Week

30

Stories To Read From FNArena

Friday, 28 July 2017

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Brokers Downgrade Perpetual

Wealth manager Perpetual has revealed negative net flows in the June quarter and several brokers have become bearish on the fund manager's growth outlook.

-Market movements, investment performance likely drivers of growth in FUM -Some support for the share price from the dividend yield -Global equity strategy not seen attracting new flows

By Eva Brocklehurst

Wealth manager Perpetual ((PPT)) has revealed negative net flows in the June quarter and several brokers have become bearish on the growth fund manager's outlook.

Outflows consisted of -$700m worth of higher-margin Australian equities and -$300m in lower-margin cash and fixed income. Funds under management (FUM) decreased -$1.5bn in the quarter, driven by -$1bn in net outflows and -$400m in net annual distributions.

Outlook

Ord Minnett downgrades to Lighten from Hold, given the performance of the stock relative to the market since the first half result. This comes despite expectations for a benign flow environment in the near and medium term. Market movements and investment performance are likely to be the main drivers of growth in funds under management, in the broker's view.

Ord Minnett believes forecasts for a fully franked dividend yield of around 5% provide some support to the share price but with no sign of meaningful flows in the near term, earnings are largely in the lap of market movements.

Citi also downgrades to Sell from Neutral while UBS retains a Sell rating. Citi believes the June quarter should have been strong for super flows as investors moved ahead of regulatory changes yet this was not at all noticeable for Perpetual. Citi reduces estimates for earnings in FY17 by -0.2% and FY18 and FY19 by -3%. Valuation is reduced. As a result the stock is considered too expensive, hence the downgrade.

UBS forecasts negative net flows on a post-distribution basis in the outer years, with growth of only 3.0% per annum, and flat earnings per share in FY18. The broker's earnings outlook is now -8% below consensus estimates for FY18.

Credit Suisse sticks with a Neutral stance on the stock, albeit disappointed with the flows in the June quarter. The company continues to struggle to attract FUM, which the broker suspects is, in part, stemming from weak fund performances, as both the Industrial Share Fund and Australian Share Fund were behind benchmarks over most time horizons.

The broker considers the valuation is stretched and recent outflows and distributions are creating a headwind for earnings and margin. Meanwhile, growth initiatives appear to be only modestly incremental at this point in time.

Divisions

While most of the key funds shared in the quarterly reduction in FUM, Citi observes the worst hit was the Ethical Fund where FUM fell to $1.4bn at the end of June from $1.8bn at the end of March. In contrast, the Smaller Company Strategy increased FUM to $1.3bn from $1.2bn. At present, Citi gives the company the benefit of the doubt and presumes outflows are largely one-off. Nevertheless, the risk is envisaged to the downside.

Brokers also note, despite a recent pick up in performance of the Global Share Fund, the global equity strategy is not attracting new flows and FUM remains static at $1.2bn. Citi believes Perpetual may need to accelerate its transition and targeted growth strategies and will look to the FY17 result, due August 24, to see whether there is further growth in Perpetual Private from the Fordham strategy, which appears the best hope for growth outside of Perpetual Investments.

Credit Suisse estimates that initiatives for Fordham will only deliver around 1% per annum in additional earnings. Should fund performance re-emerge in the flagship funds, the broker suggests there is downside risk from higher compensation, as Perpetual has little exposure to performance fees to cushion the impact.

UBS also finds little evidence of an ability to generate non-market-driven organic growth in key divisions and continues to envisage downside risks to earnings expectations.

There are four Hold ratings and three Sell on FNArena's database. The consensus target is $48.89, signalling -6.1% in downside to the last share price. Targets range from $46.50 (Ord Minnett, Morgans) to $52.50 (Morgan Stanley, yet to comment on the June quarter). The dividend yield on FY17 and FY18 forecasts is 5.0% and 5.2% respectively.

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

Is Regis Resources Priced For Perfection?

Regis Resources impressed in FY17, delivering strong gold production. Risks for FY18 are skewed to the upside largely because of the potential at Duketon.

-Strip ratios at new pits are falling, which should be positive for costs -McPhillamys offers upside, yet uncertainties exist -Is the stock priced for perfection?

By Eva Brocklehurst

Regis Resources ((RRL)) continues to deliver new sources of ore and extend the life of its Duketon gold project in Western Australia. The company's June quarter result concluded a sturdy year of operations, delivering on guidance with strong free cash flow.

Citi downgrades to Neutral from Buy based on valuation, after a 60% run up from the December 2016 low. Nonetheless, the broker maintains a positive view on the stock and believes the risks for FY18 are skewed to the upside, largely because of exploration potential at Duketon, and the prospect for feasibility/permit progress at McPhillamys in NSW.

Canaccord Genuity was impressed with the performance of Duketon operations in FY17. Given an upgrade to prior FY18 guidance, the broker believes the recent positive share price performance is warranted and maintains a Hold rating. The broker, not one of the eight monitored daily on the FNArena database, raises the target to $3.70 from $3.55.

June quarter gold production was a record 90,400 ounces, up 14% on the March quarter. Importantly, FY17 gold production was up 6.3% and within guidance. All-in sustainable costs (AISC) were $945/oz.

FY18 guidance of 335-365,000 ounces at an AISC range of $940-1010/oz has been set, supported by the higher grades from satellite deposits. Canaccord Genuity notes the company has beaten guidance on these costs for the past two years.

Duketon

The high grade satellite program has introduced gold from Gloster to the northern feed, which includes Moolart Well, and introduced Erlistoun to the southern feed, which includes Garden Well and Rosemont. Both new satellites have elevated initial strip ratios that will be lower in FY18 and support higher production forecasts at lower costs.

Credit Suisse observes the outlook for Duketon is now more positive and visible that it has been for several years and the project's reconciliation issues appear confined to history.

The two key questions broker has are: how much can the resource grow and what are the constraints in converting the resource to reserve? The Banygo and Tooheys Well satellites are still to be developed and will use the mining capacity released by the declining strip ratio. These will commence in the second half of FY18 and support production growth, the broker suggests, given higher grades will be displacing lower grade ore sources into FY19.

The company is also focused on the possibility of an underground mine at Rosemont, which could operate concurrently with the five-six-year open pit to maintain utilisation at the mill.

The company's strategy of commercialising high grade satellite resources has been highly successful but UBS highlights these are being commercialised in a deliberate sequence, which reflects a view of the quality/economics of the targets.

Therefore, the risk is that the next six targets recently announced could be of lower quality. They are, on average, further away from the mill. UBS remains concerned that the market may be already capitalising these future targets.

McPhillamys

Meanwhile, the company has made good progress at McPhillamys, including the options for sourcing water. Aside from the patience required for permits in Australia's more populous eastern states, Citi observes the key to success at McPhillamys could be capital expenditure.

Typically, with a large volume, low-cost open pit mine, value is optimised with higher capex, which brings high volumes and low operating expenditure. The broker models McPhillamys at 7mtpa at 1g/t with 85% recovery over 10 years, producing 191,000 ounces.

Operating expenditure is estimated at $1,000/oz and capex of $200m, including a water pipeline. This generates an unrisked net present value of around $213m. The broker makes these assumptions on the basis of the company's $190m capex at the 7.5mtpa Garden Well/Rosemont mines in FY12-13.

Citi acknowledges capital costs in NSW could also be higher than WA, and any increase in capex could quickly cut into the value. The broker notes the company will need to balance its expectations again sensitivities to mining in an agricultural area, where issues such as scale, noise, and the use of chemical reagents in the Lachlan River catchment are key.

Macquarie believes McPhillamys offers more upside than ever, although the timeline for development and details around costs remain uncertain. The broker notes currency moves also present negatives for all Australian gold producers.

As two alternative water solutions have been articulated, Credit Suisse observes the next two milestones are the maiden reserve and updated resource, due during the September quarter, with a definitive feasibility study in the December quarter. These two information milestones should better define the project, in the broker's opinion.

Credit Suisse now attributes 75% of its valuation of McPhillamys in its target, up from 50% previously and prior to the water solutions. The 75% reflects the uncertainties around assumptions and the ultimate timing and performance of the project.

UBS has questions regarding costs at McPhillamys, especially given the escalation in power prices in NSW. Outside of this, with growth in domestic production, low costs and a strong balance sheet the broker believes the stock's premium valuation has been well earned.

UBS considers the stock is priced for perfection and the risks are skewing to the downside, retaining a Sell rating. Nevertheless, the broker acknowledges that, for small cap investors, there is not much else in the gold sector that screens as favourably.

There is one Buy rating (Ord Minnett, yet to comment on the quarterly), three Hold and four Sell on FNArena's database. The consensus target is $3.37, suggesting -12.0% downside to the last share price.

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.

Iluka Beats All Forecasts

Mineral sands miner Iluka Resources posted a strong beat on production and sales in the June quarter but brokers disagree over valuation.

- Production, prices beat forecasts - Price rises implemented for second half - Momentum positive, but valuation questioned

By Greg Peel

Iluka Resources ((ILU)) produced more zircon (used for coatings on ceramic tiles and so forth) and more rutile (from which comes titanium oxide, the pigment that puts the “white” in “whitegood”) in the June quarter than all brokers had forecast. Realised prices were also higher than forecast, leading to a beat on revenue and a greater reduction in debt than expected.

Basically it was a cracker of a quarter, leading to a solid first half. Production will nevertheless be weighted to the first half given a scheduled maintenance shutdown of the Narngulu mineral separation plant in WA for two months in the second half. Full year (2017) production guidance has thus been maintained.

The outlook is positive, with the company having implemented price rises for both zircon and rutile from July 1. Adjusting for sales on fixed contract pricing, the net price rise will equate to about 7.5%.

The company expects only moderate zircon demand growth over the next two years but believes it is the only global supplier with significant inventories, therefore well-placed to benefit from any demand increase. This makes Iluka the “swing supplier” and allows the company to control its output to match demand.

The story is better for rutile. Supply disruptions and environmental restrictions have led Chinese end-users of pigment to draw down on inventories and have forced a re-stocking cycle that is exceeding underlying end-user demand growth.

Further good news was evident in unchanged full-year production guidance for Iluka’s Sierra Rutile business in Sierra Leone, reducing anxiety around the reliability of operations in the volatile African country. Meanwhile, production is set to expand ahead with the domestic Southern Flank and Balranald developments both looking at first production in 2021, which will offset grade decline at Ambrosia.

It’s difficult to find any bad news. But the issue then becomes one of valuation.

Absolute or Relative?

In commenting on the successful June quarter, Credit Suisse (Outperform) suggests “we expect the momentum to carry through in the second half and see no negative catalysts with respect to sales volume or pricing that will change our view at this stage”. Morgan Stanley (Overweight) points out Iluka last saw zircon sales this good in the June quarter 2013.

Ord Minnett cites “positive pricing momentum and valuation support” in maintaining an Accumulate rating. UBS retains Buy given confidence in improving fundamentals and a belief the market is not yet fully accounting for price rise potential.

Macquarie (Underperform) is the only broker in the FNArena database to express disappointment in second half guidance for zircon and rutile pricing, despite first half prices having beaten the broker’s forecasts. Macquarie expected more, and notes that a forecast enterprise value to earnings multiple of 10x in 2018 and a free cash flow yield of 5% makes Iluka expensive against its peer group.

Deutsche Bank (Sell) cites exactly the same metrics in drawing the same conclusion, further noting the company’s heavy investment requirements ahead.

Analysts at Citi stuck with their Neutral rating.

All brokers have lifted their 2017 earnings forecasts and this sees the consensus target rise to $8.99 from $8.65. No changes in ratings mean a stable four Buys, one Hold and two Sells. The disparity among brokers in valuation calls is best reflected in the range of targets that net out at $8.99, from $6.80 (Deutsche) to $10.60 (UBS).

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.

Newcrest Emerges From Cadia Disruption

Newcrest Mining is emerging from the disruption caused by a seismic event at its Cadia copper/gold mine. Brokers assess the outlook and growth options for the miner.

-Record output at Lihir counters major outage at Cadia -Stock upgraded, generating strong free cash flow amid undemanding valuation -Investment in SolGold hailed as a potential growth option

By Eva Brocklehurst

Newcrest Mining ((NCM)) is coming out of the woods after June quarter production was impacted by a seismic event at its Cadia copper/gold mine. Brokers believe FY17 turned out to be a reasonable year, all things considered, as record production at Lihir countered the outage at Cadia. Cadia was off-line for most of the June quarter.

Newcrest recently de-rated because of these operating issues, as well as gold price sentiment, but Deutsche Bank observes the company is now generating solid free cash flow and the valuation is undemanding relative to global peers. Hence, the broker upgrades to Hold from Sell.

Ord Minnett also upgrades, to Hold from Lighten, highlighting the record quarterly production at Lihir and praising management for the improvements as this asset has been difficult throughout its life. Cadia production also fared better than the broker expected.

Ord Minnett notes the share price has fallen -10% over the past month yet, despite raising its recommendation, maintains a preference for bulk and base metal stocks over precious metals exposure as these have more attractive free cash flow yield and valuations.

Gold production in the June quarter was -7.8% below the prior quarter while group all-in cash costs (AISC), after normalising for the seismic event, were 26.5% higher. This was driven by higher costs at Cadia, Gosowong and Bonikro, partly offset by lower costs at Lihir and Telfer.

Lihir hit a record for throughput in the June quarter of 14.5mtpa, annualised. This was driven by improvements such as the installation of mill liners and the timing of shutdowns. Although throughput is anticipated to drop under 14mtpa in the September quarter, the sustained annualised target rate of 14mtpa by December is considered on track.

Deutsche Bank notes the company has stated that Bonikro is non-core and a decision to reinvest or sell will be made in the current quarter. The broker has tracked the progress of the Cadia East recovery project and believes risk/reward is now more balanced for both the deposit and the stock more broadly.

Cadia

UBS considers Cadia, NSW, the jewel in the company's portfolio, accounting for two thirds of valuation and one third of normalised production. While the mine has not been compromised by the seismic events, the broker remains cautious about the speed of the ramp-up and the pace of planned expansion beyond FY19.

UBS envisages production growth at Cadia to 900,000 ounces by FY19, supported by grade and the lifting of milling rates. Both of these could be at risk if the speed of the ramp up drags out.

At the present time, the broker observes that outperformance at Lihir is more than covering up for Cadia but maintains a Sell rating, continuing to find better gold exposure in Evolution Mining ((EVN)).

The ramp up at Cadia is critical, Macquarie agrees. Panel cave 2 may be now back in production at Cadia but the broker remains cautious on the stock until full production at the mine can be demonstrated. Panel cave 1 is expected to re-start in the current quarter.

The company has confidently maintained guidance for the cost and recovery process at Cadia but Morgans remains cautious too and expects FY18 margins will be affected. This is the company's most profitable operation and the outage has a large impact on costs, which Morgans notes increased to average US$968/oz in the June quarter from US$713/oz in the prior quarter.

Citi expects an improvement in production in the September quarter and maintains its Neutral call. Costs at Cadia East are expected to remain elevated but the broker flags the fact these are confined to AISC and do not affect the profit & loss statement.

Growth Options

The growth option in the Wafi-Golpu joint venture is continuing to progress, with the JV engaging with the PNG government on the application for a special mining lease. Deutsche Bank expects Newcrest will experience a -10% decline in copper equivalent production through to 2025 and that Wafi-Golpu will be on hold until the fiscal regime is formalised.

Newcrest has taken a 14.5% stake in SolGold and Shaw and Partners observes this company's 85%-owned Cascabel copper discovery in Ecuador is starting to sound like it could rival Rio Tinto's ((RIO)) Oyu Tolgoi.

Deutsche Bank also likes the growth option emanating from the stake in SolGold, agreeing Cascabel has potential to be a globally significant discovery and a viable pathway for Newcrest to increase its copper output over the next 10-15 years.

Shaw and Partners, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $22 target. The broker points out that Newcrest has met or surpassed guidance for the past four years, which is an impressive turnaround given its prior track record.

There are now five Hold ratings and three Sell on the database. The consensus target is $19.90, signalling -2.3% downside to the last share price. Targets range from $18.20 (Credit Suisse) to $24.00 (Citi).

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.

Super Retail Defends Sports With Rebranding

Brokers welcome Super Retail's intention to convert all the Amart Sports stores to the Rebel brand, creating a leaner division that will face the growing competition.

-Brand consolidation reflects a need to achieve scale and cost savings quickly -The sports division is the most exposed of the company's brands to Amazon -Credit Suisse suggests the targeted increase in Rebel stores to 200 is bold

By Eva Brocklehurst

Brokers welcome Super Retail's ((SUL)) intention to convert all its Amart Sports stores to the Rebel brand. The overlap of customers and cost efficiencies involved suggests this is the best way forward to compete in a tougher environment.

Morgans believes the company is now in a stronger position to be able to fend off increasing competition in this category, a concern that has weighed on Super Retail's share price. The broker reduces its valuation in line with the sector de-rating and to account for increased competition, yet retains an Add rating, acknowledging the key risks include a slowing of consumer spending, margin compression and a significant fall in the Australian dollar.

Management expects gross margin uplift and synergy benefits from the consolidation of $15m per annum after two years. The company will record $34m in after-tax non-cash transformation costs in FY17 and a further $3m in FY18. An additional $9m in capital expenditure for store conversions has also been flagged.

Amart contributes less than 30% of sports division sales and UBS estimates the earnings contribution is materially less, making the conversion accretive to earnings. The broker believes it provides the option to re-invest in price and launch a wider online service. While retaining a Buy rating, the broker also flags increasing risk to the near-term outlook via the subdued consumer backdrop.

Deutsche Bank notes the dual-brand strategy in the sports division was aimed at targeting a full customer spectrum, as Amart was focused on the value/family segment and Rebel in on the more premium/specialist offering. However, the rapidly evolving competitive landscape suggests the move to unify the brands will deliver a business better able to compete in range and service against online and big box competitors.

Deutsche Bank has not changed forecasts, assuming a gradual improvement in the operating earnings margin in sports to the company's guidance of 11% by FY20. The broker expects the $15m in annual synergies identified as part of the rebranding are likely to be invested in price and this provides greater confidence to existing assumptions.

Competition

Can the consolidation address the looming competition issue? The value of equity in the Amart brand may be lost but Credit Suisse believes the strategy pre-empts the consolidation of a market that is moving to significant over-capacity and resulting in declining industry economics.

In contrast to guidance, the broker forecasts a division margin of 8.4% in FY20, reflecting its view of the likely profit trend in the industry. Credit Suisse downgrades to Underperform from Neutral because of the increase in the share price and the continuing downside risk to industry profits.

The broker suggests, given the likely offsetting impact of price reductions, it is unlikely that the improved profitability as a result of brand consolidation will be visible in the results.

The company's sports division is most exposed to Amazon's arrival in Australia and becoming leaner was necessary, in Morgan Stanley's view. The broker believes an upbeat trading announcement has also helped the outlook.

The shares have bounced 18% from the lows made on May 25 and Morgan Stanley considers the FY18 price/earnings multiple cheap. At 11x it compares to a long-term average, one-year forward multiple of 14x and is at a 41% discount to the industrials ex financials. Again, this looks cheap versus a long-term average of 16%.

Ord Minnett questions the ability to retain the synergies and cost efficiencies. The effect of synergies from changing to a single brand is less than the upside from the operating margin expansion opportunity that was guided to previously.

This suggests a deterioration in underlying performance and potential. Against this backdrop the broker finds a lack of valuation support and maintains a Lighten rating.

Stores

The consolidation decision reflects a desire to achieve scale and cost savings quickly. The company will convert all the Amart Sports stores to Rebel by October 31, which means the Rebel footprint will increase to 160 stores. While conversion of store branding will be completed by October, the shift in inventory will not be fully implemented until June next year.

Rebel has a target of 200 stores and niche brands in the division make up the difference to a previously-stated 230 store target. While consolidation to the core brand probably creates a more defensive position, a targeted 25% increase to 200 stores by Rebel appears bold to Credit Suisse, and is likely to be realistically sustained only if other retailers close.

In the broker's analysis six Amart stores are within 300m of an existing Rebel store, with several being in the same shopping centre. The potential closure of six stores is immaterial to the analysis, while 19 stores are in the same postcode and provide an additional proximity filter, signalling some cannibalisation of sales as a result of brand conversion. Credit Suisse notes there was no guidance on the rate of investment in price, which will presumably be managed to generate the desired profit outcome.

Macquarie believes the fact that convenience is the major driver of store choice acts to mitigate the customer retention risk. The broker remains positive on the company's market-leading brands in the experience categories and continues to envisage scope for innovation in building omni-channel capabilities.

Super Retail's core automotive division, around 47% of group earnings, is less prone to disruption and the broker find signs of a turnaround in leisure promising. Moreover, Macquarie believes a current -33% discount to the market is excessive and that the risks of Amazon are over-stated for the near term.

FNArena's database shows six Buy ratings and two Sell. The consensus target is $10.13, suggesting 22.9% upside to the last share price. The dividend yield on FY17 and FY18 forecasts is 5.3% and 6.1% respectively. Targets range from $7.50 (Credit Suisse) to $11.80 (Citi, yet to comment on the re-branding).

Bapcor Surprises With NZ Synergy Upside

Automotive parts business Bapcor has quantified the expected synergies from the acquisition of New Zealand's Hellaby Holdings and surprised on the upside.

-Healthy FY17 expected, with strong catalysts in the outlook -Future growth drivers include warehousing, store roll-out and margin expansion -Intense retail competition and integration risks may weigh in the short term

By Eva Brocklehurst

Bapcor ((BAP)) has quantified the expected synergies from the acquisition of New Zealand's Hellaby Holdings. The detail has provided greater upside than brokers were expecting.

Bapcor expects to reduce Hellaby corporate costs to $1m from $6-7m and operating earnings (EBIT) are expected to benefit to the extent of $8-11m from FY18-20. Synergies are largely driven from procurement, increased sales, freight and shared business services. The automotive division is the focus of the company's plans, with the resources and footwear segments of Hellaby up for sale.

Morgan Stanley observes the process of extracting benefits is similar to that following the acquisition of the automotive division of Metcash ((MTS)). Management has assessed nine project areas where a review of costs and revenue has been completed and should be delivered in the next three years.

Morgan Stanley believes there is further upside in the long-term, as the company invests in the business and warehousing. The broker notes operating earnings upside calculated by the company equates to 3.1-4.3% of Hellaby's automotive sales, similar to the percentage upside acquired from the Metcash automotive acquisition, and Bapcor delivered synergies from that acquisition at the top end of the range.

UBS had previously forecast that all NZ head office costs would be removed but did not incorporate any synergies. The broker highlights that the company has suggested synergies beyond FY20 are available in the form of lifting private-label penetration and warehouse rationalisation. UBS incorporates the divestment of non-core assets as discontinued items in forecasts, assuming they are divested in the current quarter for a combined value over $120m.

Catalysts

Warehouse benefits may come at a cost, with management noting an update will provided at the FY17 results, but Morgans suggests the returns could still be meaningful. Meanwhile, the company is continuing the process of divesting non-core assets and will make further announcements regarding these at the appropriate time. A portion of these expected to be divested in the coming months and Morgans factors in $111m of asset sales in FY18.

Macquarie understands that while non-core asset divestments are progressing, any delays will raise concerns over the proceeds that are achievable and the implication for the company's ability to reduce debt.

Morgan Stanley is confident the company will deliver a strong FY17 while the catalysts and growth drivers have been identified for the next three years. The broker is also confident in the medium-term growth outlook from the initiatives relating to store roll-out, margin expansion and the investment in warehousing. This opportunity is not reflected in the current share price, Morgan Stanley believes, and an Overweight rating is reiterated.

Separately, the company will open a trade storage Southeast Asia in the next six months in a joint venture. And initial investment of $5m is expected to fund greenfield developments and the first outlet to open by the end of the year.

Outlook

UBS believes the weaker macro outlook will impact the retail-exposed areas of the business, which comprise 20-30% of earnings, although the economic cycle has not generally affected car servicing habits. The broker expects the retail division to deliver around 2% sales growth in FY18.

While electric vehicles will eventually negatively impact servicing habits, UBS believes the trends are unlikely to materially affect the company in next 10 years.

Macquarie is positive about the defensive nature of Bapcor's trade business, which incorporates 65% of FY17 earnings. The broker also believes the company's model will prove resilient in the face of online competition given the advantages associated with its distribution.

Nevertheless, intense retail competition and integration risks reduce the broker's near-term enthusiasm. These factors are expected to weigh on valuation in the short term and Macquarie retains a Neutral rating.

There are three Buy ratings and one Hold on FNArena's database. The consensus target is $6.39, suggesting 12.4% upside to the last share price.

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.

Fortescue Plans To Beat On Costs, Again

Fortescue Metals beat expectations on iron ore production and sales in the June quarter but what really flummoxed brokers were record low costs. And there's more.

-Cost guidance sets a new benchmark for Pilbara producers -Lower costs and current iron ore prices expected to offset headwinds -Main headwind is price realisation as significant discounting likely to continue

By Eva Brocklehurst

Fortescue Metals ((FMG)) beat expectations on production and sales in the June quarter but what really flummoxed brokers were record low costs of US$12.84/t, This was assisted by a lower strip ratio.

The company has guided to FY18 costs of US $11-12/wmt which implies another record year, despite the strip ratio rising to 1.4 from 1.0, as productivity and efficiency projects such as autonomous haulage technology and conveyor systems are expected to deliver savings. Most brokers considers this an extraordinary outcome and testament to the company's strong management of its operations.

Macquarie observes the company continues to lead the way in operating efficiency for the iron ore industry, as its FY18 cost guidance has set a new benchmark for Pilbara producers. The broker pushes through the implied lower mining costs into forecasts for FY19 and beyond, while acknowledging discounting of iron ore prices continues to be a negative for the stock.

Fortescue shifted 44.7mt in the June quarter and guides to FY18 shipments of 170mt. Deutsche Bank believes shipment guidance is conservative and suspects the company will do better, raising earnings estimates by 3-4% and valuation by 13%, given the lower cost estimates and the inclusion of the Firetail replacement project. The broker is also impressed with the performance on net debt, which was reduced to US$2.7bn. Deutsche Bank retains a Hold rating on valuation.

Shaw and Partners believes the business has a lot more potential, given the record daily shipment rate and the down-trend in costs. The broker, not one of the eight monitored daily on the FNArena database, has a Buy rating and $5.50 target.

Shaw and Partners would really like to buy the stock below $5 a share but cannot envisage it returning to this level for a while, not with the iron ore price at a healthy US$70/t and costs heading below US$12/t. Macquarie also considers the stock cheap, but acknowledges assumed iron ore prices of US$70/t and an AUD exchange rate of US$0.80.

Price Realisation

Price realisation was around 73% of the benchmark in the quarter. Realised revenue of US$37.82/t was a -40% discount to the June quarter average Platts 62 CFR index price, when taking into account the impact of quarterly pricing and timing adjustments. The company has guided to 75-80% average discounted pricing for FY18.

Price realisation headwinds are expected to be weighted to the first half, while the second half is expected to return to more normal levels. Nevertheless, Credit Suisse believes the risk is for pricing weakness to continue into 2018 for longer than many expect. The broker assumes 85% price realisation in FY19 and beyond. Credit Suisse struggles to identify an immediate catalyst for the stock but remains a happy holder.

Ord Minnett also believes the stock is attractive, based on its high dividend yield potential, a reduced debt profile and solid operations. The broker predicts a -23% discount to the benchmark next year and a long-term discount of -17%.

Shaw and Partners suspects the maximum discount to the benchmark is now behind the company, although this is still averaging -24% in the year-to-date. Historically, the discount averages around -12%. The broker expects that when steel mill and capacity utilisation rates ease the discount should normalise to a more typical 85-90% price realisation.

Currency and realised pricing remain headwinds but cost reductions and the strength in the current iron ore price are expected to be offsetting factors. Yet UBS believes the market is right to be concerned about the level of discounting for low-grade iron ore.

The company's guidance assumes the discount narrows over FY18, in line with the broker's expectation. Nevertheless, UBS points out that higher utilisation and the abundance of low-grade ore is in the market, with the absence of high-grade to blend, remain structural issues. UBS expects the company to deliver earnings in FY17 of around $2.13bn and pay a $0.15 final dividend, taking the full year dividend to $0.35.

There are four Buy ratings, three Hold and one Sell (Citi, yet to comment on the production report) on FNArena's database. The consensus target is $5.64, suggesting 7.7% upside to the last share price. Targets range from $3.90 (Citi) to $6.50 (Credit Suisse). The dividend yield on FY17 and FY18 forecasts is 6.8% and 4.3% respectively.

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

Material Matters: Aluminium, Zinc And Energy

A glance through the latest expert views and predictions about commodities. Aluminium; thermal coal; copper; zinc & lead; and energy stocks.

-China's supply-side reforms may change the outlook for aluminium -China's thermal coal prices run sharply higher -Risk of significant labour unrest in South American copper mines diminishes -Zinc prices descend as China's smelters ramp back up -Credit Suisse suggests, if oil surprises on the upside, Santos and Oil Search could rally

By Eva Brocklehurst

Aluminium

China's supply-side reforms to aluminium could change the outlook for the industry, Credit Suisse contends. The broker expects the price of aluminium will surge into the December quarter if supply-side reforms prevail. Around 5mtpa of capacity could be curtailed by mid October, and the winter reductions of around -30% in terms of aluminium production in the 28 northern cities should kick off in mid-November, reducing output by around -1mtpa.

By 2018 the excitement is likely to pass, and the broker expects China will still be producing a surplus and exporting semis, undermining prices in the rest of the world. The surplus may be worse if demand in China falters and infrastructure stimulus ends.

Credit Suisse calculates the price may average US$0.91/pound in the December quarter but sink back to US$0.79/pound in 2018, while the market appears brighter in 2019-20 as it tightens and supply-side reforms limit China's productive capacity at around 39mtpa.

Thermal Coal

Soft supply growth and demand over China's summer have driven up local thermal coal prices by 15% in just four weeks, Morgan Stanley observes. As a result China's National Development and Reform Commission has called for meetings with the big thermal coal miners to discuss options to re-balance the market. The broker notes this scenario is playing out the same way as 2016, when the limits on output meant supply slumped and prices rose sharply.

The NDRC has announced measures to boost supply and stabilise prices. These include delivering new mines at a faster rate than closing old mines, prioritising coal rail/shipping, lifting the utilisation rate of clean power facilities, imposing supply and price contract terms and cutting spot trade. It appears the NDRC us hoping that new supply will quickly weigh on prices.

Morgan Stanley suggests, given current tight trading conditions and a need to reduce prices, perhaps the NDRC could moderate some of its supply-side policies, at least until the summer trade eases, slow industry reforms and ease import restrictions.

Copper

Citi updates monthly production numbers from 31 major copper mines in Chile and Peru noting production was relatively stronger at Las Bambas, Toromocho, Andina, El Teniente, Centinela and Antucoya. Production was relatively weaker at Cerro Verde, El Abra, Constancia, Escondida, Collahuasi and Cerro Colorado.

The broker also notes Antofagasta has reached a new deal with its union at Zaldivar and miners in Peru have called off a strike after the government agreed to create a task force to discuss labour reforms.

The risk of significant labour unrest in 2017-18 appears less than investors are appreciating, in the broker's opinion. Citi's global commodity team forecasts copper to average US$2.69/pound in the second half and US$2.82/pound in 2018.

Zinc & Lead

Macquarie observes the recent strong rally that caused zinc prices to peak at US$2,843/t has ended. Profit-taking and producer hedging has driven selling, which intensified after the Chinese production data showed output was up 16.9% annualised. Lead has followed zinc's move even more so, as less liquid contracts tend to.

The Chinese data undermines the smelter reduction narrative that has been driving zinc market bullishness, Macquarie asserts. The basis of the bull case rests on the shortage of concentrate feed forcing smelters, particular Chinese smelters, to cut output and drive tightness in refined supply. Presuming that new capacity only accounts for some of the gains, the broker is forced to accept that some smelters are ramping back up and have feed.

This may have come from inventories during the down time as well as imports, which alleviates supply fears and delivers profitability back to the smelters. Macquarie notes that, while ex-China has responded to prices and market tightness, China's mine output has not, as ascertained from anecdotes and official statistics.

As a result, the ramp up in Chinese ingot output in June shows that, ex-China at least, there has been enough response to ease pressures on the smelters in that short term. Still, the mine supply response to China has been surprisingly weak and, in sum, the broker believes the balance remains steeply in deficit.

Energy

Credit Suisse has reduced its oil price forecasts, taking Brent down to US$52.50/bbl for the second half (from US$61.50/bbl) and to US$53/bbl (US$65/bbl) for 2018. The broker has dropped its long-run Brent price to US $60/bbl from US $65/bbl.

Partially offsetting the negative impact of the changes to oil price forecasts, the broker lowers its cost inflation forecasts to 1% per annum to reflect on environment consistent with lower-for-longer oil prices.

Unsurprisingly, the broker makes large reductions to near-term earnings forecasts for the major energy players. Nevertheless, Credit Suisse does not believe the Australian energy sector is down and out.

Valuations are not cheap on a global basis but then again, the sector has never looked cheap in the broker's opinion. If oil were to surprise on the upside, Credit Suisse suspects stocks such as Santos ((STO)) and Oil Search ((OSH)) could have some decent legs.

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.

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday July 17 to Friday July 21, 2017 Total Upgrades: 21 Total Downgrades: 17 Net Ratings Breakdown: Buy 42.53%; Hold 41.39%; Sell 16.08%

Australian stockbrokers are unusually busy ahead of the August reporting season, in particular when viewed against the background of (thus far) a rather quiet confession season for corporate Australia.

One observation can be made and that is many quarterly production reports released by miners and energy producers show up weaknesses and disappointments, mildly eroding the macro strategies that have supported their share prices since mid-June.

One thing that hasn't changed is that total Buy (and equivalent) ratings carried by the eight stockbrokers monitored daily by FNArena is still outnumbering Hold/Neutral ratings, 42.53% versus 41.39%, and this historically tends to point towards a tougher environment for the domestic share market.

Most market observers would agree Australian shares have been running up hill since May and last week was certainly no exception.

For the week ending Friday, 21st July 2017 FNArena registered 21 upgrades in ratings for ASX-listed stocks against 17 downgrades. 17 out of the 21 upgrades moved to Buy. Amongst the stocks involved were bond proxies, banks, property cycle exposures and resources stocks. Clearly, there are a lot of moving elements impacting on the share market in July.

Energy producers stand out amongst those receiving donwgrades during the week, though most downgrades follow-on from share price rises prior.

Some hefty increases to target prices have been recorded, with corporate target Programmed Maintenance unsurprisingly commanding pole position (+54%), followed by WiseTech Global (+10.61%), Cimic Group (+9%) and Karoon Gas (+8.9%). On the negative side we find Baby Bunting (-7%), Perseus Mining (-5%) and Oil Search (-4.4%) receiving the largest reductions.

WiseTech Global leads the table for positive revisions to earnings estimates (+56%), followed by NextDC (+7.5%) and Perseus Mining (+2.79%). On the flipside, Village Roadshow's disappointing market update propelled it to the bottom of the table with earnings estimates sinking by -141%. Next follows AWE Ltd with a reduction of -53%, then comes perennial disappointer Myer (-24%), then follows Oil Search (-24%).

So far, the underlying current remains for more adjustments to the downside than to the upside ahead of the important August reporting season. Australian investors will be keeping their fingers crossed this dynamic can be turned around between now and mid-September.

Upgrade

AUSTRALIA & NEW ZEALAND BANKING GROUP ((ANZ)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/4/0

APRA has finalised its capital requirements which means the target CET1 ratios were lifted 150 basis points for the major banks and 50 basis points for the regional banks. The new capital targets come into effect by January 2020.

Citi observes banks are likely to achieve this through organic capital generation and the finalisation of these capital adequacy requirements removes a significant overhang for the sector.

Basel 4 remains on the agenda if global agreement can be reached but the APRA moves were designed not to wait. If agreement is reached Citi continues to expect mortgage risk weights will be affected, although this is unlikely to be cumulative to this announcement.

ANZ's rating is upgraded to Buy from Neutral. Target is raised to $31.50 from $31.00.

CIMIC GROUP LIMITED ((CIM)) Upgrade to Hold from Sell by Deutsche Bank .B/H/S: 1/2/2

First half results showed continued growth in work in hand and margins are being maintained. While revenue was below Deutsche Bank's expectations growth is expected to flow through in the future.

The broker had been wary of low margin contracts that might negatively affect earnings but the benefits of economies of scale appear to be offsetting the competitively-priced contracts.

Deutsche Bank upgrades to Hold from Sell. Target is raised to $34.68 from $30.83.

CROWN RESORTS LIMITED ((CWN)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/4/0

Crown has been elevated to Buy at Ord Minnett on more cost savings (opex) to offset weak VIP business, reduced gearing for potential corporate partnership strategies and a better outlook for CrownBet. The analysts throw in a rather cheap looking valuation as well.

All in all, it is Ord Minnett's view the risks are by now well and truly priced in, while management can provide offsets. The analysts turn temporarily into speculators and believe there is increased potential for a joint bid for Tatts' ((TTS)) wagering and lotteries business.

Target price has been increased to $14 from $13. Earnings estimates have been slightly lowered.

DEXUS PROPERTY GROUP ((DXS)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/3

Macquarie believes Dexus will hit its funds from operations guidance at its FY17 result, and expects an update on the office portfolio to be positive given its Sydney focus.

The outlook for the industrial portfolio remains subdued but the broker suggests improving occupancy will see a return to income growth for the first time since 2014. Dexus remains the broker's preferred office REIT exposure and since the share price fall the market is pricing in no asset value appreciation in the next 12 months. Upgrade to Outperform.

Target unchanged at $10.22.

GPT ((GPT)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Buy from Neutral by UBS .B/H/S: 3/2/1

Macquarie suggests GPT's result will show retail growth partially dragged down by Dandenong, strong office rents but increased vacancy, and modest industrial growth supplemented by development. There is potential for a minor uplift to guidance.

GPT remains a solid, defensive proposition offering diversity across all of quality retail, office and industrial, Macquarie notes. On a more attractive forecast return and the chance of a minor upside surprise, the broker upgrades to Outperform. Target unchanged at $5.18.

After considering the Amazon threat in more detail UBS believes the risks are priced in and upgrades to Buy from Neutral on valuation grounds.

The broker believes the market has become too negative on the company's retail portfolio, while at the same time the premium Sydney/Melbourne office portfolio is considered the best way to get exposure to the strong transactions in the market. Target is $5.30.

MANTRA GROUP LIMITED ((MTR)) Upgrade to Hold from Sell by Deutsche Bank .B/H/S: 5/3/0

Deutsche Bank upgrades to Hold from Sell because the valuation multiples are less onerous, following a -20% de-rating over the past year.

The broker retains concerns about earnings quality and capital allocation but upgrades on valuation grounds and believes there are prospects for improved sentiment in the near term. Target is raised to $3.00 from $2.60.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/2

APRA has finalised its capital requirements which means the target CET1 ratios were lifted 150 basis points for the major banks and 50 basis points for the regional banks. The new capital targets come into effect by January 2020.

Basel 4 is still on the agenda, if global agreement can be reached. Citi continues to expect mortgage risk weights will be affected but unlikely to be cumulative to this APRA announcement.

Rating is upgraded to Neutral from Sell and the target is raised to $31.00 from $30.50.

NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 1/3/1

Fundamentally, Morgan Stanley is a structural bear on traditional media as the rate of change in technology and consumer behaviour accelerates and the global leakage of advertising spending continues.

Nevertheless, after a substantially better start to the 2017 ratings year, Morgan Stanley flips its assessment of the earnings risk for Nine Entertainment to more upside than downside and upgrades to Equal-weight from Underweight.

Target is lifted to $1.20 from $0.90. Operating earnings estimates are lifted by 12-31% for FY17-19. Attractive industry view.

PERSEUS MINING LIMITED ((PRU)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/2/0

Production at Edikan in the June Q exceeded Macquarie's forecast but costs remain stubbornly high. Assuming Perseus can achieve its grade and throughput guidance, the broker believes costs will begin to decline in FY18.

The Sissingue project is now 61% complete. Target falls to 34c from 40c but the recent fall in share price has raised Macquarie's total shareholder return valuation to 21%, prompting an upgrade to Outperform.

Edikan is back on track and Morgan Stanley upgrades to Overweight from Equal-weight. The broker observes catalysts exist for three projects in FY18 and the company is fully funded with a US$200/oz all-in sustainable cost margin.

Production at Edikan increased 30% in the June half, after plant upgrades were completed and allowed better throughput. Higher grades and blending ore sources also contributed.

Target is $0.38. Industry view is Attractive.

SCENTRE GROUP ((SCG)) Upgrade to Outperform from Underperform by Macquarie and Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/1

Macquarie forecasts mid single digit funds from operations growth for Scentre in the first half result while underlying portfolio growth should remain subdued. The broker remains cautious on tenant returns in retail.

That said, Scentre continues to offer a relatively defensive income stream from high quality shopping centres and the REIT now offers a more attractive shareholder return following recent material underperformance, Macquarie notes. Upgrade to Outperform from Underperform. Target falls to $4.36 from $4.52.

After considering the Amazon threat in more detail UBS believes the risks are priced in and upgrades to Buy from Neutral on valuation grounds.

The stock is implying a 5.9% cap rate versus the sector at 6.1% and the broker expects it to trade 50-60 basis points tighter through the cycle, given its premium asset quality. Target is $4.42.

SANTOS LIMITED ((STO)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 6/2/0

Ord Minnett continues to recognise the risks associated with Santos, notably the leverage to weak oil prices and the potential impact from the government's gas security mechanism.

Nevertheless, the underperformance over the past year could provide a value opportunity and Ord Minnett lifts its recommendation to Speculative Buy from Hold. Target is lowered to $3.80 from $4.20.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Upgrade to Add from Hold by Morgans .B/H/S: 2/4/1

Strong passenger growth continued into June, driven by high load factors in larger aircraft. Morgans observes international growth is running well above long-term trends. The broker makes minor upgrades to earnings forecasts.

Rating is upgraded to Add from Hold. Target is raised to $7.40 from $7.18.

VICINITY CENTRES ((VCX)) Upgrade to Buy from Neutral by UBS and Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/0/2

After considering the Amazon threat in more detail UBS believes the risks are priced in and upgrades to Buy from Neutral on valuation grounds.

The broker calculates the stock is now trading at a -7% discount to net tangible assets and on a 7.3% free funds from operation yield.

UBS suspects that, at these levels, a buy-back, funded by a combination of selective lower-tier asset sales and finessing the development pipeline, would be well received. Target is $2.92.

Macquarie expects Vicinity's FY17 result to be in line with guidance, with the potential for a minor beat, while the FY18 outlook should be for a resumption in growth.

Vicinity offers a relatively defensive income stream from a relatively high quality retail portfolio, and while Macquarie remains cautious on tenant returns, an attractive total shareholder return forecast leads the broker to upgrade to Outperform. Target unchanged at $2.91.

WESTPAC BANKING CORPORATION ((WBC)) Upgrade to Overweight from Equal-weight by Morgan Stanley and Upgrade to Neutral from Sell by Citi .B/H/S: 4/4/0

APRA has finalised its capital requirements which means the target CET1 ratios were lifted 150 basis points for the major banks and 50 basis points for the regional banks. The new capital targets come into effect by January 2020.

Morgan Stanley believes the tail risk relating to bank capital adequacy requirements has now been removed but remains concerned about structural and cyclical headwinds.

Westpac is a beneficiary of re-pricing and has a lower credit risk profile, with the broker believing it offers a better risk/reward at current multiples.

Against this backdrop, the broker upgrades Westpac to Overweight from Equal-weight. Target is raised to $32.70 from $28.80. Industry view is In-Line.

APRA has finalised its capital requirements which means the target CET1 ratios were lifted 150 basis points for the major banks and 50 basis points for the regional banks. The new capital targets come into effect by January 2020.

Basel 4 is still on the agenda, if global agreement can be reached. Citi continues to expect mortgage risk weights will be affected but unlikely to be cumulative to this APRA announcement.

Rating is upgraded to Neutral from Sell and the target lifted to $31.00 from $30.50.

WESTFIELD CORPORATION ((WFD)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 3/2/1

Macquarie expects Westfield's first half growth to be subdued due to Brexit and the uncertain timing of a swap receivable. The full year outlook will likely be unchanged, the broker suspects, with recent GBP strength helping. The key will be any insights onto the trajectory in 2018.

Given the stock has materially de-rated and total shareholder return now looks attractive, Macquarie upgrades to Outperform from Underperform. Target rises to $9.14 from $8.93.

WHITEHAVEN COAL LIMITED ((WHC)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 4/3/1

Ord Minnett believes the company is well-positioned to pursue numerous avenues for growth in production. The broker notes the capital structure of the business is now transformed, following the significant recovery in coal markets over the last 18 months.

Rating is upgraded to Buy from Accumulate and the target raised to $3.50 from $3.20.

Downgrade

ALS LIMITED ((ALQ)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 3/3/1

Deutsche Bank considers the outlook for the sector is mixed, with growth in infrastructure expenditure, declining Australian LNG construction and some signs of recovery in global oil & gas capital expenditure.

The broker assesses these stocks are trading at the upper end of historical ranges and there are minimal buying opportunities.

Deutsche Bank still likes the company's exposure to the recovering minerals exploration market and structural growth in life sciences but believes this is now fully reflected in the share price. Rating is downgraded to Hold from Buy on valuation. Target is $7.41.

AURIZON HOLDINGS LIMITED ((AZJ)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 0/3/5

Changes in bond markets will reduce core return over the next four years, unless there is a material change by the regulators, point out Macquarie analysts. With funding savings partially offsetting, they estimate a potential impact of -$9m on net profit.

The company had a tough year in terms of volumes, but Macquarie sees a bounce back on the horizon for FY18. So far, there is little evidence of a catch up, they note.

All in all, minor adjustments have been made, but the analysts find the share price valuation rich for a low growth company providing relatively attractive yield. Hence why the downgrade to Underperform from Neutral. Target remains $4.98.

BABY BUNTING GROUP LIMITED ((BBN)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/3/0

The Baby Bunting share price has bounced hard over the month past. Citi analysts have decided it's time to pull back to Neutral. Longer term, they see Amazon as a real and genuine threat, but the company should have multiple levers to offset.

BHP BILLITON LIMITED ((BHP)) Downgrade to Neutral from Buy by Citi .B/H/S: 5/3/0

Citi downgrades to Neutral from Buy, because of share price appreciation and a reduction in the target price to $25.50 from $26.50.

This target reduction has been driven by FY18 earnings downgrades because of lower production and a reduction in net present value from a lower long-term oil price estimate.

While the company is set to reverse a two-year trend of declining production in FY18 it is still facing price headwinds and the broker prefers Rio Tinto ((RIO)).

CREDIT CORP GROUP LIMITED ((CCP)) Downgrade to Hold from Add by Morgans .B/H/S: 1/1/0

Morgans expects FY17 net profit to be 22% above FY16. FY18 growth is expected to be driven by the lending division as the US division moves into profitability. The broker tempers expectations for domestic PDL acquisitions as strong competition continues.

Rating is downgraded to Hold from Add. While positive on the earnings certainty and medium-term growth profile, Morgans would prefer to see greater upside before returning to a more positive stance. Target is reduced to $19.35 from $19.90.

COMPUTERSHARE LIMITED ((CPU)) Downgrade to Neutral from Buy by UBS .B/H/S: 2/5/1

The stock is now trading at a market multiple on FY20 estimated earnings which is appropriate, UBS believes, as the key growth drivers are going to fade beyond this point.

The value risks now appear more evenly balanced and the broker downgrades to Neutral from Buy. Target is raised to $15.25 from $14.95.

INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED ((IDT)) Downgrade to Reduce from Add by Morgans .B/H/S: 0/0/1

Dr Paul MacLeman joined IDT in 2013 to turn around the business and acquired a portfolio of 23 generic drugs planned for manufacture and US distribution. Little progress left investors frustrated and now MacLeman has resigned.

His resignation leaves the company's generic drug strategy under a cloud, the broker suggests. The broker has de-weighted the value of the portfolio and on the basis of uncertainty over leadership and strategy can not now recommend the stock to investors.

Downgrade to Reduce from Add. Target falls to 8.5c from 22c.

JB HI-FI LIMITED ((JBH)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/4/2

UBS has downgraded the stock to Neutral from Buy, lowering the target to $25.80 from $32.50.

ORIGIN ENERGY LIMITED ((ORG)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/4/0

Citi's oil and gas analysts have bitten the bullet and succumbed to the realisation that the past is just that and the future holds more limitations to how high oil prices might realistically be able to rise.

Apart from lowering near term forecasts, by on average US$5/bbl, of more importance is the team has now cut the long term oil price forecast to US$55/bbl real (from US$65/bbl). This becomes a real problem when many a share price for oil and gas producers is still reflecting a higher price.

On Citi's calculations, Origin Energy's share price is already projecting US$55/bbl, hence the downgrade to Neutral. New target price of $7.34 compares with $8.59 prior.

OIL SEARCH LIMITED ((OSH)) Downgrade to Sell from Neutral by Citi .B/H/S: 5/2/1

Citi's oil and gas analysts have bitten the bullet and succumbed to the realisation that the past is just that and the future holds more limitations to how high oil prices might realistically be able to rise.

Apart from lowering near term forecasts, by on average US$5/bbl, of more importance is the team has now cut the long term oil price forecast to US$55/bbl real (from US$65/bbl). This becomes a real problem when many a share price for oil and gas producers is still reflecting a higher price.

On Citi's calculations, Oil Search's share price is projecting US$68/bbl, hence there is no other option than to downgrade; to Sell from Neutral. New target price of $5.72 compares with $7.47 prior.

PERPETUAL LIMITED ((PPT)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/5/2

Citi notes the fourth quarter should have been a strong one for super flows, with investors moving ahead of regulatory changes, but this was not in evidence.

The broker reduces estimates for FY17 earnings by -0.2% and FY18-19 by -3%. Citi believes the company may need to accelerate its transition and targeted growth strategies if its recent run of relatively poor investment performances continues.

Rating is downgraded to Sell from Neutral. Target is reduced to $50.25 from $50.80.

PROGRAMMED MAINTENANCE SERVICES LIMITED ((PRG)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 1/2/0

Persol Holdings has made a cash offer of $3.02 for the company by way of a scheme of arrangement. Ord Minnett observes the offer represents an FY17 enterprise value to operating earnings multiple of 10.3x.

The broker envisages a higher competing offer is unlikely, given some structural concerns in the staffing division, although other companies might be interested in the company's maintenance contracts.

There is now just 4% potential upside to the broker's estimates so the rating is downgraded to Hold from Accumulate. Target is raised to $3.08 from $2.07, which reflects the additional upside from franking credits on top of the cash offer.

RCG CORPORATION LIMITED ((RCG)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/2/0

Now that the share price has bounced, a lot, since Citi decided to upgrade to Buy in late May, the decision has been made to downgrade back to Neutral.

Citi analysts note, with regards to the upcoming reporting season, RCG Corp has disappointed investors at each of its last financial reporting releases.

The analysts also highlight they remain concerned about elevated levels of discounting throughout the industry.

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

It was another soft quarter for Rio in the Pilbara although 2018 still looks to be as expected in volume terms, according to Morgans. The miner nevertheless benefitted from solid iron ore and coal prices in the quarter and a strong rebound for aluminium.

Ongoing strong cash flows support a robust balance sheet but a lack of capex plans suggests to Morgans low business confidence among global miners persists. The share price has run up ahead of result season and has reached the broker's target of $62.30, down from $66.57.

Downgrade to Hold.

SOUTH32 LIMITED ((S32)) Downgrade to Neutral from Buy by Citi .B/H/S: 5/3/0

Operational challenges that have affected the company in FY17 have rolled into FY18 and Citi also retains a bearish outlook on the coal price.

Citi has downgraded coal-nickel and silver prices but upgraded aluminium prices. The target is reduced to $2.70 from $2.95 and as a result the broker downgrades to Neutral from Buy.

WOODSIDE PETROLEUM LIMITED ((WPL)) Downgrade to Sell from Neutral by Citi and Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/4/2

Citi's oil and gas analysts have bitten the bullet and succumbed to the realisation that the past is just that and the future holds more limitations to how high oil prices might realistically be able to rise.

Apart from lowering near term forecasts, by on average US$5/bbl, of more importance is the team has now cut the long term oil price forecast to US$55/bbl real (from US$65/bbl). This becomes a real problem when many a share price for oil and gas producers is still reflecting a higher price.

On Citi's calculations, Woodside's share price is projecting US$68/bbl, hence there is no other option than to downgrade; to Sell from Neutral. New target price of $27.50 compares with $32.41 prior.

Ord Minnett's previous positive view was based on the growth outlook but sustained low oil prices have had the effect of not only lowering the estimated value but also potentially delaying or deferring growth projects.

Rating is downgraded to Hold from Accumulate and the target to $30 from $36.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AUSTRALIA & NEW ZEALAND BANKING GROUP Buy Neutral Citi 2 CIMIC GROUP LIMITED Neutral Sell Deutsche Bank 3 CROWN RESORTS LIMITED Buy Neutral Ord Minnett 4 DEXUS PROPERTY GROUP Buy Neutral Macquarie 5 GPT Buy Neutral Macquarie 6 GPT Buy Neutral UBS 7 MANTRA GROUP LIMITED Neutral Sell Deutsche Bank 8 NATIONAL AUSTRALIA BANK LIMITED Neutral Sell Citi 9 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Neutral Sell Morgan Stanley 10 PERSEUS MINING LIMITED Buy Neutral Macquarie 11 PERSEUS MINING LIMITED Buy Neutral Morgan Stanley 12 SANTOS LIMITED Buy Neutral Ord Minnett 13 SCENTRE GROUP Buy Sell Macquarie 14 SCENTRE GROUP Buy Neutral UBS 15 SYDNEY AIRPORT HOLDINGS LIMITED Buy Neutral Morgans 16 VICINITY CENTRES Buy Neutral Macquarie 17 VICINITY CENTRES Buy Neutral UBS 18 WESTFIELD CORPORATION Buy Sell Macquarie 19 WESTPAC BANKING CORPORATION Neutral Sell Citi 20 WESTPAC BANKING CORPORATION Buy Neutral Morgan Stanley 21

WHITEHAVEN COAL LIMITED Buy Buy Ord Minnett Downgrade 22 ALS LIMITED Neutral Buy Deutsche Bank 23 AURIZON HOLDINGS LIMITED Sell Neutral Macquarie 24 BABY BUNTING GROUP LIMITED Neutral N/A Citi 25 BHP BILLITON LIMITED Neutral Buy Citi 26 COMPUTERSHARE LIMITED Neutral Buy UBS 27 CREDIT CORP GROUP LIMITED Neutral Buy Morgans 28 INSTITUTE OF DRUG TECHNOLOGY AUSTRALIA LIMITED Sell Buy Morgans 29 JB HI-FI LIMITED Neutral Buy UBS 30 OIL SEARCH LIMITED Sell Neutral Citi 31 ORIGIN ENERGY LIMITED Neutral Buy Citi 32 PERPETUAL LIMITED Sell Neutral Citi 33 PROGRAMMED MAINTENANCE SERVICES LIMITED Neutral Buy Ord Minnett 34 RCG CORPORATION LIMITED Neutral Buy Citi 35 RIO TINTO LIMITED Neutral Buy Morgans 36 SOUTH32 LIMITED Neutral Buy Citi 37 WOODSIDE PETROLEUM LIMITED Sell Neutral Citi 38 WOODSIDE PETROLEUM LIMITED Neutral Buy Ord Minnett Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SCG SCENTRE GROUP 42.0% -8.0% 50.0% 6 2 PRU PERSEUS MINING LIMITED 60.0% 20.0% 40.0% 5 3 VCX VICINITY CENTRES 25.0% -8.0% 33.0% 6 4 WFD WESTFIELD CORPORATION 25.0% -8.0% 33.0% 6 5 CIM CIMIC GROUP LIMITED -20.0% -50.0% 30.0% 5 6 WBC WESTPAC BANKING CORPORATION 50.0% 25.0% 25.0% 8 7 WTC WISETECH GLOBAL LIMITED 50.0% 33.0% 17.0% 4 8 KAR KAROON GAS AUSTRALIA LIMITED 67.0% 50.0% 17.0% 3 9 DXS DEXUS PROPERTY GROUP -17.0% -33.0% 16.0% 6 10 CWN CROWN RESORTS LIMITED 43.0% 29.0% 14.0% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 PRG PROGRAMMED MAINTENANCE SERVICES LIMITED 33.0% 63.0% -30.0% 3 2 PPT PERPETUAL LIMITED -29.0% -14.0% -15.0% 7 3 ORG ORIGIN ENERGY LIMITED 36.0% 50.0% -14.0% 7 4 ALQ ALS LIMITED 29.0% 43.0% -14.0% 7 5 AZJ AURIZON HOLDINGS LIMITED -63.0% -50.0% -13.0% 8 6 JBH JB HI-FI LIMITED -19.0% -6.0% -13.0% 8 7 RIO RIO TINTO LIMITED 81.0% 94.0% -13.0% 8 8 S32 SOUTH32 LIMITED 63.0% 75.0% -12.0% 8 9 OSH OIL SEARCH LIMITED 44.0% 56.0% -12.0% 8 10 BHP BHP BILLITON LIMITED 63.0% 75.0% -12.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 PRG PROGRAMMED MAINTENANCE SERVICES LIMITED 3.040 1.970 54.31% 3 2 WTC WISETECH GLOBAL LIMITED 6.213 5.617 10.61% 4 3 CIM CIMIC GROUP LIMITED 35.210 32.263 9.13% 5 4 KAR KAROON GAS AUSTRALIA LIMITED 1.977 1.815 8.93% 3 5 ALQ ALS LIMITED 6.991 6.817 2.55% 7 6 WBC WESTPAC BANKING CORPORATION 33.588 33.075 1.55% 8 7 MTR MANTRA GROUP LIMITED 3.403 3.353 1.49% 8 8 CWN CROWN RESORTS LIMITED 13.430 13.287 1.08% 7 9 ANZ AUSTRALIA & NEW ZEALAND BANKING GROUP 30.763 30.625 0.45% 8 10 WFD WESTFIELD CORPORATION 9.498 9.463 0.37% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BBN BABY BUNTING GROUP LIMITED 2.610 2.813 -7.22% 4 2 PRU PERSEUS MINING LIMITED 0.436 0.460 -5.22% 5 3 OSH OIL SEARCH LIMITED 7.493 7.839 -4.41% 8 4 STO SANTOS LIMITED 3.863 4.020 -3.91% 8 5 JBH JB HI-FI LIMITED 25.403 26.240 -3.19% 8 6 WHC WHITEHAVEN COAL LIMITED 3.158 3.246 -2.71% 8 7 ORG ORIGIN ENERGY LIMITED 7.556 7.741 -2.39% 7 8 SCG SCENTRE GROUP 4.523 4.592 -1.50% 6 9 S32 SOUTH32 LIMITED 2.976 3.020 -1.46% 8 10 VCX VICINITY CENTRES 2.925 2.947 -0.75% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WTC WISETECH GLOBAL LIMITED 15.910 10.185 56.21% 4 2 NXT NEXTDC LIMITED 6.150 5.721 7.50% 6 3 PRU PERSEUS MINING LIMITED -2.962 -3.047 2.79% 5 4 S32 SOUTH32 LIMITED 28.887 28.258 2.23% 8 5 NST NORTHERN STAR RESOURCES LTD 33.300 32.586 2.19% 6 6 MQA MACQUARIE ATLAS ROADS GROUP 28.510 28.190 1.14% 6 7 SWM SEVEN WEST MEDIA LIMITED 11.211 11.097 1.03% 5 8 CIM CIMIC GROUP LIMITED 196.183 194.280 0.98% 5 9 REA REA GROUP LIMITED 180.863 180.225 0.35% 7 10 JBH JB HI-FI LIMITED 186.363 185.863 0.27% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 VRL VILLAGE ROADSHOW LIMITED -4.450 10.750 -141.40% 4 2 AWE AWE LIMITED -3.598 -2.348 -53.24% 6 3 MYR MYER HOLDINGS LIMITED 6.383 8.483 -24.76% 7 4 OSH OIL SEARCH LIMITED 19.665 26.072 -24.57% 8 5 FBU FLETCHER BUILDING LIMITED 44.856 50.609 -11.37% 6 6 WHC WHITEHAVEN COAL LIMITED 36.188 40.700 -11.09% 8 7 BHP BHP BILLITON LIMITED 171.043 191.751 -10.80% 8 8 RIO RIO TINTO LIMITED 580.977 643.662 -9.74% 8 9 EVN EVOLUTION MINING LIMITED 14.984 16.124 -7.07% 7 10 ORE OROCOBRE LIMITED 8.015 8.569 -6.47% 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.

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

Uranium Week: Back To Support

After seven consecutive incremental weekly gains, the spot uranium price fell back to the US$20/lb mark last week.

By Greg Peel

The spot uranium price spent the prior seven weeks posting gains, but the positive run resulted only in a 4.3% net increase. Last week industry consultant TradeTech's weekly spot price indicator fell -US35c to US$20.00/lb.

Once again it appears the 20 mark is the current line in the sand below which buyers are interested and above which they are not. Just when the sellers thought they might be winning, it was back to chasing down prices once more.

Despite the incremental weekly price moves, the range of traded prices in a given week has widened, TradeTech notes. This is not a reflection of daily volatility but related to the vagaries of prices adjusted for different delivery locations, different delivery timing, and varying credit and/or payment terms between the trading parties.

The industry was to some extent distracted last week by the annual Nuclear Fuel Supply Forum held in Washington, although seven transactions were recorded in the spot market totalling 700,000lbs U_3O_8 equivalent.

There were no deals recorded in term markets last week and no change to TradeTech's term price indicators of US$24.45/lb (mid) and US$34.00/lb (long).

The highlight of the Supply Forum was news that the first ever shipment of uranium departed Australia bound for India last week. The Australian supply agreement sparked a good deal of controversy in Australia when it was announced some years ago, given India is not a signatory to the global nuclear weapons non-proliferation treaty. Assurances were made that the uranium would only be used for power generation purposes.

Australians can only take the Indian government on its word. India is indeed planning to build ten new nuclear reactors by 2031, and representatives provided Forum attendees with additional detail.

The Short Report

Guide:

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

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

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

Summary:

Week ending July 20, 2017

Last week the ASX200 run back to the top of the range before falling back again this week to the bottom of the range before running back up to the top of the range.

The approach of earnings season would typically see shorters wind back positions ahead of possible upside surprises but as the table below shows, most of last week's action involved short position increases.

One such increase was Orocobre ((ORE)) to 19.4% from 17.5% but the lithium miner jumps up and down every week.

More notable was a jump for JB Hi-Fi ((JBH)) to 15.0% from 12.1%. The three retailers arguably at most threat of being Amazon-ed are all in the 10% plus shorted table, being JB, Harvey Norman ((HVN)) and Myer ((MYR)).

The other big mover in the week was APN Outdoor ((APO)), which saw its shorts shoot up to 7.4% from 5.9%. The stock only recently entered the 5% plus table for the first time.

This week's debutant, scraping in a 5.0%, is Tabcorp ((TAH)).

Weekly short positions as a percentage of market cap:

10%+

ORE 19.4 SYR 17.6 WSA 17.5 MYR 16.7 JBH 15.0 IGO 14.4 RFG 12.7 MTS 12.3 AAD 12.0 DMP 11.9 MYX 11.7 ISD 11.8 ACX 11.8 SHV 10.8 HVN 10.8 FLT 10.2

No changes

9.0-9.9%

JHC, GTY, A2M In: JHC, GTY, A2M Out: NEC, GXY

8.0-8.9%

GXY, AHG, CTD, HSO, BKL, NEC

In: GXY, NEC Out: JHC, GTY, A2M, QIN

7.0-7.9%

TPM, BEN, QIN, APO, BAP, RIO, RWC, NXT, SAR, PRU, GXL, NWS

In: QIN, APO, RIO, RWC, NXT, SAR

6.0-6.9%

IPD, AYS, SEK, MND, OFX, EHE, BAL, VOC, OSH, VRT, NSR

In: VRT, NSR Out: RIO, SAR, NXT, RWC

5.0-5.9%

AAC, CSV, AWC, PPT, IFL, KAR, GEM, BGA, CCP, DCN, AWE, RCG, TAH

In: CCP, TAH Out: APO, VRT, NSR, MYO

Movers and Shakers

For many a year JB Hi-Fi was resident in the 10% plus shorted table, presumably on the basis of a belief the company honestly could not, simply cannot, keep posting street-beating earnings results. Every year JB would beat.

It was only earlier this year when a white flag was raised and JB began to slip quietly out of the 5% plus table. But then along came Amazon, and the stock is back in a familiar position of 15.0% shorted. There is also the matter of a weak Australian consumer carrying high levels of household debt, and for some time there's been a threat to JB Hi-Fi of Apple opening more of its own stores.

The company reports on August 14.

One outperforming sector of last year was out-of-home advertising, which surged on the back of billboard digitalisation. Players in the field include APN Outdoor, oOh!Media ((OML)) and to a lesser extent, media company HT&E ((HT1), the artist formally known as APN News & Media and now known as Here, There & Everywhere. It's hard to know which of the latter two have the most ridiculous name.

The sector has come off the boil somewhat this year and back in May the ACCC turned down an attempt by APO and OML to merge. The two companies are supposedly working on ways they can achieve ACCC approval but given so few players in the space, it's hard to see. That may be why APO has since crept into the 5% shorted table and last week jumped to 7.4% from 5.9%.

It could be a naked short, or it could be a pairs trade against OML, but then OML is itself 2.4% shorted.

Speaking of mergers, Tatts Group ((TTS)) and Tabcorp are still working towards achieving approval for theirs. Last week we saw Tabcorp sneak onto the table at 5.0% shorted. Tatts is 1.0% shorted. Possibly another merger-related pairs play.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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

The Wrap: BHP, Media, Property & Consumers

Weekly Broker Wrap: Oil & Gas; equity strategy; media; property; consumers; and Ellex Medical Lasers.

-Could BHP generate cash by selling out of Delaware Basin? -Elevated short interest in ASX200 stocks -Citi suggests rapidly rising house prices have been a headwind for property portals -Potential for buy-backs in the property sector -Morgans envisages reduced likelihood of consumer discretionary stocks missing guidance

By Eva Brocklehurst

BHP Billiton

Macquarie examines the potential for a mutually beneficial transaction in the US Delaware Basin, involving Anadarko, Shell and BHP Billiton ((BHP)). The broker notes recent investor activism at BHP has brought the issue to the forefront and recent marketing in Australia has indicated there is a strong desire from investors to have BHP move away from US onshore business.

The broker theorises that Anadarko can acquire and consolidate acreage in the basin while Shell can consolidate its position and receive some cash in the process. BHP could either sell out of its Delaware position completely or partially monetise it. In order for any transaction to take place it would need to provide a better outcome than the status quo for each participant and Macquarie believes such a transaction provides the outcome.

For Anadarko a transaction may fight the negative sentiment on Colorado and mitigate concerns of the Gulf of Mexico. For Shell it could provide an improved operating outlook as well as a cash injection. Finally, BHP would demonstrate value and cash generation while responding to a shareholder base that the broker believes desires change.

Equity Strategy

Deutsche Bank finds short interest for ASX 200 stocks remains quite elevated relative to history. This could reflect investor unease with valuations as the price/earnings ratio has been holding in the 15.5-16x range since early 2016, which is 10-15% above average. The broker notes short interest is particularly elevated for discretionary retail, telcos and food & beverages. There is minimal shorting of stocks in general insurance, packaging and media.

The broker's analysis finds the most shorted ASX200 stocks tend to outperform during results. This outperformance disappears in the two months following the results. Unsurprisingly, outperformance is best for those companies that beat expectations. Hence, the broker believes the most shorted stocks are good to own during results, particularly if there is a conviction that earnings will not disappoint, although it is worth selling after the results. (See: FNArena's weekly Short Report)

Media

Morgan Stanley is a structural bear regarding traditional media amidst an accelerating rate of change in technology and consumer behaviour. In looking at the strategic opportunities and structural risks, the broker identifies key overweight stocks as REA Group ((REA)), Fairfax Media ((FXJ)) in terms of its Domain business, Trade Me ((TME)) and WiseTech Global ((WTC)).

The broker's underweight stocks include Seven West Media ((SWM)), Southern Cross Media ((SXL)), Sky Network TV and Prime Media ((PRT)). The broker believes advertising revenue is most likely to surprise on the downside while cost reductions could provide a positive surprise.

Credit Suisse expects reductions in licence fees and associated changes will be made permanent when Parliament reconvenes in August. The broker adjusts forecasts accordingly, and notes savings worth 8% for Southern Cross in FY17 and 4% for HT&E ((HT1)).

Southern Cross is Credit Suisse's top pick in small media as it has an undemanding valuation and several areas of incremental upside, including improvement in TV market share on the back of Nine Entertainment's ((NEC)) rating strength and the cost savings in radio.

Citi upgrades News Corp ((NWS)) and Fairfax to Buy. As the property market cools down the broker expects listings growth will pick up and drive earnings upgrades across these companies as well as REA Group. Contrary to popular belief, the broker believes Australia's rapidly rising house prices have been a significant headwind for the REA and Domain portals that advertise properties for sale.

In a balanced market roughly half of all properties would require more than one listing, or advertisement, in order to achieve a sale. Average time on market in the property portals is down to 40 days and under 30 in Sydney, driving the listings/sales ratio down to 1.1 versus the long-term average of 1.5.

The broker notes residential property listing volumes have declined in five of the past six years and, in that same period, both the construction boom has boosted total housing stock by 10%. Throughout this time the broker observes both declining housing turnover and faster sales and believes a pull-back in investor activity would be the most probable catalyst to trigger a return to long-term turnover rates.

Property

Vicinity Centres ((VCX)) has announced an on-market buy-back of up to 5% of the outstanding shares. Citi believes the company remains well-placed to reinvest and the buy-back is an attractive opportunity at current levels. The broker ponders which of the Australian property stocks could be next, as the two main pre-conditions for a buy-back are adequate financial capacity and attractive share pricing.

In addition Citi believes buying back shares makes most sense for Shopping Centres Australasia ((SCP)) and Investa Office ((IOF)), which both trade below likely June 2017 net tangible assets and have gearing at the lower end of policy ranges.

Charter Hall Retail ((CQR)) may also become more active in executing on its buy-back program as further asset sales materialise, in the broker's opinion. Citi envisages less capacity for Westfield ((WFD)) and Scentre Group ((SCG)) to buy back stock in the absence of asset sales.

Consumer

Morgans assesses consumer spending has not sequentially worsened since late April. Moreover, around 85% of stocks in the discretionary consumer sector under coverage have either provided formal guidance ore trading update on the last 2 months. This suggests to the broker that the risk of missing earnings is decidedly reduced.

The broker believes most companies will be able to hit guidance and expectations. Nevertheless, FY18 retail sector growth forecasts may well prove to be optimistic. The main themes Morgans expects to dominate commentary at the upcoming results include gross margins, foot traffic, Australian dollar strength, potential slowing in the rolling out of stores and defence strategies in view of Amazon's entry in 2018.

Ellex Medical Lasers

Bell Potter expects Ellex Medical Lasers ((ELX)), a specialist ophthalmology product company, will grow its top line at around 20.5% compound and reach $182m by 2022. The broker forecasts a strong return to earnings growth in FY19 and FY20 after an expected decline in FY17 and FY18, which stems mainly from an increase in near-term spending to expand sales and marketing efforts, particularly in the US.

The marketing efforts centre on iTrack, a minimally invasive glaucoma surgery device. Bell Potter initiates coverage with a Buy rating and $1.92 target. The broker forecasts strong double-digit growth in revenue in earnings over the next five years and considers the stock is undervalued when compared with high-growth small cap medical technology companies in the US.

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.

SpeedCast Takes On The US Government

Satellite service provider SpeedCast International continues on the acquisition trail, with its latest considered a strong strategic move into the international government sector.

-UltiSat provides direct access to US government opportunities -Adds another integration task after the recent Harris CapRock acquisition -Demand for remote communications and strong market share underpin confidence in the stock

By Eva Brocklehurst

Satellite service provider SpeedCast International ((SDA)) continues on the acquisition trail, acquiring UltiSat for a maximum consideration of US$100m. This is a satellite service provider to the military, US government, international government agencies and non-government organisations, with coverage in 130 countries.

Macquarie suggests the government vertical market will become the fourth pillar of growth for the company and combined revenues from government for both SpeedCast and UltiSat should be in excess of US$100m. Moreover, the acquisition provides direct access to US government opportunities.

The acquisition is around 10% accretive to FY18 forecasts for earnings per share, based on Macquarie's estimates. Synergies are expected from the rationalisation of corporate support functions, satellite capacity procurement and teleport consideration.

The broker observes the underlying demand for remote communications and bandwidth will continue to grow strongly. Along with market share growth and further industry consolidation this underpins Macquarie's confidence in the stock and an Outperform rating is maintained.

Canaccord Genuity considers this a logical transaction as the company continues to strengthen its growth profile, and a step in solidifying SpeedCast's position as the dominant service provider across multiple sectors. The government vertical estimated to be worth US$4.8bn per annum and growing to US$9bn in 2025.

The broker, not one of the eight monitored daily on the FNArena database, maintains a Buy rating and raises the target to $5.02 from $4.92.

Morgans downgrades to Hold from Add following the announcement as, while financially the acquisition makes sense, a discount is applied to valuation to reflect the view that management needs to deliver on prior acquisitions in order to de-gear and prove these have created equity value. The broker expects this will take longer than the next 12 months, hence the downgrade.

Acquisition Details

The acquisition is for initial consideration of US$65m, involving US$60m in cash and US$5m in scrip. The earn-out consideration is up to US$35m and will be paid over two years, pending UltiSat meeting requirements. Macquarie estimates the acquisition represents around seven times FY17 operating earnings (EBITDA), reducing to around 5.5 times post synergies and anticipated tax benefits.

UltiSat is based in Gaithersburg, Maryland, and has its headquarters in Washington DC. The business was established in 2003 and has 150 employees. The company has a teleport in Denmark which can access more than 100 satellites in the geosynchronous arc from 55 degrees west to 70 degrees east. The company has also integrated and delivered a wide range of solutions in manned and unmanned airborne intelligence, surveillance and reconnaissance.

Positives for UBS include the attractive acquisition multiple and strong earnings accretion. Yet, this broker also points out the acquisition represents the eighth since 2015 and heralds a new integration task for SpeedCast as well as a lift in debt.

UBS calculates around 10% pro forma accretion to earnings in FY18 excluding synergies, and around 11-12% assuming $1.5m of initial synergies and agrees a re-rating of the stock would hinge on a return to organic growth and evidence of execution on the integration of the acquisitions.

Harris CapRock

Meanwhile, the Harris CapRock integration is ahead of schedule, with around 75% of key milestones achieved by the end of June. Management expects the integration to be 98% complete by the end of October and Macquarie believes this should then allow maximum focus on the UltiSat acquisition.

Canaccord Genuity flags the cost synergies, guided at $15m in 2017 and a further $9m in 2018, which are likely to be exceeded. The broker believes the successful and smooth integration of Harris CapRock has made this next transaction possible.

With respect to the integration of Harris CapRock, Morgans would like to see this successfully completed and the all-important free cash flow being generated, as monetising the acquisition is a key financial risk. This would mean the balance sheet de-gears and provides a catalyst to return to a positive view on the stock.

There are three Buy ratings and one Hold (Morgans) on FNArena's database. The consensus target is $4.38, suggesting 27.2% upside to the last share price. Targets range from $3.87 (Morgans) to $4.83 (Macquarie).

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.

Opportunity In BHP

By Michael Gable

The Australian market continues to trade through this symmetrical triangle that started in early June. Last week, we saw the banks spike up and hit the short-term targets that we highlighted last month as a trading opportunity. Not all banks have rallied here though. A few weeks ago, we highlighted weakness in Suncorp and that seems to be getting sold off now fairly heavily now. Yesterday we then saw our market threaten to break to the downside before finding a bit of buying support in the afternoon. It seems like it is only days away from finally making a decisive move.

In the US this week we get an interest rate decision by the US Federal Reserve alongside a lot of corporate earnings, and earnings season kicks off in Australia next week, so there is enough there to push us into some direction. This week we have taken a look at BHP ((BHP)).

BHP has started to show signs of wanting to trade higher. Since peaking in January, it has been trending lower, making a series of lower highs and lower lows. A couple of weeks ago we saw BHP trade above the May high, making its first "higher high". It is now easing back and we would expect it to now make a "higher low". This could occur somewhere near $23 as it retests the downtrend line. That would then be an ideal buying level for BHP.

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

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

Michael is RG146 Accredited and holds the following formal qualifications:

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

Disclaimer

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

Strong Trend For Ramsay Health Care

Bottom Line 25/07/17

Daily Trend: Down WeeklyTrend: Up Monthly Trend: Up Support Levels: $70.83 / $62.15 Resistance Levels: $73.94 - $75.70 / $84.08

Technical Discussion

Ramsay Health Care ((RHC)) is an operator of hospitals. The Company operates approximately 223 hospitals and day surgery facilities across Australia, the United Kingdom, France, Indonesia, Malaysia and Italy. The Company's sections include the Asia Pacific, UK and France. It's facilities cater for a range of healthcare needs from day surgery procedures to complex surgery, as well as psychiatric care and rehabilitation. In Australia, it operates approximately 70 hospitals and day surgery units. In the United Kingdom, the Company provides independent hospital services in England, with a network of over 35 acute hospitals and day procedure centers providing a range of clinical specialties to private and self-insured patients, as well as to patients referred by the National Health Service (NHS). It also operates a diagnostic imaging service and provides neurological services via its three neuro-rehabilitation facilities. For the six months ending the 31st of December 2016 revenues increased 3% to A$4.32B. Net income pertinent to common shareholders increased 14% to A$249.3M. Broker consensus is currently "Hold". The dividend yield is 1.7%.

Reasons to be cautious (bounce short-term) → Hospitals and pharmacies in Australia support the growth outlook. → A stronger AUD/GBP present headwinds. → Tariff reductions in the UK and France. → Quality of future growth now questionable. → The CEO is retiring with a successor yet to be named. → The recent upgrade to FY17 may not be sustainable with the CEO leaving. → Price is testing a zone of support which if breached would bearish over the coming months.

Price was hovering around a line of resistance during our last review with a push above required to provide confidence that the target just beneath $80.00 was going to be achieved. The breakout has unfolded very nicely although a decent retracement has been kicked in over the past few weeks. The smaller degree patterns are now at a very important juncture with an upside move needing to kick in pretty much immediately to keep our bullish aspirations over the medium term alive and well. Yesterday's low tagged the 61.8% retracement level of the whole movement higher from the low of wave-B. Should price break down through the typical retracement zone there's an increased chance that the patterns are going to morph into something a little different - and in this case less bullish.

The line in the sand is $70.83 with a push beneath being less than ideal. One small positive is Type-A bullish divergence on this daily chart although it's a weak example without the deep "V" that we often talk about. Bigger picture there is no doubt that the trend has been exceptional although since March 2015 it's been more of a sideways movement with a bias to be upside. In fact, if the sideways consolidation continues we'll have a good example of a Head & Shoulders topping pattern which would have bearish repercussions further down the track. At this stage, it's something to watch only.

Trading Strategy

Should demand start to appear pretty much immediately you could accumulate partial positions with the expectation that the wave equality projection up at $79.64 is going to be tagged over the coming months. However, before getting involved just be aware that a push beneath yesterday's low decreases the chances of getting our wanted leg higher. We'll continue to stand aside for the time being although as the longer-term trend is so strong I'll continue to follow it and look for the next big buying opportunity. Of course, if the H&S pattern proves itself the next opportunity will be to the downside.

Risk Disclosure Statement

THE RISK OF LOSS IN TRADING SECURITIES AND LEVERAGED INSTRUMENTS I.E. DERIVATIVES, SUCH AS FUTURES, OPTIONS AND CONTRACTS FOR DIFFERENCE CAN BE SUBSTANTIAL. YOU SHOULD THEREFORE CAREFULLY CONSIDER YOUR

OBJECTIVES, FINANCIAL SITUATION, NEEDS AND ANY OTHER RELEVANT PERSONAL CIRCUMSTANCES TO DETERMINE WHETHER SUCH TRADING IS SUITABLE FOR YOU. THE HIGH DEGREE OF LEVERAGE THAT IS OFTEN OBTAINABLE IN FUTURES, OPTIONS AND CONTRACTS FOR DIFFERENCE TRADING CAN WORK AGAINST YOU AS WELL AS FOR YOU. THE USE OF LEVERAGE CAN LEAD TO LARGE LOSSES AS WELL AS GAINS. THIS BRIEF STATEMENT CANNOT DISCLOSE ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF SECURITIES AND DERIVATIVES MARKETS. THEREFORE, YOU SHOULD CONSULT YOUR FINANCIAL ADVISOR OR ACCOUNTANT TO DETERMINE WHETHER TRADING IN SECURITES AND DERIVATIVES PRODUCTS IS APPROPRIATE FOR YOU IN LIGHT OF YOUR FINANCIAL CIRCUMSTANCES.

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

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

Treasure Chest: ASX's Next Mid-Cap Gold Producer

Dacian Golds' June quarter report showed solid construction progress and encouraging drilling results.

- Mt Morgans on track - Beresford results encouraging - Cameron Well offers mine life extensions

By Greg Peel

Construction at Dacian Gold's ((DCN)) Mt Morgans development in Western Australia is progressing as planned. Accommodation and offices are in place, mine infrastructure is advancing and early progress has been made on the mill. Management has reaffirmed guidance for first gold expected in the March quarter next year.

Underground mining at the company's Beresford project commenced in the quarter and is ahead of schedule. Drill testing continues and Dacian reports high grade results both inside and outside the reserve area, supporting analyst views that further extensions to the mine are likely.

Encouraging test results are also reported from the Cameron Well prospect. Cameron Well is located only 9km away from Dacian's processing facility.

Canaccord Genuity notes the stock is trading on a price to net asset value multiple of 0.59x and an enterprise value to forecast earnings multiple of 2.3x, which are well below producing peer averages.

Macquarie is particularly interested in Cameron Well, suggesting exploration success offers a short term investment case and potentially more significant mine life extensions from bedrock mineralisation.

Deutsche Bank notes that with its projects fully funded, Dacian Gold is on track to be the ASX's next mid-cap gold producer.

Macquarie and Deutsche are the two FNArena database brokers covering Dacian. Macquarie has an Outperform rating and $3.00 target and Deutsche a Buy rating and $3.10 target (last trade $1.97).

Canaccord is not a database broker but has a Speculative Buy rating and $3.30 target.

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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