Lighting ((BLX)) can outperform the discretionary retail sector because of the focus on housing, as consumers forced to stay home spend money on renovations. Moreover, residential construction is also robust.

Citi points out private dwelling approvals across Australia have been up 18% to June 2021, envisaging potential for the stock to outperform the discretionary retail sector because of the housing cycle and industry consolidation.

The strength of the company's FY21 results highlights the quality of its business model, in Jarden's view, as well as management's ability to manage its channel mix, pricing and costs. Net profit in FY21 was up 85% and slightly ahead of guidance.

Morgans believes macro factors in Australia will underpin demand for Beacon Lighting products in the years to come. Low interest-rate should support the buoyant housing market in the near term amid a reallocation of consumer expenditure domestically and away from overseas travel.

Nevertheless, Jarden, with an Overweight rating and $2.10 target, downgrades earnings estimates by -6.2% because of the lockdowns impacting on retail and trade in the first quarter of FY22. The company has pointed out July was more difficult than August in the current half, as August is cycling the Victorian lockdowns in 2020.

The broker had forecast like-for-like sales growth of 5% in the first half but now expects a contraction of -10%, yet expects sales will rebound swiftly when lockdowns end while the forward order book of 6-18 months provides great visibility from a trade sales perspective.

Citi forecasts first half like-for-like sales will decline by -15% because of the adverse impact of lockdowns on retail sales, while trade should improve when NSW construction activity returns to normal.

The company is unlikely to increase discounting as underlying demand remains strong, the broker suggests. Citi expects operating expenditure as a proportion of sales will increase in FY22 to 42.2% as The company steps up investment in marketing and launches the direct-to-consumer (DTC) website in the US.

Citi reiterates a Buy rating with a $2.35 target, anticipating a full year dividend of 6.5c in FY22, implying a payout of 57% that is consistent with a target of 50-60%.

Morgans upgrades to Add from Hold with a $2.30 target assessing t**he macro business for lighting is favourable, particularly in trade, while retail gross margins should hold up as there are no promotions and FX benefits**.

<u>Trade Versus Retail</u>

The trade opportunity should be driven by marketing and trade specific products and Beacon is hoping for similar rates of growth in FY22, supported by the launch of its new trade loyalty club. Management has warned that as trade is performing relatively well compared with retail lockdowns, the current mix towards trade/international could be a headwind to margins in the first half.

Jarden estimates trade will have a gross margin around 50-55% and international 40-45%. Given the focus on international and trade, the broker, therefore, expects gross margins will slowly decline.

Citi forecasts FY22 gross margins will decline to 67.6% from 68.4% because of higher freight costs and a greater proportion of sales from trade, yet points out this expansion will largely be using an existing fixed asset base. **The company also has a growing property portfolio which presents development opportunities**.

The trade business has potential to grow at a compound annual rate of nearly 30% over the next 3-5 years and Morgans suspects the market will be happy to attribute a higher multiple to trade earnings over time compared with retail.

The broker also assumes gross margins declined to 67.7% because of a weaker Australian dollar, leading to an earnings (EBIT) margin of 16.8%. The broker acknowledges its estimates could be wrong if Beacon s unable to sustain its momentum in trade, if lockdowns are prolonged or the expenditure on renovations in Australia reverses.

The company also has a growing property portfolio which presents development opportunities, with $40m in undrawn facilities that should enable the pursuit of property acquisitions, store roll-out and invest in the business.

<u>International</u>

Morgans takes exception to what it describes as "the moribund pace of growth" implied by consensus for FY23 and FY24, which does not account for the domestic macro environment and opportunities arising as the business pushes into the US and Chinese markets.

Jarden agrees international is a significant and underestimated opportunity, noting international sales increased 45.3% to $12.3m in FY21 amid the launch of the new DTC website in the US and strength in both the US and Hong Kong.

In explaining the earnings potential, Jarden points out, as a wholesaler, Beacon Lighting has very little incremental costs attached to sales growth and, although the cost base will rise in order to service new markets, incremental costs will still be marginal compared with the upside.

Jarden believes international could contribute around 10% to total gross profit by FY25 and could, with greater disclosure and understanding of the market, re-rate Beacon Lighting beyond an Australian-only lighting retailer.

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SMALL CAPS

Delayed Recovery Ahead For oOh!media

The road to recovery for Ooh!media has been blocked by a return to lockdowns yet advertising appears well-placed to rebound by the December quarter

-Slowdown in August/September as lockdowns resume
-Advertising campaigns being pushed out to the December quarter
-Airports/fly segments will be the last to recover

By Eva Brocklehurst

First half results revealed road formats and the New Zealand business performed well for oOh!media ((OML)), while road and street furniture advertising is expected to lead the recovery once the current lockdowns in NSW and Victoria are lifted.

Commentary from the company was constructive, Goldman Sachs asserts, and underpins confidence in the rapid pace in which the business can rebound in 2022. Revenue in the September quarter to date is around 38% higher than the prior corresponding quarter, or around 74% of 2019 levels, despite NSW being in lockdown for the quarter so far.

Around 75% of oOh!media business recovered in the first half while audience remained limited for airports, railway stations and offices. This grouping, representing the remaining 25%, is expected to benefit as people return to work and travel.

Still, a slowdown in August/September is on the cards, as Credit Suisse notes bookings in July were firm, similar to the first six months of the year, and the trend has now dropped away.

This suggests less activity as lockdowns continue to have an impact, and illustrates the **high sensitivity of advertising expenditure to re-opening**. Ord Minnett agrees and believes the stay-at-home orders will affect oOh!media for an indeterminate period of time, and almost certainly throughout the second half of 2021.

The broker finds it difficult to become more constructive on valuation grounds, given this uncertainty, and expects second half revenue will drop -8.4% as a result of the lockdowns, and 2022 revenue be at 97.9% of pre-pandemic levels.

Taking into account a delay to recovery in out-of-home advertising, ultimate exposure to a cyclical advertising market as well as uncertainty around Sydney Trains, Credit Suisse opts to retain a Neutral rating.

The Sydney trains contract has been extended until the end of 2021 and the company has reaffirmed that no single contract represents more than 6% of group revenue so Macquarie, instead, focuses further ahead.

Recovery?

The broker highlights the fact advertising campaigns have typically been pushed into the fourth quarter, and so attract a higher yield as advertisers will pay higher rates rather than missing out on the opportunity to re-book.

Macquarie anticipates lockdowns will persist until December and factors into its estimates the “fly/locate” segment remaining structurally affected in 2022. Higher staffing costs are factored in as well as lower rental abatements.

Ord Minnett also points to the prospect of the airports/fly segment being the last to recover and assumes 94% of 2019 revenue will not return until 2023. Data shows the government segment is leading the outdoor recovery.

Still, oOh!media has the largest inventory of both big format digital and traditional assets in road advertising for both metro and regional Australia and Canaccord Genuity believes the company is well-placed for re-opening, as the government's plan is calling for reduced use of lockdowns, which have been particularly disruptive for out-of-home advertising.

The broker calculates that, currently, Australians are moving about more than they did in the June quarter of 2020 and this should provide support for the revenue base. Furthermore, restrictions should be lifted by the December quarter as vaccination rates are projected to increase.

The broker also cites **recent industry forecasts which indicate out-of-home revenue should return to pre-pandemic levels in late 2023** and its forecasts reflect that trajectory, with FY22 revenue now expected at $619m, representing 20% growth, and FY23 at $658m.

Both Canaccord Genuity and Goldman Sachs, not among the seven stockbrokers monitored daily on the FNArena database, reiterate Buy ratings, with the latter retaining a target of $2.04 and the former $1.70. Goldman Sachs believes investors should look through the near-term risk of lockdowns and consider the potential upside in 2022.

FNArena's database has one Buy (Macquarie) and two Hold ratings. The consensus target is $1.59, level with the last share price.

See also, Treasure Chest: Opportunity in oOh!media on August 3, 2021.

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

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SMALL CAPS

Audinate: A Covid And Reopening Beneficiary

While short-term supply chain risks weigh, Audinate Group is seen as both a structural beneficiary of covid-19 and a re-opening story.

-Audinate Group delivered 23% FY21 revenue growth
-A return to historical growth rates is anticipated
-The company has 7% of a 1bn total addressable market
-Dante is seen as the de-facto standard in networked audio
-Supply chain risks to persist into the first half of FY22

By Mark Woodruff

In the wake of pre-released FY21 results for Audinate Group ((AD8),) brokers continue to ratchet-up 12-month target prices and expressed confidence in the company's future.

The group develops and sells digital audio visual (AV) networking solutions and can be viewed as both a re-opening story and a structural beneficiary of covid-19. In addition, it's thought **the company's video software product could further accelerate adoption.**

Network effects are becoming more relevant as the structural shift to networked AV unfolds and it becomes harder for original equipment manufacturers (OEMs) and users to adopt alternatives. OEMs including Bose, Yamaha, Shure and Sony sell Pro-AV products (speakers, amplifiers and mixers) to system integrators.

End users include universities, corporates, convention centres, theatres, stadiums, theme parks and recording studios.

Audinate is in a dominant position as the de-facto standard in audio networking with **19 times the market adoption of its closest competitor**. The company has a broad and expanding customer base and **gross margins are greater than 75%.**

Some features of the FY21 result included 23% total revenue growth and 68% year-on-year growth in software revenue. Another 66 OEMs were added and a there was a 16% rise in Dante-enabled products to 3,255.

Dante comprises hardware and software that resides inside the audio and video products of Audinate's OEM customers. Hardware, also referred to as chips, card and modules (CCM), comprised 72% of sales in FY21, with software making up the balance.

Guidance is for a return to historical US dollar revenue growth rates of 26%-31%, even with some likely headwinds from supply chain disruptions and covid.

Valuation

The company is expecting to materially step up investment in FY22, which is likely to include strategic M&A. Also, overall industry growth will be aided by the structural shift to networked AV.

When this is coupled to the return of live sound and the initial revenue contribution from Dante AV, Canaccord Genuity forecasts above-trend 30% compound annual growth rate (CAGR) for revenue over the medium term.

By stark contrast, the current share price implies just a 17.5% six-year revenue CAGR at around 50% earnings margins. This assumes a 9% market adoption across key markets by 2027.

The broker, not one of the seven stockbrokers monitored daily on the FNArena database, maintains its Buy rating and lifts its price target to $11.20 from $10.50.

UBS incorporates $1.69 into its share price valuation to reflect a 10% share of the potential digital video networking opportunity. The broker raises its target price to $11.75 from $11.30 and retains its Buy rating.

The outlook

A record second half result points to strong momentum coming into FY22. Management indicated the sales order backlog is at record levels and industry sentiment was at all-time highs in July.

Credit Suisse's forecast remains at the high end of the revenue guidance range for FY22, while FY23 revenue forecasts are broadly unchanged as the analyst sees only transitory near-term supply chain disruptions. After earnings upgrades, the broker lifts its target price to $11.40 from $9.70 and leaves its Outperform rating unchanged.

Morgan Stanley highlights the approach of cashflow breakeven and $65m in cash and on term deposit. Taking into account strong July sales, a record order backlog and a new product pipeline, the broker retains its Overweight rating and increases its target price to $12.00 from $10.00.

Software

Software revenue grew 62% and accounted for 27% of total revenue, up from 21% in FY20. This software revenue growth was well ahead of ahead of CCM which rose 13%.

Sales were slightly weaker in the second half due to the shifting of upfront licence fees to annual subscription though this improves the resilience and predictability of revenues, notes Canaccord.

Morgan Stanley believes the video software product could further accelerate adoption in FY22, as it has recently been prioritised due to video OEM feedback.

The Opportunity

There is **a greater than $1bn total addressable market, which Shaw and Partners believes Audinate should**

own in time, due to its holistic offering of audio, software and video. The company's current market share is around 7%.

After the 2020 mid-year capital raise, the analyst likes the company's well capitalised position and the healthy **gross margins, which are likely to rise further with a ramp-up in software**.

The broker, also not one of the seven stockbrokers monitored daily on the FNArena database, retains its Buy rating and $12.00 target price.

Morgan Stanley notes the company has all the key products and it is now a case of driving increased adoption.

Dante has already secured its position as de-facto standard in networked audio, suggests Credit Suisse. As sales continue to grow sequentially it increases scope for reinvestment which can grow the total addressable market and market share. This is evidenced by the recent release of Dante video products, which creates an additional opportunity in software services.

The company is seen as **a covid structural beneficiary story as both the corporate and education sectors are expected to invest in the new normal**.

Risks

Supply chain and manufacturing risks are still present, and Canaccord expects chip and component shortages to persist into the first half of FY22.

There's also expected to be temporary closures of the company's Malaysia manufacturing facility due to local covid cases though it should be noted this facility was originally set up to diversify supply chain risk.

Potential delays from the diversion of R&D away from new products by OEM's are possible. OEM customers are looking at product redesign where either chips or component shortages are in evidence. This could potentially defer the launch of new Dante products as well as potentially impacting new design wins, notes Canaccord.

However, in the near-term management does not expect these factors to immediately impact revenue growth, given the strength of the demand backdrop and the record backlog of orders.

In closing, there is one word which augers well for Audinate, Lollapalooza. It's a music festival which recently had one of the largest public gatherings since the start of the pandemic, with over 100,000 attendees in Chicago, US.

While concerts have been in hiatus since the middle of March 2020, a number of major tours and festivals are now being locked in for the end of this year and 2022.

FNArena's database has three broker ratings with three Buy ratings and a consensus target price of $11.72, which suggests 14.9% upside to the last share price.

RUDI'S VIEWS

Rudi's View: BHP, Dividends, And Breville Group

BHP, Dividends, And Breville Group

By Rudi Filapek-Vandyck, Editor FNArena

So far, so good. Eight days from the end of the domestic corporate results season (six trading sessions plus one weekend) and genuine 'beats' are outnumbering disappointing 'misses' by almost a factor of two-to-one.

More companies feel comfortable enough to provide some kind of guidance, though that is to be read as 'more than feared' beforehand, not a reference to the majority. Many companies are swimming in cash, and they have not hesitated to reward shareholders through increased payouts, special dividends, share buybacks, and M&A.

The share market as a whole is up for the month and local indices would have performed a lot better if not for the global growth scare that is unfolding in the background, which is partially why specific price charts for the likes of Fortescue Metals look like a fall-off-the-cliff experience -suddenly, quickly and savagely- but this also explains why AUDUSD has been below 72c instead of nearer to 80c.

Also, typically for Australia, the FNArena Corporate Results Monitor still only comprises of 140 reports, or an estimated 40% of the total number of individual companies. This goes a long way in explaining why most stockbrokerages are no longer publishing intermediate running updates on the season.

We still await more than 50% of financial results from the companies scheduled to report in August. Apparently, it's the bottleneck in accountants domestically we should blame for this out-of-kilter, heavy skew.

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Some of the early indications have solidified and gained more traction as the numbers to date have accumulated to 140 corporate updates. Many a company in Australia can report its sales, if not profits and dividend, have recovered to pre-pandemic level, or it anticipates to achieve full recovery over the year ahead.

This observation is incredibly important for a share market that has continued to trend upwards, setting new all-time record highs along the way. Most surprises, however, have come through cash dividends for shareholders with company boards lifting payout ratios much sooner than anticipated, despite ongoing challenges posed by the global pandemic.

In hindsight, it can be concluded both ANZ Bank ((ANZ)) and National Australia Bank ((NAB)) gave local investors the earliest indications that corporate Australia was gripped by quite an optimistic mindset in June.

August is not solely providing bliss and happiness, of course. While June-half financial numbers have been better-than-forecast on balance, the outlook for the December-half for many companies is a lot more circumspect as lockdowns across Australia remain in place.

Estimates are thus falling for retailers, travel agents, leisure companies, et cetera. The market is drawing confidence from the past in that once lockdowns end, a strong recovery should follow. This is why, so far, reduced forecasts because of renewed impact from lockdowns has not been met with savage punishment this month.

The market looks forward. One observation is that share prices remain supported by confidence that temporary lockdowns, even when extended, shall be followed up by a swift recovery in sales. This confidence is fueled by numerous companies reporting they were performing better-than-expected up until new lockdowns were announced in NSW, then Victoria and elsewhere.

Unsurprisingly, companies announcing a share buyback usually are rewarded through additional outperformance, though not in every case. Note, for example, the differences in share price performances for Janus Henderson ((JHG)), Suncorp ((SUN)) and Telstra ((TLS)) -all very strong- with the negative outcomes for Fletcher Building ((FBU)) and Emeco Holdings ((EHL)).

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The Big Surprise this season has come from dividends and here, Janus Henderson reports, we are witnessing a global phenomenon. Global dividends experienced a sharp fall in 2020, but Janus Henderson forecasts total payout will rise above the pre-pandemic high in the year ahead.

Global dividends rose by 26% in the second quarter ending June 30th, so this month's sharp increases announced in Australia are not even included yet. On the fund manager's calculations, global dividends have now recovered to $628.3bn (US$471.7bn) for the quarter, which is only -6.8% below the level paid out in Q2 last year.

A few key observations to consider:

-Companies restarting cancelled payouts contributed three quarters of the underlying surge;
-84% of companies increased their dividends or held them steady compared to Q2 2020;
-In Asia Pacific ex Japan, three quarters of companies increased or held their dividends with Australia boosted by banking dividends (pre-August);
-In a seasonally quiet quarter for Australia, payouts more than doubled (+103.6%) on an underlying basis;
-Janus Henderson has upgraded its 2021 forecast to $1.85trn (US$1.39trn) from $1.81trn (US$1.36trn); this new forecast is just -3% below the pre-pandemic peak, implying next year global dividends are set to rise to a new all-time record.

The dividend numbers are receiving an extra-boost from companies paying out a special dividend, as also witnessed in Australia this month, while an offset comes from companies cutting dividends in emerging markets. Underlying, estimates Janus Henderson, dividends globally are set for 8.5% growth in 2021.

One interesting observation was made by analysts at JPMorgan who observed that 33% of Australian companies reporting thus far have subsequently seen forecasts being downgraded with all sectors, except Staples, experiencing negative revisions this month.

A sign of growing wariness or a realisation company boards have pulled forward their reward for shareholders in order to sugarcoat for the headwinds and uncertainties that lay ahead? Worst hit sectors have been Utilities and Materials and the reasons for both seem pretty straightforward: energy markets and the price of iron ore.

All of AGL Energy ((AGL)), BHP Group ((BHP)), BlueScope Steel ((BSL)) and Mineral Resources ((MIN)) have suffered a decline in dividend forecasts this month, as have several of the more troubled names including AMP ((AMP)), Lendlease ((LLC)), and Vicinity Centres ((VCX)).

Macquarie, quite casually, observes prospects for growth in profits remain superior in the USA compared to Australia.

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In terms of individual companies, irrespective of what happens between now and early September, August 2021 will be marked down as the season when the Big Australian made that Big Dividend announcement; US$15bn, the largest in its corporate history, but BHP Group also made a seminal deal with Woodside Petroleum ((WPL)) and pulled its share market listing back home to the Big Southerly homeland.

In terms of truly historic announcements, it'll be plain impossible to beat BHP this season. There has been plenty of coverage by FNArena and media elsewhere, so I'll simply point out what I haven't seen mentioned elsewhere as yet.

Confronted with several opposing challenges and options, the current C-suite team at BHP has found solution in a narrative that should be on every long-term thinking investor's mind. Instead of milking its world-class assets in oil and gas during a time when the price of iron ore is likely heading down quite sharply from lofty US$200-plus per tonne levels, BHP has chosen for a hundred-year long journey into a sector it believes is primed for natural growth in the century ahead, fertiliser, with the ambition of becoming a powerful, low-cost disruptor.

On the other side of the deal we find a super-enthusiastic Woodside Petroleum, and for obvious reasons. Today's share price is a long way off from the highs seen in Q2 2008 and while Woodside stands to lose the mantle of Australia's largest oil and gas company because of the merger between Santos ((STO)) and Oil Search ((OSH)), the company has spent post-GFC in vain to find growth and to develop new projects at a satisfactory return.

Time to reel out my most favourite market observation: the energy sector, in Australia and elsewhere, has been by far the worst performer post-GFC. Santos once was seemingly destined for that elusive $20. Origin Energy ((ORG)) shares equally used to trade in the mid-teens. Woodside used to be revered for its stable and attractive dividend.

Remove the movements in the price of oil and gas from the picture and what is left at Woodside Petroleum? A company ex-growth, struggling to find the capital without a large, shareholder-dilutive capital raising; a position it has been in for years. The deal with BHP will inject new momentum into the business that can possibly reverberate for many years.

But it won't last forever, of course, and most certainly not as long as BHP's entrance into Canadian potash. Deep down, below the surface, there is a real message in there for every investor. Short-term versus long-term. Instant reward against investing for longevity.

We all make those choices, or at least: we should.

Incidentally, the energy sector stands out so far this month with the weakest updates and the largest disappointments, as also illustrated through share price falls for Beach Energy ((BPT)) and Cooper Energy ((COE)). Woodside's half-yearly update was labelled as "weak" by all and sundry too.

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One company that caught my attention is Breville Group ((BRG)), proud manufacturer of iconic Australian household brands Breville, Kambrook and Sage. Less known, probably, is that Breville considers itself an innovator; it is Australia's first and foremost bridge into the Internet of Things (IoT), a future era when household goods start communicating with each other through the ether.

Management at the company decided to cut the dividend for shareholders, traditionally seen as 'blasphemy' among Australian investors, in order to ramp up investments into the company's future. On the day of the FY21 report release the share market responded with a good old shellacking, to which the **All-Weather Model**

Portfolio responded with: I'll have some, thank you.

Breville Group has been on my radar for a long while. Those who are familiar with my research know it ranks as a 'Prime Growth Story' alongside the likes of Macquarie Group ((MQG)), Aristocrat Leisure ((ALL)) and Pro Medicus ((PME)). One cannot own them all at the same time and while the Breville share price has been cheaper, the All-Weather Portfolio was previously happily filled with plenty of durable, quality performers.

One of the names currently no longer held by the Portfolio is Pro Medicus, whose shares put on another big rally following the release of FY21 financials. This remains one of the highest quality growth stocks on the ASX, but it's also valued to the max.

Which simply means Pro Medicus remains on the radar for when a similar opportunity at the right time presents itself.

Next week we shall look into more companies that stood out or caught my attention this reporting season. Plus we will finally be able to draw conclusions by then that stand the test of time.

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More on the August results season:

-August: It's A Joke

https://www.fnarena.com/index.php/2021/08/19/rudis-view-august-its-a-joke/

-Early Days, But Plenty Of Signs

https://www.fnarena.com/index.php/2021/08/12/rudis-view-early-days-but-plenty-of-signs/

-August Bonanza, But What's Next?

https://www.fnarena.com/index.php/2021/08/05/rudis-view-august-bonanza-but-whats-next/

-August Results: Anticipation & Trepidation:

https://www.fnarena.com/index.php/2021/07/29/rudis-view-august-results-anticipation-trepidation/

Here is the link to the FNArena Corporate Results Monitor (from now on updated daily):

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

(This story was written on Monday 23rd August, 2021. 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).

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