Week

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Stories To Read From FNArena

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Contents

TV May Actually Die Soon

By Shelley Palmer

FANG (Facebook, Amazon, Netflix, Google/YouTube) is about to take a huge bite out of traditional network TV (ABC, NBC, CBS, and Fox), and the media business will never be the same.

To understand how profound the implications of the recently announced NFL on Amazon, Prime or YouTube TV are, it may help to understand the economic engine that drives traditional commercial television.

The goal of the commercial television business is to package a specific, targeted audience and sell it to the highest bidder. The more precise the targeting, the higher the fee, and of course, the bigger the targeted audience, the bigger the fee.

TV Is Data Poor

Because the broadcast television industry is data poor (it only offers metrics about itself), this model has never been a complete solution for brand or lifestyle advertisers. In practice, an advertiser needs to translate ratings and demographic information from Nielsen into knowledge and insights it can link to its KPIs (key performance indicators). Because content is distributed across so many non-TV platforms, this process gets more difficult every day. How effective was your broadcast TV buy? Was there an increase in sales that could be attributed to it? Could we have spent this portion of our advertising budget differently?

FANG Is Data Rich

There are four data sets that help define each of us: attention, consumption, passion, and intention. While traditional broadcast TV tries to measure or attribute some of these to TV viewership, FANG has actionable data that drives KPIs.

Facebook knows what you are paying attention to. You post and share the things you care about, and your Facebook profile makes your attention actionable.

Amazon knows what you consume and what you’re thinking about consuming. If you’ve bought it or are planning to buy it, Amazon knows it and can act on that data.

Netflix knows your passions. You demonstrate how you can be reached on an emotional level every time you watch a video. Netflix knows more about the kind of entertainment that ignites your passions than you do. It continually acts on that data.

Google/YouTube knows your intentions. You never intend to go to Google and stay there; you search for what you intend to do. Your Google profile indicates, with a very high degree of accuracy, what you are likely to do in the near-term future. This is some of the clearest, most actionable data in the world.

We Will Still Have 4 Major Networks, Just Not the 4 You’re Used To

People often reminisce about the “good ole days” when there were four major networks: ABC, NBC, CBS, and Fox. We are transitioning to a world where there will still be four networks, just not the four networks you’re used to. FANG is delivering actionable data to advertisers in ways that traditional broadcasters simply can’t.

The power of Amazon Prime to an FMCG (fast-moving consumer goods) company may be less significant than the power of Amazon Prime to a consumer electronics manufacturer, but Amazon is becoming a complete solution for all types of B2C and many types of B2B advertisers. Its size, scale, and efficacy are truly stunning.

If YouTube TV and other OTT (over-the-top) skinny bundles start to get traction, we are going to see a dramatic shift toward the data-rich, brand-safe, Internet giants. (Yes, Facebook and Google will deal with their current content adjacency and brand safety problems, and you will forget they had them.) FANG will not be alone. Apple is going to get into this game, and there are international powerhouses like Alibaba and QQ that are already well on their way.

What Does All This Really Mean?

For today — advertisers are spending, traditional networks are making money and all of this sounds like stuff you've heard before. But we're only talking about timing. Traditional (linear) TV audiences are declining at a significant rate, and they are practically aged out of key demographics. Cable customers are also declining. So, the question is when this shift will make a difference, not if.

For consumers — more choice, more fun. Consumers don't care about content transport mechanisms or broadcast business models, they just want their content.

For advertisers — Brands have never wanted to buy CPMs (cost per thousand impressions) or GRPs (gross rating points); they want to sell stuff. The data-rich FANG and other tech giants are offering data that can be turned directly into sales.

For Networks — It's just a matter of time before media without actionable data will be impossible to monetize. Can traditional TV catch up? Adapt or die!

Read the original article here.

Named one of LinkedIn's Top 10 Voices in Technology, Shelly Palmer is CEO of The Palmer Group, a strategic advisory, technology solutions and business development practice focused at the nexus of media and marketing with a special emphasis on machine learning and data-driven decision-making. He is Fox 5 New York's on-air tech and digital media expert, writes a weekly column for AdAge, and is a regular commentator on CNBC and CNN.

Beauty Industry: Buy The Products, Not The Shares

By AtlasTrend

When you think about beauty products, your initial reaction may be of extravagant skin care or perfumes that are considered luxury items. However, the global beauty industry also encapsulates personal care products such as men's grooming, deodorants and sun care products making it a large, diverse industry. Furthermore, consumer behaviour has changed dramatically over the last two decades with the rise of the internet and social media, particularly as social demographics have also shifted.

In this article, we will take a closer look at the global beauty industry, examine some of the trends that are occurring in the industry and see which companies will potentially benefit from these trends.

Industry snapshot

The global beauty industry is a large and diverse one with an array of global players but also remains relatively fragmented with regional players and many successful niche brands. It is worth US$370 billion and almost 75% of the industry is made up from the four largest categories: (1) skin care 28%; (2) hair care 18%; (3) make up 15%; and (4) fragrances 12%.

As the chart above details, the global beauty industry also includes personal care products such as men's grooming, deodorants and sun care products.

The industry is led by some significant global players, who focus on different parts of the industry. L'Oreal (OR FP) has a 12% market share, Unilever (ULVR LN) 10%; Coty (COTY US) 6%; Procter & Gamble (PG US) 5%; and Estee Lauder (EL US) 4% with all remaining players having market shares of 3% or less. Of course, both Unilever and Procter & Gamble are global consumer products businesses with only 38% and 17% of their sales in beauty, whereas the other three major players are focused exclusively on beauty products, as are companies such as Shiseido (4911 JP) and Revlon (REV US).

Industry growth and underlying trends

Surprisingly, growth in the beauty industry has slowed to 4.5% to 5.0% towards the lower end of the range since 2002, with the exception of the period during the global financial crisis (2008 and 2009) after it peaked in 2007 at just over 6.0% growth, according to Euromonitor. Whilst developed markets have largely ranged between 2% to 4% growth during the same time frame, it has been emerging markets that have largely driven growth in the industry ranging between 10% to 12% per year. However, growth has slowed to 8% over the last three years in emerging markets. History has shown that industry demand also follows economic or GDP growth cycles even at the prestige end of the market.

However, what is most interesting is which segments of the beauty industry are growing and why. For much of the 2000s decade, skin care had been the primary growth segment in the beauty industry where it averaged growth of 6% to 7% per year as it benefitted from the structural trend of an ageing baby boomer population and their associated wealth status. Growth rates have slowed to 4% to 5% since the global financial crisis whilst make up has the opposite performance and is now growing at 6% to 7% per year.

There are several reasons for this structural shift:

Since the global financial crisis, consumer behaviour has become more conservative in spending on discretionary items. Make up is generally more affordable than skin care products and therefore, more resilient in slower economic times even though it is still considered a 'luxury' item for many consumers. Instant gratification has played a major part in how consumers behave as make up achieves quicker or instant results than skin care, which is more focused on long term benefits. As Estee Lauder has noted: "The 30-year-old today gets more photographs of themselves in a day than their mother did in a year, so they care about what their skin looks like now, not when they are 40."

This quote also explains how social media has also had a significant impact on consumer behaviour where it is also being used by companies (either directly or through social influencers) to guide consumer preferences and trends. This is especially the case with the younger generation of millennials, who are spending more time on social platforms and photo apps such as Instagram, Snapchat and YouTube.

Other areas of growth in the beauty industry include men's fragrances, deodorants and men's grooming, which are also being driven by the growing millennial population as well as strong demand from Asia. There is also a growing social consciousness about the use of more natural ingredients and this has led to demand for more organic-based products and the success of brands such as Vogue International's natural shampoos and L'Oreal's Elvive range as well as newly created celebrity brands by the likes of Jessica Alba (Honest Beauty) and Australia's Miranda Kerr (KORA Organics).

Finally, the large global players such as Estee Lauder and L'Oreal with a focus on premium brands have also performed relatively well compared to those more focused on mass market products.

The industry leaders

The last 15 years has seen consolidation by the global players as they seek growth in faster growing market segments. In fact, these top 15 global leaders have had to continually make acquisitions just to maintain their market share of about 50%. Some recent and notable examples include Coty's US$12.5 billion acquisition of 41 of Procter & Gamble's beauty brands; Revlon's US$870 acquisition of Elizabeth Arden; L'Oreal's US$1.2 billion of IT Cosmetics; and Johnson & Johnson's (JNJ US) US$3.3 billion acquisition of Vogue International, a natural hair care business.

Meanwhile, the industry has also seen a proliferation of new brands, focused on regional demand or product niches. These smaller players have continued to emerge and grow. Some of the reasons for this trend include:

Lower barriers to entry afforded by technology and the internet. Like many industries, this has heavily impacted the marketing and distribution of products, where these brands have utilised digital marketing and direct methods of distribution to overcome the larger budgets needed for traditional media spending and access to shelf space in department stores and supermarkets. Faster product development cycles where beauty products are being brought to market in 3 to 6 months compared to 12 to 24 months by the larger, global players. Millennials who are willing eschew traditional brand names for upcoming brands, particularly those with a niche, be it regionally specific (especially in Asia), an organic-based brand or being heavily endorsed by a social media star. The large global players will continue to grow through acquisitions as they seek to fill gaps in their respective brand portfolios. Meanwhile, we believe some of the smaller or regionally based players provide the more interesting stories and who are well positioned for also organic growth. Potentially, some of these will also become acquisition targets for the large global players. We highlight some of these companies below.

L'Oreal

L'Oreal is headquartered in France and apart from its eponymous brand of L'Oreal, it also owns global brands such as Kerastase, Garnier, Maybelline, Lancome, Biotherm, Shu Uemura amongst many others. About half of its revenues come from premium brands as well as on make-up and skin care.

Estee Lauder

Estee Lauder was founded in the U.S. and is solely focused on the premium end of the beauty market. Apart from its eponymous brand, it also owns brands such as Clinique, MAC, Darphin and La Mer. About 80% of its revenues come from make-up and skin care.

Coty

Founded in France, Coty is now listed and based in New York. It is primarily focused on personal care products and haircare with brands such as Clairol, Cover Girl, Max Factor, Rimmel and Wella. About 60% of its revenues come from premium brands, 50% from make-up and skin care. It also has a significant fragrances business with brands like Marc Jacobs, Calvin Klein, Chloé, Gucci, Hugo Boss, Balenciaga Bottega Veneta, Alexander McQueen and Miu Miu. It has been highly acquisitive in recent years and is likely to make more acquisitions, particularly in faster growing emerging markets.

Shiseido

Shiseido was founded in 1872 with a primary focus on premium skin care and make up products. About 80% of its revenues come from premium brands, 70% from make-up and skin care and it sells about 65% of these products in Asia (40% in Japan) with the 20% in the Americas and 15% in Europe. It is beginning to expand outside Asia with acquisitions of premium skin care brands, Laura Mercier and ReVive.

Amorepacific

Tracing back its roots to 1932 in Korea, Amorepacific (002790 KS) owns dozens of Asian based brands with the most well-known being Laneige and Sulwhasoo. About 60% of its revenues come from premium brands, 90% from mostly skin care with a much smaller exposure in make-up. Just under 75% of its revenues are derived from the Korean market with China being its fastest growing market.

Kose

Kose was founded in 1946 in Japan and sells its make-up and skin care products primarily across Asia. About 80% of its revenues come from premium brands, 90% from make-up and skin care with a focus on natural ingredients. It also owns the Jill Stuart brand that it is rolling out through airlines and airports across the Asian region.

Revlon

Founded in 1932, Revlon produces make up, skin care, hair care, men's grooming products, deodorants and fragrances under brands such as Revlon, Elizabeth Arden, Juicy Couture and other celebrity partnership brands such as Britney Spears and Christina Aguilera. It is considered more of a mass market brand with about 45% of its revenues coming from make-up and skin care.

Lastly, there are several large diversified companies with significant beauty businesses, primarily in personal care such as Unilever, Beiersdorf (BEI GR) and Henkel, (HEN3 GR). Despite owning many strong consumer brands, both Beiersdorf and Henkel have experienced market share losses due to maturing businesses, which also partially explains why Procter & Gamble made the decision to sell part of its beauty business to Coty in 2016.

Generally speaking, our preference would be to target the more niche, regional players who have better growth prospects particularly those exposed to the Asian region, where demand remains strong. With most, if not all, these companies attempting to grow their make-up businesses, it appears consolidation in the industry will be ongoing, particularly of smaller (largely privately held) brands.

We believe current valuations appear too high given the growth profile of the industry and the underlying companies. A case in point is Coty – although earnings per share is forecasted to grow 24.2% in 2018, it is largely due to its recent acquisitions. However, 1H 2017 has demonstrated that the company is still dealing with integration issues as well as falling sales of its existing businesses, where like-for-like sales fell 9%. Until we see better growth prospects, we will prefer to remain on the sidelines on Coty and the rest of the industry.

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Concerns Linger Over Flows At Platinum Asset

Platinum Asset Management has reduced base management fees and brokers are concerned about the reduction in flows to the business, considering the stock is not cheap.

-Launching two new ETMF products but benefits in the longer term -Concerns that investors may re-assess the company's funds -Prospect for a buy-back is expected to support the share price

By Eva Brocklehurst

Brokers are concerned about the reduction in funds flows into the business of Platinum Asset Management ((PTM)) as the company re-jigs its fee structure. The company is introducing a performance fee option for each of its eight managed funds. This will be available to direct investors only, in the first instance. The fee changes relate to around $17bn in funds under management or around 75% of the company's total funds under management.

Base management fees are reduced to either 1.35%, with no performance fee, or 1.1%, with a relative outperformance fee of 15%. There is also a standardisation of the performance fee to 15% for some funds that were attracting 20% for outperformance. The net reductions account for around -10% of broker reductions to FY18 forecasts.

Credit Suisse suspects the price reductions are reflecting the drop in the cost of investing in recent years and aligning pricing of the trust funds with the listed funds. The broker believes the performance fee option may also stem outflows for clients that may have been frustrated with the recent underperformance and these price cuts are a specific company response rather than as a result of industry-wide price pressure.

Bell Potter believes the reduction in fees is part of a downward spiral, as the company lost over -$3bn in flows in 2016 and this is likely to have continued into 2017, with over -$1bn suspected as being lost for the first three months of the year. Bell Potter believes the disappointing relative performance of some funds, coupled with key staff departures, and now the reformated fee structure, may cause existing investors to reassess.

Hence there is a risk in the near term to flows, and this comes despite the pending launch of two new exchange traded managed funds (ETMF). The broker, not one of the eight monitored daily on the FNArena database, downgrades to Sell from Hold. Target is $4.20.

Ord Minnett envisages the cut to fees is a measure to stem the outflow to lower-fee managers. The broker now forecasts a -16% fall in earnings per share for FY18. The broker considers, with such a bearish outlook, that the stock is too expensive and also downgrades to Sell from Hold.

CLSA takes a different tack. The broker is of the view that the company is re-positioning to meet the challenges of a different investment world and just assuming the reduction in fees is a response to outflows is too simplistic. Adding different ways for investors to access the company's investment experience is smart, the broker asserts.

Still, CLSA expects a -9% impact on FY18 revenue and a one percentage point contraction to operating margins. The broker, not one of the eight monitored daily on the database, has a Buy rating and $5.35 target.

ETMF products

The company expects to launch the two ETMF products in August and this will allow investors to access its international and Asian equity strategies via the ASX. These ETMFs will have the same portfolio composition, managers and investment strategies as the underlying funds. Fee structure will consist of a 1.1% management fee plus a 15% relative outperformance fee.

Credit Suisse suspects the new products will attract only minimal flows in the near term, given the weak performance of the funds, although envisages longer term potential for these contemporary products. The broker expects ETMFs will become a more significant distribution channel in years to come and could underpin flows in outer years.

Credit Suisse considers the stock expensive, nonetheless, expecting earnings to decline in FY18 by -10% and outflows to persist for a while. Morgan Stanley also suspects the new funds will help generate flows over time but remains Underweight on the stock. The broker, currently, envisages downside risk to its forecasts for -$1bn in outflows in the second half of FY17.

Buy-Backs

Morgan Stanley suspects the buying back of up to 10% of issued capital is likely to support the share price, and the shares will be purchased if the company believes they are trading at a significant discount to intrinsic value, although no target prices been set.

The broker estimates that a full 10% buy-back a current share prices is unlikely as it would exceed available balance-sheet funds.

There are three Sell ratings on FNArena's database and one Hold (Macquarie). The consensus target is $4.31, signalling -2.7% downside to the last share price. This compares with $4.82 ahead of the news. The dividend yield on FY17 and FY18 forecasts is 6.4% and 5.8% 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.

RCG Corp Now Offering Value?

Footwear distributor/retailer RCG Corp has issued its second downgrade to guidance in three months but brokers diverge in their reactions to the news and resultant sell-off.

-All divisions performing below expectations since mid February -Debate continues over the sustainability of the athletic/leisure trend in shoes -Is the stock cheap now?

By Eva Brocklehurst

Retailing weakness continues to dog RCG Corp ((RCG)), with earnings guidance for FY17 downgraded for the second time in three months. Like-for-like sales for both Accent and Hype were flat in March and April, below expectations, and wholesale divisions have also performed below management's expectations since mid February.

That said, Accent, Hype and RCG brands have reported better momentum in March and April versus negative like-for-like sales in the first seven weeks of the second half. This improvement is not considered altogether surprising, given the company was cycling easier comparables.

Moelis estimates flat like-for-like retail sales in FY18 for all divisions, noting the company will be cycling tough comparables in the first half of FY18. The broker suspects that the full benefits from integrating Accent, Hype and the rest of the company's divisions will not be realised until FY19.

Moelis, not one of the eight stockbrokers monitored daily on the FNArena database, downgrades to Hold from Buy and applies a 30% discount to its rolled-forward valuation, giving a target of $0.65, on the back of the outlook for a weaker retail landscape and increased risk around the store roll-out.

Citi forecasts FY17 operating earnings (EBITDA) of $73m, at the bottom end of the company's $74-80m guidance range but believes the stock is now on the radar for value investors, after a 47% fall in the share price since the first half result.

The broker moves the other way, upgrading to Buy, based on the valuation appeal, as the stock is now trading at -40% discount to the ASX300 and a -23% discount to Australian retailer peers. That said, while retail conditions may have been patchy, the broker expects the company's sales weakness to fuel the debate regarding the sustainability of the athletic/leisure trend in shoes.

Citi reduces its target to $0.88 from $1.23, as a result of lower earnings estimates and applies a 25% discount to relative valuation to reflect the multiple headwinds that are facing the company.

Store Numbers

Citi expects the store base to increase by 19% by FY21, even when factoring in a view that long-term targets are optimistic, slowing its assumptions regarding the rolling out of stores and now expecting 15 new stores in FY18, 53% below prior forecasts.

The broker envisages higher execution risks over the short term from the accelerated rolling out of stores, particularly as the company is in the process of integrating two large acquisitions.

There is a risk the company could relax its discipline on site selection, leading to sub-optimal locations or leases. The accelerated roll-out will also require additional purchases and place pressure on working capital as new stores ramp up.

The broker has also decreased long-term store targets for Skechers to 100 and Hype to 75, acknowledging there are untapped synergies from the Hype and Accent acquisitions.

Nevertheless, Citi believes RCG needs to clearly differentiate between its Platypus and Hype offerings, by increasing the price gap between the higher-end Hype and the comparatively lower-end Platypus and improving product segmentation between the two formats.

Bell Potter envisages an opportunity to improve execution at Hype but does not believe the company's business model is broken as the share price plunge would suggest. The broker considers there to be an opportunity to enhance the product mix and vertical strategy across the company's platforms and realise synergies with suppliers, landlords and service providers.

Amazon

Competitively, Bell Potter recognises that headwinds have been created with the entry of JD Sports and Amazon. RCG's strategic strengths are expected to help in this situation. such as being the owner of three market leading multi-brand retail platforms.

The company is also a preferred partner with key owners of the brands it distributes and has leverage to retain and win exclusive distribution agreements. Bell Potter, not one of the eight monitored daily on the database, has a Buy rating and $1.18 target.

Moelis, whilst believing that the company is better placed than most retailers to withstand the increased competition from Amazon, finds it hard to envisage how the macro economic background will improve in the next 12-18 months.

Morgans downgrades to Hold from Add, having upgraded to Add only back in February. Implicit in the broker's new assumptions is a continuation of the second half sales trends over the remainder of the year. The broker's target. To $0.68 from $1.32.

Despite the severe share price reaction in the discounted multiple, Morgans awaits a return to positive momentum before becoming more comfortable with the stock. The broker also suspects that noise surrounding Amazon's entry is likely to affect the share price performance in the short to medium term, despite RCG being a market leader in footwear retailing.

Additionally, while the founders of Accent are not sellers at current prices, Morgans suspects this could continue to weigh on the stock.

See also, Retail Challenges Step Up For RCG on March 1, 2017.

Better Sales To Flow For ResMed In FY18

Sleep disorder specialist ResMed has revealed supply constraints and costs held back revenue, margins and operating income in the March quarter.

-Pressure on gross margins may continue beyond FY17 -Once back-order issues are resolved sales are expected to accelerate -New products well received and outlook for sales momentum is robust

By Eva Brocklehurst

Sleep disorder specialist ResMed ((RMD)) revealed manufacturing problems caused supply constraints to continue in the March quarter, while increased freight costs affected revenue, margins and operating income.

US devices were unable to maintain strong growth momentum, although the company's market share held up. ResMed reported softer US growth versus broker expectations with a stronger March quarter in the rest of the world.

Gross margins were slightly softer than forecasts, at 58.3%. Nevertheless, brokers agree category weakness appears to be diminishing and new product acceptance is strong.

Margins

The softer gross margin shows a continuing impact from manufacturing issues, Citi contends, which may potentially persist into the first quarter of FY18 and constrain growth.

The broker downgrades to Neutral from Buy, as the shares are up over 20% for the last 12 months, and are now trading well above three-year average valuation multiples. The broker considers the stock fairly valued.

Morgan Stanley believes it is too early to expect recovery in gross margins and this will be delayed until the first quarter of FY18. Once back-order issues are resolved, the broker envisages resupply sales will accelerate and reverse the negative gross margin trend, driving positive revisions to earnings per share.

This expectation is supported by the large installed base, which is growing on the back of AirSense 10, the uptake of AirFit FY20/N20 and a benign US reimbursement environment as competitive bidding winds down.

Where Morgan Stanley differs from many other brokers is on the expectation of a delayed uplift to gross margins that will be offset by maintenance of good growth in high margin sales and the rest of the world. Netting off the effects means the broker revises down FY17 forecasts for earnings per share by -2.5%, makes little change to FY18 and a 4% increase to FY19 estimates.

In the broker's opinion, Brightree should insulate the company's market share and underpin a higher re-supply business. The broker expects gross margin to improve to 61% in FY19. The main risk is if this fails to emerge and there has been a structural change, given the length of time that margins have been depressed.

Credit Suisse estimates gross margin expansion organically of around 40 basis points should be forthcoming because of an improved product mix, while operating cash flow should improve following the recent build-up in inventory. This, in turn, should support a resumption of the buy-back program and the broker assumes this commences in the first quarter of FY18.

Risks And Catalysts

Potential catalysts, Credit Suisse believes, include the launch of the AirFit P20 mask and full resolution of the AirFit F20/N20 mask supply constraints. The risks in this broker's view include protracted litigation with Fisher & Paykel Healthcare ((FPH)) and discounting by competitors in order to stem their market share losses.

Morgans does not envisage cause for concern regarding the decline in devices growth in the US, believing it unreasonable to assume a strong trajectory should be maintained for over nine quarters.

The broker is encouraged by the fact the category is tracking the market and the company has not lost market share. Overall, Morgans remains comfortable that the earnings trajectory is increasing. UBS finds no meaningful clarity from the results regarding the launch of the new AirFit 20 mask, suspecting a clear trend may not be apparent until FY18.

Likewise, a weak number for flow generators during the quarter should be offset in FY18 by the launch of Air Mini, as the broker believes this new device will be a strong means for distributors to up-sell. The broker believes the AirFit 20 should drive material and compounding sales momentum.

While there is good evidence from the new ranges in masks that the company's product has been well received, Ord Minnett is inclined to remain on the sidelines at current levels in the stock, given the failure to deliver the expected boost to gross margins from higher margin products in the quarter.

This could largely reflect a sharp change in geographic mix or currency headwinds but has led the broker to become more cautious about the expected boost to earnings from a lift in masks sales.

A sharp slowing in US device sales was also disappointing for the broker and suggests that the second quarter included some sales being pulled forward, along with the usual price erosion associated with re-setting contracts in January. Given modest upside in the stock Ord Minnett maintains a Hold rating.

FNArena's database shows four Buy recommendations and three Hold. The consensus target is $9.62, suggesting 4.6% upside to the last share price. Targets range from $8.50 (Macquarie, yet to update on the quarterly) to $10.23 (Morgans).

Brokers Question Big W's Future

Woolworths reported solid March quarter sales of food but another disappointing downgrade for Big W has broker views diverging on the implications for the outlook.

-Risk to margins still high as a competitive environment intensifies -Is the turnaround in food momentum factored into the current share price? -Questions mount over the profitability and viability of Big W

By Eva Brocklehurst

The Australian food business of Woolworths ((WOW)) has built a head of steam, with sales up 5.6% in the March quarter, adjusted for Easter, or up 4.5% on a like-for-like basis. New Zealand supermarkets also improved in terms of sales momentum, while liquor, hotels and Big W were in line with the first half.

Morgans believes the company has gained market share from Coles ((WES)), Metcash ((MTS)) or Aldi in the quarter. Woolworths also reported price deflation of -2.5% versus Coles at -0.5%. This highlights the price investment that Woolworths is delivering to the business, although the broker suspects this will come at a cost to margins.

Margin Versus Sales Improvement

Despite the turnaround strategy gaining further momentum, Morgans believes the outlook is well and truly factored into the current share price while, longer term, the risk to margins is high as the competitive environment intensifies. UBS is more positive in its view, believing momentum is likely to continue, as execution is improving and this should mean the company narrows the gap further to Coles across key metrics.

The broker concedes there is a long way to go in the turnaround but from a value perspective, believes the market is under-estimating the upside and ascribing an undemanding -10% discount to the stock versus the ASX 200. Continued execution on the company's plans will, in the broker's opinion, mean this discount contracts. The main risk is envisaged to be an irrational competitive response.

Citi also does not believe the sales improvement is coming at the expense of margins, which are expected to expand in the second half. The broker forecasts a 53 basis points increase in food margins in the second half, with the largest positive contributors being reduced inventory losses, better buying terms and operating leverage.

This, admittedly, is being offset by price investment, a re-setting of depreciation and staff bonuses but Citi expects margins will surpass Coles in the second half. The broker maintains a long-term forecast that Woolworths margins return to 5.5%, versus Coles at 4.9%.

Macquarie observes the performance of the food business demonstrates the benefits of the company's heavy investment in price and improved store execution over the last 18 months. The rate of sales growth should benefit margins and the broker maintains a 30 basis points forecast for expansion in operating earnings (EBITDA) margins the second half. This reflects some conflicting forces, the broker acknowledges, such as unplanned cost increases, which counter the benefits of operating leverage.

Nevertheless, the stock is suspected of pricing in an aspirational earnings recovery in Australian food, which Macquarie believes is increasingly unlikely in a competitive environment. Hence, a downgrade to Underperform.

Morgan Stanley is also mindful of the difficult balancing act in terms of sales versus margin and believes the stock's rich valuation reflects expectations of an earnings recovery that is too steep, and bulls are too optimistic about the level of margin expansion the company can achieve.

Big W

The company has warned that the second half loss at Big W is now likely to be $115-135m. A turnaround is still a long way off, Morgans asserts. Easter adjusted sales fell -6.1% or -5.7% on a like-for-like basis. The chain is expected to be loss-making in FY17 and, while turnaround strategy is in place, the company provided few details.

Morgans does not expect Big W to return to profitability until FY21. Citi agrees the turnaround will take time and the losses reflect the challenging operating environment in the discount department store category. After six years of negative like-for-like sales growth the broker does not expect a return to positive until the first half of FY19.

Macquarie believes comparable sales growth for Big W is not disastrous, versus peer performances in the current quarter, although acknowledges this is the eighth consecutive negative comparable third quarter in a row. The broker believes both Big W and Wesfarmers' Target need to validate their economic viability over the next 12 months.

The company's warning on Big W for the second time in four months leads Morgan Stanley to question whether this business is a liability, given its significant long-dated leases. The broker suspects the company has little idea how to handle Amazon entering the Australian market and appears to lack confidence in a swift improvement. Hence, Big W could prove to be a distraction for management and a drag to earnings.

Credit Suisse also believes Big W will be hard to fix and creates a large downside risk as well as, potentially, a billion-dollar closure. The broker believes the flexibility to address the underperformance in Big W hinges largely on the ACCC approving the sale of fuel, which will not be known until July.

The broker notes the company declined to discuss its plans for Big W and the revised loss appears to include another large impact from clearances. Whether there is room for three discount department stores in the Australian market is debatable, in the broker's assessment, and profit histories suggest not. On balance, Credit Suisse also finds the stock expensive.

Deutsche Bank also finds management's reticence regarding its plans for Big W provide little confidence in a turnaround. Nevertheless, the broker is increasingly comfortable with the momentum behind the food business and retains a Buy rating.

There are three Buy ratings on FNArena's database, one Hold and four Sell. The consensus target is $26.56, signalling -1.6% downside to the last share price. Targets range from $22.00 (Morgan Stanley) to $30.00 (Ord Minnett).

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Weakness In Certegy Marrs FlexiGroup

The underperformance of one of credit provider FlexiGroup's key businesses, Certegy, has left brokers unsure about the near-term outlook.

-Key initiatives scheduled for June, including Oxipay and the Ireland project -Certegy growth slowing, reflecting increasing competition -Target volumes for FY18 and double-digit cash net profit growth envisaged a stretch

By Eva Brocklehurst

FlexiGroup ((FXL)) has lowered the top end of its guidance range for FY17 cash net profit to $90-93m from $90-97m, primarily stemming from the underperformance of Certegy. At the mid point this implies a downgrade of -2%. Australian cards, which are 52% of group receivables and 39% of group cash net profit, continue to deliver strong growth while Certegy, which is 24% and 37%, respectively, is behind expectations.

The company expects underlying trading in the fourth quarter to be robust and key initiatives include the launch of Oxipay and the project in Ireland going live. UBS lowers FY17-19 forecast by -2-3%. Citi lowers cash net profit forecasts by -5-8% for FY17-19 and reduces Certegy profit forecast by -8-17% ,as well as factoring in increased spending in Ireland.

While earnings growth remains elusive, there are signs of a turnaround, in Deutsche Bank's view. The company has refreshed its strategy, which centres on exiting businesses and re-establishing growth. Certegy volumes are stabilising, the broker asserts, while commercial leasing is rebounding. Australian cards are growing strongly, which is somewhat offset by a flat NZ business.

Despite a continuation of negative news flow and the lack of clarity around a resumption of earnings growth, Deutsche Bank continues to believe the stock offers strong valuation support, which does not require much growth to justify.

Certegy

Certegy has posted consistent earnings growth in recent years but this has been slowing. Growth has slowed to 1% in the first half of FY17 from 17% in FY14. Management attributed this to the re-negotiation of some contracts at lower margins, as well as a material drop-off in solar in March and April. The company has targeted sectors such as home renovation, medical and solar energy storage for growth in this product and brokers expect further detail at the investor briefing in June.

Deutsche Bank believes Certegy has developed a mature profile and this is why it is trading below expectations, acknowledging competition is also increasing. Citi is less certain about Certegy, as its analysis has revealed online competitors are being incrementally pulled in-store, and this is a potential risk for Certegy. AfterPay and Zipmoney are lower cost and easier to use offerings than Certegy. Moreover Oxipay, the company's competitive response to AfterPay, has not been launched yet, with a June 30 date still expected.

Macquarie believes a digital offering is key to getting the Certegy business back on track and also awaits more detail regarding the launch of Oxipay. Given the contribution of Certegy to group profitability and organic growth, this is an area the broker will watch closely. The company has made a succession of downgrades to earnings in several years of limited growth and the broker believes valuation alone is not enough for a re-rating.

Outlook

Citi also hopes the upcoming investor briefing will provide insight on FY17 and FY18 guidance. Moreover, the broker envisages the first half FY18 and result should show the company is moving to a key juncture in its Australian cards business, as a critical mass of customers enter the interest-bearing period. The Australian cards business has been singled out by the company as a strong performer, driven by improvements in the front-end customer experience.

The broker believes the company could benefit from focusing on its core business and this would entail divesting individual businesses or entire segments. Citi separates the bulls, where the focus is on the two solid credit card businesses, and the bears, that believe the company remains too complex and under competitive pressure. While both positions have merit, Citi is no longer in the bull camp and downgrades to Neutral from Buy.

The company has previously outlined a target to grow volumes in FY18 by 10-12% for NZ cards, 15% for Australian cards, 8-10% for Certegy, 10% for NZ leasing and 5-10% for Australian leasing. While there are a number in initiatives in place, UBS is cautious about the significant step up required to achieve these targets in FY18 and suspects double-digit growth in cash net profit in FY18 will be a stretch.

Valuation remains undemanding and earnings expectations have arguably been re-based but the broker observes organic growth is still an issue and there are risks around the potential hike in impairments, higher funding costs, margin compression and competition.

There are three Buy ratings and three Hold on FNArena's database. The consensus target is $2.48, suggesting 21.9% upside to the last share price. Targets range from $2.17 (UBS) to $2.73 (Morgans, yet to update on the new guidance).

See also, Going Tough But Growth Returns To FlexiGroup on February 23.

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Material Matters: Iron Ore And Base Metals

Iron ore balance; uncertainty prevails for nickel ore; deficit tipped in aluminium; copper prices likely to lift.

-Steel to drive iron ore prices but strong recovery considered unlikely -Will the drop in demand for nickel in stainless steel production continue? -Chinese curbs should have meaningful impact on aluminium supply -Recent weakness in copper prices seen driven by speculators

By Eva Brocklehurst

Iron Ore

Ord Minnett envisages the iron ore market will be broadly balanced this year, although traders will remain more conservative over the short term. Up to mid April iron ore prices fell around 30%, the correction being driven by a fall in China's steel prices and margins, and a rise in non-traditional supply.

Ord Minnett has reduced 2017 forecasts for iron ore to an average price of US$73/t from US$82/t, even though there are no material changes to the supply-demand outlook.

Global economic conditions appear supportive, as China's steel production ran at around 840mtpa in March, an all-time monthly high. After subtracting net exports, apparent demand is calculated to be up 6.3% and Ord Minnett believes is hard to get too bearish given the strength of the indicators.

The iron ore buyers' strike appears to be over, Credit Suisse observes, after a low point was reached in April. Underlying steel demand in China appears to be robust and new infrastructure projects are reported to be breaking ground at the same pace as 2016. Credit Suisse believes the drop in steel prices was a result of overproduction.

Nevertheless, for iron ore to rally back to US$90/t or higher steel needs to regain prices above RMB500/t. In turn, for that to occur, a supply deficit would be required. Seasonally, May is a peak for Chinese construction, but the broker suspects any steel shortfall is unlikely.

Credit Suisse suspects the prices of iron ore and steel will remain closely connected and steel will be the driver, because of end-use demand in China. The current price of around US$65/t for iron ore still represents a large margin for the major seaborne iron ore producers, and the broker expects a recovery to US$70/t in the next month, but any progress from there is likely to be difficult.

Nickel

A drop in nickel ore exports from the Philippines appears unlikely as Nickel Asia, the largest producer, is now forecasting a 9% recovery in exports this year. Nevertheless, Macquarie believes the global market deficit remains in place, because of large production losses from conventional producers.

Uncertainty, if anything, has increased, the broker observes, amid large reductions to production by non-Chinese producers in the March quarter and a drop in nickel demand from the stainless steel industry over the past month.

Macquarie believes it is too early to state whether the reductions signal a fall in end-use demand but suspects they reflect some earlier overproduction, which can be corrected quickly, and some de-stocking amid expectation of lower stainless steel prices. The broker assumes growth in stainless steel and nickel use of 3% this year.

Macquarie cautions against getting too bearish about current nickel prices but still does not envisage a lot of upside this year. Lower prices have led to a sharp reduction in secondary nickel availability.

Nickel ore prices have fallen as more supplies are being offered from the Philippines. Indonesia has re-started ore exports for the first time since January 2014, while exporters from New Caledonia and Guatemala are racing to put material in the market before they are priced out by lower prices and higher freight rates.

At current prices, the broker calculates over 40% of producers are losing money and if prices stay below US$10,000/t this year would not be surprised to witness further mine closures.

Aluminium/Alumina

Macquarie tips the 2017 global balance in aluminium to be in substantial deficit. Prices are not expected to make a near-term shift to the downside as previously expected and accordingly the broker upgrades forecasts. Average prices for 2017 and 2018 are forecast at US$1913/t and US$1806/t respectively.

Macquarie envisages structural weakness in this market because of supply conditions but recognises that on the one-two year horizon, aggressive steps being taken by Chinese authorities to curb oversupply will have a meaningful impact on the global balance, and prices should experience periods of buoyancy as a result.

In light of major changes to regulations in China, which are designed to constrain aluminium production capacity, the broker believes this is a negative for alumina and forecasts for 2017-18 are lowered by -5-7%.

Smelter reductions are a negative for alumina but the broker expects curtailments in China from the winter will lift prices to US$345-360/t towards the end of the year. The main impact the broker envisages is on Alumina Ltd ((AWC)), given its leverage to alumina. Incorporating the downgrades to prices, reduces the broker's target to $2.10 from $2.30.

Copper

UBS believes demand from China and flat supply in 2017 will drive a market deficit in copper, lifting prices. Recent weakness in the copper price, the broker suspects, has been driven by speculators selling after building up large long positions since October.

The broker observes a greater than usual disruption to mines in the March quarter, which has tightened the concentrate market. Export data from Chile suggests there is more than just the labour strike affecting Escondida, which is expected to take time to ramp up back to full capacity. Grasberg (Indonesia) is also expected to start ramping back to full capacity with 1.1mt of concentrate to be exported prior to February 2018.

The broker notes that tightness in concentrate markets is yet to materialise in metal market tightness. Inventory levels and cancelled warrants do not indicate supply anxiety for metal. UBS suspects scrap supply may be assisting in this regard, incentivised by the higher copper price.

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Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday April 24 to Friday April 28, 2017 Total Upgrades: 10 Total Downgrades: 8 Net Ratings Breakdown: Buy 44.00%; Hold 42.44%; Sell 13.56%

For the week ending Friday, 28th April 2017, FNArena registered ten upgrades and eight downgrades for ASX-listed stocks. Resources stocks are back in the limelight, on both sides. Coca-Cola Amatil was the sole company to receive both an upgrade and a downgrade.

Seven out of ten upgrades moved to Buy, including for Beadell Resources, BHP Billiton and Sandfire Resources. Oz Minerals stood out with two upgrades, one to Neutral.

Only two out of eight downgrades sank to Sell. One was for Coca-Cola Amatil, the other for Nine Entertainment. AGL Energy, Blackmores and Newcrest Mining also received a downgrade.

Kathmandu (+7%) takes the honours for largest lift in consensus target, at a distance followed by Webjet (+2%) in an otherwise quiet field. On the negative side, Newcrest received the biggest blow following its quake-impacted market update, its consensus target falling by -5%, followed by Independence Group (-1.5%) and other small deductions.

The numbers get bigger for adjustments to earnings estimates. Iluka Resources wears the crown for the week, enjoying an increase of 51%, followed by DUET group (+20%), then Alumina Ltd (+16%). On the flipside, Ten Network virtually mirrors Iluka into the negative (-54%), followed by Village Roadshow (-34.9%), then Senex Energy (-32%).

The week ahead will direct investor interest towards major banks with all of ANZ Bank ((ANZ)), National Australia Bank ((NAB)) and Macquarie Group ((MQG)) releasing market updates this week.

Upgrade

ALUMINA LIMITED ((AWC)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/1/4

Incorporating the latest results from AWAC-partner Alcoa and Citi's update on commodity prices projections has triggered modest increases to earnings forecasts. It was enough to trigger an upgrade in rating to Neutral from Sell.

Price target moves to $1.80 from $1.70. Citi's preference remains with the likes of Rio Tinto ((RIO)) and South32 ((S32)) with both also offering investors alumina & aluminium exposure.

BEADELL RESOURCES LIMITED ((BDR)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/1

March quarter production was weak and Macquarie believes Access and machine availability negatively affected the outcome. A key constraint on production at Tucano is the configuration which limits feed to oxide only.

A feasibility study is underway to assess the necessary upgrades to process fresh ore. The broker believes the production profile will strengthen now and mine life extensions are also likely.

Rating is upgraded to Outperform from Neutral. Target is $0.30.

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/1/5

Morgan Stanley believes regional banks are relatively well placed to navigate the changing mortgage market, given more leverage to re-pricing, falling capital and less impact from lower loan growth.

This is most positive for Bendigo & Adelaide and the broker upgrades to Equal-weight from Underweight. The stock is now the broker's preferred regional bank. Target is raised to $11.40 from $10.30. Industry view is In-Line.

The bank still needs to improve its return on equity, improve on costs, and de-risk via a partial sale of Homesafe, Morgan Stanley believes.

BHP BILLITON LIMITED ((BHP)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/4/0

Wet weather in Queensland and Escondida strikes virtually guaranteed the March quarter was going to be weak, and that's exactly what the company delivered, suggest analysts at Citi.

Citi analysts have updated their commodity prices projections, leading to further upgrades. In combination with a noticeably weaker share price, this has triggered an upgrade to Buy from Neutral. Target price remains unchanged at $28.50.

Noteworthy: EPS estimates have been reduced for FY17 but increased for FY18, though still no growth is anticipated post FY17. DPS estimates have been lifted across the board.

COCA-COLA AMATIL LIMITED ((CCL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 1/5/1

Credit Suisse has upgraded to Outperform from Neutral. The analysts do not believe the latest profit warning is more evidence of structural decline for the company's key products; we are merely witnessing temporary headwinds, argue the analysts.

Because forecasts beyond the current financial year do not fall, the stockbroker's DCF valuation is only impacted by -10c. Target thus falls to $10.30 from $10.40.

In the absence of volume growth, the analysts believe management will still achieve stable margins and slightly higher prices, helped by a second $100m cost reduction program and the closure of the SA bottling plant.

See also CCL downgrade.

IOOF HOLDINGS LIMITED ((IFL)) Upgrade to Buy from Neutral by Citi .B/H/S: 1/3/1

Previously, Citi analysts couldn't muster much enthusiasm for owning this stock, other than for its relatively attractive yield. Now the analysts believe short term dynamics are conspiring for a positive boost and this warrants an upgrade to Buy from Neutral.

Among the positives cited are new advisors joining the group and regulatory changes to the super regime boosting inflows into fiscal year-end. Platform net profits are also expected to rise versus the previous half. Target jumps to $9.40 from $8.40.

INDEPENDENCE GROUP NL ((IGO)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/1/0

Citi has upgraded to Buy from Neutral following share price weakness. Independence Group's March quarter update proved weaker than expected, but Citi analysts draw confidence from the fact Nova is back on track.

The Nova mine is expected to reach nameplate output in the September quarter, point out the analysts. Price target falls to $4.16.

OZ MINERALS LIMITED ((OZL)) Upgrade to Add from Hold by Morgans and Upgrade to Hold from Sell by Deutsche Bank .B/H/S: 4/2/2

Morgans makes only minor changes as a result of softer quarterly production, noting 2017 guidance is intact despite a rain-affected quarter.

Several external events have driven a -30% correction in the stock from its February high but this does not alter the broker's valuation. Morgans believes the sell-off is based on sentiment rather than fundamentals and now looks overdone.

Rating is upgraded to Add from Hold. Target is reduced to $8.28 from $8.30.

March quarter production was -11% below Deutsche Bank's forecast because of heavy rainfall. Carrapateena's feasibility study has been delayed because of issues with mine scheduling. Nevertheless, the project remains on track.

While technical concerns remain, the broker does not risk-weight Carrapateena. The stock is now closing in on fair value and rating is upgraded to Hold from Sell. Target is reduced to $7.00 from $7.10.

SANDFIRE RESOURCES NL ((SFR)) Upgrade to Add from Hold by Morgans .B/H/S: 4/3/1

March quarter production was in line with guidance. Morgans incorporates Monty into modelling but was underwhelmed by the reserve size and capital expenditure.

The broker believes attention is now likely to focus on the company's ability to add incremental project life to Degrussa, given the dwindling reserves.

Morgans upgrades to Add from Hold, given 20% upside to the revised valuation. Target is reduced to $6.79 from $7.02.

Downgrade

AGL ENERGY LIMITED ((AGL)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 4/2/1

Time for the AGL Energy share price to take a breather, advocate analysts at Ord Minnett. They have pulled back their recommendation to Hold from Accumulate on valuation grounds, i.e. it's getting pricey where the share price currently sits.

It is the stockbroker's view that the strong positive catalysts driven by summer weather conditions are now not likely to be seen for a few months. In the meantime, policymakers across Australia are looking into potential remedies for Australia's electricity crisis, point out the analysts. Target remains $28.50.

BLACKMORES LIMITED ((BKL)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/3/0

March quarter results revealed sales down -8.6% and net profit down -46.8%. Ord Minnett observes the quarter was cycling peak earnings for the company, given regulatory changes which affected the business in the December quarter and the build up in inventory.

The broker reduces its recommendation to Hold from Accumulate and lowers the target to $110 from $120. Ord Minnett awaits indications of a sustained recovery in sales and margins before becoming more constructive.

COCA-COLA AMATIL LIMITED ((CCL)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/5/1

Soft grocery sales in Australia drove Coca-Cola's earnings guidance downgrade, along with a weak macro backdrop in Indonesia. A fall in first half profit is expected while FY profit is expected to be flat, implying improvement in the second half.

UBS believes the decline of fizzy drink sales is structural, and may accelerate. Management has been doing well to cut costs but opportunities will soon fade. Further earnings risk is also provided by a possible container deposit scheme.

UBS cuts its target to $9 from $10 and downgrades to Sell.

See also CCL upgrade.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Hold from Add by Morgans .B/H/S: 6/1/0

March quarter production was in line with estimates. Mineral ore reserves have increased to 6.99m ounces, with growth largely driven by the Ernest Henry acquisition.

Morgans raises the target slightly, to $2.33 from $2.32. Rating is downgraded to Hold from Add as the stock is trading above valuation.

The stock remains the broker's preferred play in the mid-cap gold sector.

GPT ((GPT)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 2/4/0

Retail sales grew at 3.2% in the March quarter while specialty sales grew 2.4%. The company's break up of monthly retail sales also points to further deceleration in specialty sales over the next one to two quarters.

Ord Minnett's estimated re-leasing spreads will be effectively zero for the next 12 months, then perpetually negative. As a result the broker tempers estimates for the next five years.

The broker downgrades to Hold from Buy and lowers the target to $5.25 from $5.35.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/4/3

The operations at Cadia East have been damaged following an earthquake and Citi analysts believe the impact will be felt for longer. The subsequent reduction in forecasts is the main cause for today's downgrade to Neutral from Buy.

The analysts also believe the official review of Bonikro in Ivory Coast should be interpreted as the preparation for future divestment. Citi values the project at US$118m. Target cut to $24 from $27.40.

NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/1/2

Nine's share price has risen 30% since its February result, on a variety of factors, UBS notes including taking ratings from its rivals, the attribution of greater value to Stan, cost-out potential and M&A if media laws change.

Yet ratings have improved against a a backdrop of structural FTA TV decline, and the broker questions Stan's valuation. Stan faces competition from both direct rivals and other media platforms, point out the analysts. UBS has lifted its target to $1.05 from 90c but downgrades to Sell on valuation.

NORTHERN STAR RESOURCES LTD ((NST)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/3/0

March quarter production was softer than Credit Suisse expected and a similar outcome in the June quarter is needed to meet the bottom of the guidance range.

The broker expects guidance for FY17 of 485-515,000 ounces should be achievable on outperformance at Kalgoorlie.

The broker downgrades to Neutral from Outperform on valuation. Target is raised to $4.15 from $4.10.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ALUMINA LIMITED Neutral Sell Citi 2 BEADELL

RESOURCES LIMITED Buy Neutral Macquarie 3 BENDIGO AND ADELAIDE BANK LIMITED Neutral Sell Morgan Stanley 4 BHP BILLITON LIMITED Buy Neutral Citi 5 COCA-COLA AMATIL LIMITED Buy Neutral Credit Suisse 6 INDEPENDENCE GROUP NL Buy Neutral Citi 7 IOOF HOLDINGS LIMITED Buy Neutral Citi 8 OZ MINERALS LIMITED Buy Neutral Morgans 9 OZ MINERALS LIMITED Neutral Sell Deutsche Bank 10 SANDFIRE RESOURCES NL Buy Neutral Morgans Downgrade 11 AGL ENERGY LIMITED Neutral Buy Ord Minnett 12 BLACKMORES LIMITED Neutral Buy Ord Minnett 13 COCA-COLA AMATIL LIMITED Sell Neutral UBS 14 EVOLUTION MINING LIMITED Neutral Buy Morgans 15 GPT Neutral Buy Ord Minnett 16 NEWCREST MINING LIMITED Neutral Buy Citi 17 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Sell Neutral UBS 18 NORTHERN STAR RESOURCES LTD Neutral Buy Credit Suisse Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 IGO INDEPENDENCE GROUP NL 83.0% 33.0% 50.0% 6 2 KMD KATHMANDU HOLDINGS LIMITED 67.0% 50.0% 17.0% 3 3 AWC ALUMINA LIMITED -36.0% -50.0% 14.0% 7 4 BEN BENDIGO AND ADELAIDE BANK LIMITED -79.0% -93.0% 14.0% 7 5 RIO RIO TINTO LIMITED 94.0% 81.0% 13.0% 8 6 SFR SANDFIRE RESOURCES NL 38.0% 25.0% 13.0% 8 7 BHP BHP BILLITON LIMITED 50.0% 38.0% 12.0% 8 8 WEB WEBJET LIMITED 40.0% 30.0% 10.0% 5 9 S32 SOUTH32 LIMITED 75.0% 71.0% 4.0% 8 10 NUF NUFARM LIMITED 17.0% 14.0% 3.0% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 NST NORTHERN STAR RESOURCES LTD 40.0% 60.0% -20.0% 5 2 GPT GPT 33.0% 50.0% -17.0% 6 3 EVN EVOLUTION MINING LIMITED 86.0% 100.0% -14.0% 7 4 SYD SYDNEY AIRPORT HOLDINGS LIMITED 29.0% 43.0% -14.0% 7 5 NCM NEWCREST MINING LIMITED -44.0% -31.0% -13.0% 8 6 MGR MIRVAC GROUP 57.0% 67.0% -10.0% 7 7 RMD RESMED INC 71.0% 79.0% -8.0% 7 8 AGL AGL ENERGY LIMITED 43.0% 50.0% -7.0% 7 9 SGP STOCKLAND 8.0% 10.0% -2.0% 6 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 KMD KATHMANDU HOLDINGS LIMITED 2.200 2.050 7.32% 3 2 WEB WEBJET LIMITED 12.118 11.860 2.18% 5 3 BEN BENDIGO AND ADELAIDE BANK LIMITED 11.221 11.029 1.74% 7 4 EVN EVOLUTION MINING LIMITED 2.574 2.530 1.74% 7 5 MGR MIRVAC GROUP 2.323 2.312 0.48% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 NCM NEWCREST MINING LIMITED 20.218 21.325 -5.19% 8 2 IGO INDEPENDENCE GROUP NL 4.062 4.125 -1.53% 6 3 AWC ALUMINA LIMITED 1.829 1.843 -0.76% 7 4 NST NORTHERN STAR RESOURCES LTD 4.390 4.420 -0.68% 5 5 GPT GPT 5.130 5.155 -0.48% 6 6 BHP BHP BILLITON LIMITED 27.773 27.873 -0.36% 8 7 RIO RIO TINTO LIMITED 71.634 71.781 -0.20% 8 8 SFR SANDFIRE RESOURCES NL 6.831 6.841 -0.15% 8 9 RMD RESMED INC 9.546 9.556 -0.10% 7 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 ILU ILUKA RESOURCES LIMITED 12.070 7.982 51.22% 7 2 DUE DUET GROUP 9.535 7.910 20.54% 5 3 AWC ALUMINA LIMITED 14.812 12.735 16.31% 7 4 A2M THE A2 MILK COMPANY LIMITED 9.673 8.893 8.77% 4 5 RIO RIO TINTO LIMITED 713.110 683.779 4.29% 8 6 SBM ST BARBARA LIMITED 32.270 31.413 2.73% 4 7 SGP STOCKLAND 35.171 34.533 1.85% 6 8 BEN BENDIGO AND ADELAIDE BANK LIMITED 89.600 88.171 1.62% 7 9 OGC OCEANAGOLD CORPORATION 40.439 39.982 1.14% 5 10 SUN SUNCORP GROUP LIMITED 88.929 88.100 0.94% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 TEN TEN NETWORK HOLDINGS LIMITED -4.253 -2.761 -54.04% 4 2 VRL VILLAGE ROADSHOW LIMITED 13.600 20.900 -34.93% 4 3 SXY SENEX ENERGY LIMITED -0.955 -0.723 -32.09% 6 4 NCM NEWCREST MINING LIMITED 64.226 75.586 -15.03% 8 5 EVN EVOLUTION MINING LIMITED 16.410 17.970 -8.68% 7 6 IGO INDEPENDENCE GROUP NL 8.890 9.373 -5.15% 6 7 CCL COCA-COLA AMATIL LIMITED 54.673 56.633 -3.46% 8 8 S32 SOUTH32 LIMITED 30.317 31.379 -3.38% 8 9 STO SANTOS LIMITED 18.538 19.081 -2.85% 8 10 WPL WOODSIDE PETROLEUM LIMITED 168.606 173.511 -2.83% 8 Technical limitations

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

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Uranium Week: Distinct Lack Of Buying Interest

Sellers tried to entice buyers with lower spot uranium prices last week, but with little success.

By Greg Peel

Last week uranium market participants gathered in Toronto for the annual World Nuclear Fuel Cycle conference. In previous years spot market activity has been buoyant following the conference, industry consultant TradeTech notes, given participants meet and greet and generally gee each other up. But not so this year.

This year was a dour affair as discussion centred on a lack of positive news on the demand front and more than sufficient near-term supply.

US Department of Energy

There was at least some positive news on the supply front last week. The US Department of Energy announced it would release up to 800mt of uranium contained in UF6 in 2017. This is far from good news, in isolation, for uranium producers, but it represents the lower of the four quantity options being considered by the DoE. The department suggests the sale will not have any materially adverse impact on the industry.

The industry has been crying foul for a couple of years now at the US government's decision to offload excess uranium stockpiles into a struggling market. If the government was not prepared to cease and desist altogether, at least it could be more transparent and measured in its dumping. The DoE took criticism on board, and this is the result.

The announced sale comes at a time when the market is suffering from "a distinct lack of buying interest," as TradeTech notes. As last week came to a close, sellers attempted to lure in buyers with lower spot prices but only three transactions were concluded, totalling 400,000lbs U3O8 equivalent.

Trade Tech's weekly spot price indicator is down -US70c at US$22.50/lb.

Weak April

The end of the week also marked the end of the month. April saw 2.3mlbs U3O8 changing hands in a total of fifteen transactions. There was some minimal utility interest on the buy-side but otherwise intermediaries and speculators made up of the bulk of both sides of trades.

April also saw three transactions in the 2017-30 delivery period concluded, totalling 10mlbs U3O8, with utilities the buyers. Term market interest, by contrast to spot, remains strong and a number of utilities are presently evaluating offers. Spot traders have pinned their hopes on such interest affecting a return to upside for spot prices, but this is yet to eventuate.

Indeed, TradeTech's mid-term price indicator has fallen to US$27.00/lb from US$28.00/lb at end-March. The consultant's long-term indicator remains unchanged at US$35.00/lb. At US$22.50/lb, the weekly spot price indicator is down -US75c from end-March.

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 April 27, 2017

Last week saw the ASX200 appear determined to reach the 6000 mark so many in the market are targeting, only to falter above 5950.

While there are several red and green entries in the table below, it was a not a week featuring a lot in the way of short movements, rather minor bracket creep. There were, nevertheless, two exceptions.

Shorts in Vocus Communications ((VOC)) rose to 14.4% from 12.6% the week before, ahead of this week's shareholder exodus which led to a -27% share price fall.

Troubled Ardent Leisure ((AAD)) has become a debutant in the elite 10% plus shorted club, with shorts rising to 10.4% from 8.4%.

Weekly short positions as a percentage of market cap:

10%+

ORE 21.8 SYR 17.1 WSA 16.8 ACX 14.8 VOC 14.4 MYR 12.4 QIN 12.1 NEC 11.1 DMP 10.8 MYX 10.8 AAD 10.4 IGO 10.2

In: IGO, AAD

9.0-9.9%

ISD, MTS, HVN, OFX, In: HVN Out: IGO, ILU

8.0-8.9%

FLT, BAL, GTY

In: GTY Out: AAD, HVN

7.0-7.9%

JHC, RFG, RWC, ILU, NXT, PRU, EHE, NWS, MND

In: ILU Out: GTY, WOR

6.0-6.9%

JBH, IPD, SAR, WOR, BKL, CSV, HSO, IFL, SGH, SEK, MTR, PDN, BGA, A2M, BDR, MYO

In: WOR, SAR, BDR Out: RIO

5.0-5.9%

AAC, KAR, CTD, RIO, GXL, SUL, BEN, OSH, AWC, IVC, CCP, SHV, CSR

In: RIO, CCP, SHV Out: BDR, SAR, TPM, AHG, LNG

Movers and Shakers

I noted last week TPG Telecom ((TPG)) had appeared in the bottom of the table after a week of upheaval in the telco sector following TPG's acquisition of spectrum to become the country's fourth mobile operator, and subsequent capital raising. Included in the upheaval was Vocus Communications ((VOC)), which aside from the TPG factor has been having difficulty bedding down its iiNet and Amcom acquisitions.

Vocus shorts rose to 12.6% from 11.3% that week, and last week rose further to 14.4%. This week the company issued yet another profit warning – one too many for long suffering shareholders. The share price fell -27% as the competence of management came into question. The stock is now trading around $2.40, having traded above $9.00 only a year ago.

It will be interesting to see if there is any change in short positions in next week's Report. The -27% fall suggests the shorters are staying in. Meanwhile, no less than six of the eight major brokers in the FNArena database have downgraded their ratings for Vocus in response. I do not recall such a percentage ever being witnessed before on one day. Five of those were from prior Buy ratings.

Only one was to Sell, with the remainder now on Hold ratings given the share price fall.

As an aside, TPG slipped back off the 5% plus table last week.

The issues plaguing Ardent Leisure are well known – the Dreamworld tragedy, Cyclone Debbie, and more recently, disappointing numbers out of the fund's flagship Main Event business in the US. But having dropped as low as $1.55 in March, Ardent shares have since been making a comeback, today trading at $2.10.

But the shorters aren't buying it, pardon the tautology. They used the opportunity last week to increase positions to 10.4% from 8.4%, taking Ardent into the 10% plus club for the first time.

It's starting to get a bit crowded in the club.

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: Budget, Amazon, TV And CTP

Weekly Broker Wrap: Budget previews; Baby Bunting; Amazon; TV advertising; Queensland CTP review; Synlait Milk.

-Reinstatement of GP rebate indexation most likely measure to be announced at the Commonwealth budget -Opportunity envisaged in Baby Bunting as it outgrows competition -UBS suspects market slightly over-reacting to prospect of Amazon -Macquarie expects TV advertising to decline -3.3% in FY17 -Are profit risks overplayed in Queensland's CTP review? -Bell Potter initiates coverage on Synlait Milk

By Eva Brocklehurst

Commonwealth Budget

Morgan Stanley believes reinstatement of GP rebate indexation is the most probable measure to be announced at the upcoming Commonwealth budget. Given no clear majority, many prior savings measures proposed by the government have failed to pass the Senate.

The broker believes the short-term political agenda overrides long-term necessity of cost containment and the likelihood that drastic measures will be announced at the budget and the "Mediscare" campaign of the 2016 Federal election is likely to have laid to rest any significant reductions to healthcare expenditure in the near term.

Morgan Stanley suspects measures to arrest lower participation in private health insurance may include an increase to the Medicare levy surcharge, which could be used to fund GP indexation. The broker also envisages a possibility the government could consider lowering the threshold for lifetime cover to 25 from 30 years of age, although this may increase the bill for the 30% rebate.

UBS, too, expects indexation will be reapplied to GPs but the increase is likely to be applied from 2018 and be conditional upon delivery of efficiencies such as better chronic care. The broker expects the proposed bulk bill incentive cuts will probably be abandoned and the government will look elsewhere for savings to fund the increases to the Medicare Benefits Schedule.

A material reform package for the Pharmaceutical Benefits Scheme is expected and likely to save $1.8bn over the five-year forward estimates. UBS expects the savings to be used to fund new high-cost PBS drugs but this will tilt revenue away from distribution to community pharmacy. The broker expects a benign budget on aged care and private health reform is also considered unlikely, given ongoing reviews.

The budget is expected to be critical to the macro economic outlook and Morgan Stanley's focus will be on whether the government materially ramps up its commitments to infrastructure expenditure. The broker also believes the focus will shift from the underlying cash deficit towards net capital investment and operating balance, whereby the latter can be used to chart a course back to surplus on recurrent revenue and expenditure.

Any housing affordability package will also be relevant for markets, given the importance of the sector to household balance sheets. The broker notes speculation has focused on the potential for a government-backed, community housing scheme and the potential to relaunch a concessional saving scheme for first-home buyers.

Baby Bunting

Baby Bunting ((BBN)) has forced a competitor to close on two occasions, having opened a new store nearby. As well, Morgan Stanley notes the company's scale has afforded an opportunity to advertise and point consumers away from the competition in order to quickly establish its stores. The industry remains highly fragmented and there are few major competitors with one of the largest, Baby Bounce, shrinking to 13 stores from 21 in December 2015.

The broker believes there is a long tail of independent stores that will be pushed out over time, while department stores appear to have reduced exposure to baby hard goods. The broker expects 23% growth in earnings per share for FY18 and FY19 and considers the stock a buying opportunity, with an Overweight rating and $3.30 target.

Amazon And Retail

UBS has surveyed the market's view on the entry of Amazon to Australia. Respondents expect Amazon to enter non-food segments in FY19 and grocery in FY20. A -7.0% negative impact is expected for electronics sales on a 3-5 year view followed by -6.5% for sports/leisure and -6.4% for fashion/department stores. Food is expected to experience a more modest -2.6% impact.

The most negatively impacted stocks are expected to be JB Hi-Fi ((JBH)), Myer ((MYR)) and Harvey Norman ((HVN)). Bapcor ((BAP)) and Woolworths ((WOW)) are expected to be the least impacted of the listed retailers.

The overall view is that the market has somewhat over-reacted to the prospect in the case of Harvey Norman and Bapcor and under-reacted for Woolworths and Myer, in terms of relative multiples. The broker acknowledges its analysis is limited in that it does not take into account company-specific factors or the trajectory of the impact.

Australian TV

Macquarie observes Ten Network ((TEN)) continues to face challenges, having factored into its latest guidance an operating earnings (EBITDA) loss of -$25-30m for FY17, amid continued weakness in the TV advertising market.

Macquarie estimates the TV advertising market will decline by -2.0% in the June half for a full year decline of -3.3%. On the rating side, Nine Entertainment ((NEC)) has sustained an improvement off a low base primarily at the expense of Seven West Media ((SWM)). The broker notes the government is considering placing restrictions on gambling advertising during sports programming, which according to press estimates represents around $120-150m per annum to operators in free-to-air TV.

In the event of a broad based reduction on all advertising during sporting events, Macquarie would estimate the net impact to be around -$20m across the industry, biased to Seven and Nine as they have heavily invested in sports content.

The broker also notes scope exists for cuts to license fees is part of the federal budget, with the cuts of most benefit to Nine and Seven. Macquarie retains a Outperform rating for Nine and a Neutral rating for Seven. Operating losses make it difficult to envisage an investment case for Ten and the broker retains a Neutral rating.

Queensland CTP

There are 19 recommendations from the Queensland review of the CTP insurance scheme which may further pressure profits, Ord Minnett observes. The scheme became incrementally more affordable each year for the past 15 years but insurer profit margins remained elevated. This is a key class for Suncorp ((SUN)) as the broker estimates it provides up to 20% of its general insurance business profits.

The committee is giving license, it appears, to further pressure on assumptions underlying the regulatory ceiling price for the scheme, although there are no suggestions of immediate changes to the scheme to address one of Suncorp's key competitive advantages, its strong exposure to the dealer channel.

Credit Suisse believes the profit risks are overplayed, noting the committee has acknowledged that it would be too difficult to implement a profit claw-back mechanism. While the issue of higher insurance profits in the scheme is considered a matter of priority the broker expects this will be addressed via the lowering of base claim assumptions in the near term.

In reducing the profit margin to, for example, 10%, Credit Suisse estimates that this puts around -2% of Suncorp's group net profit at risk. The broker is expecting an almost identical uplift in NSW CTP profitability in coming years so the net impact is considered negligible at the underlying insurance margin line. The broker also highlights that the majority of the Queensland CTP "elevated profit" has been coming through in reserve releases for Suncorp, not in the underlying insurance margin.

Synlait Milk

Synlait Milk ((SM1)) is New Zealand's fourth-largest milk processor accounting for around 4% of milk intake. The company supplies dairy ingredients, infant formula products and lactoferrin. The company is the exclusive supplier of infant formula for a2 Milk ((A2M)) in China, Australia and New Zealand.

Bell Potter takes a favourable view on the stock and initiates with a Buy rating and $4.38 target. The view is underpinned by exposure to growing demand for infant formula in China, in particular a2 Milk branded products.

The company also has exposure to the benefits of capital expenditure that is targeted using a greater proportion of the available milk supply in value-added products. Bell Potter also notes valuation metrics are undemanding relative to its dairy and infant formula peers.

Brokers Comfortable With Nick Scali

Brokers agree furniture retailer Nick Scali is well-positioned, given its scale in a fragmented market and a clear growth strategy.

-Comparable sales growth for four months to April at double-digit rates -First store to open in New Zealand in December -Expansion of stores should drive earnings as tailwinds from housing cycle ease

By Eva Brocklehurst

Brokers agree furniture retailer Nick Scali ((NCK)) is well-positioned, given its scale in a fragmented market, while there is a clear growth strategy based on the rolling out of new stores.

The company has advised that amidst the continuation of positive trading conditions to the end of April, FY17 net profit is likely to be $36-37m. Comparable sales growth for the four months to April was at double-digit rates and management expects new store openings to assist the results into FY18.

Macquarie remains conservative in its estimates for longer-term comparable sales growth, forecasting 2.5% from FY19. The broker notes the company's FY17 guidance range is set with a high degree of confidence, as a majority of sales that will be recognised within the remainder of FY17 have already been placed as orders. Macquarie maintains a Outperform rating and $7.75 target.

Shaw and Partners considers the company's investment case seriously compelling, given operating strength, ability to defend margins and a net cash position. The stock is also calculated to be trading below the retail sector peer average and the broker, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $8.00 target.

Shaw and Partners notes the company is going from strength to strength in its niche market, maintaining good sales growth and containing costs. This comes despite small cap retailers having a difficult 12-18 months.

While there is further upside value in the stock as new stores are being opened, growth is also organic, with like-for-like sales up 10% in the period, underpinning the broker's belief that this is the one of the best managed listed retailers of any size in Australia. Shaw and Partners points out that few retailers can enjoy four-year compound growth rates of 35% in operating earnings (EBITDA) amid some of the toughest retail conditions in decades.

Store Roll Out

Seven stores are expected to open in FY18 to bring the total Nick Scali branded store count to 54, against the long-run target of 75 stores across Australasia. Macquarie currently forecasts a modest roll-out schedule from FY19 of two stores per annum, given the difficulty in finding incrementally favourable sites.

The company expects to open its first store in New Zealand in December ahead of the usual strong January trading period. Citi's analysis suggests there is potential for the company to open 10 stores in New Zealand although there might be a number of challenges with respect to the expansion.

NZ consumers tend to be more value conscious, which may be an obstacle to the brand's premium positioning. The brand name will be relatively unknown in New Zealand and securing sites at appropriate lease terms may be difficult.

Also, there are logistics challenges which suggest it may not be feasible to have a South Island operation, and that could mean the opportunity is less than the 10 stores that are forecast. Still, the broker acknowledges more stores and expansion to New Zealand should drive earnings, as tailwinds from the housing cycle in Australia peter out.

The company's strong balance sheet also provide scope for further acquisitions or capital management and Citi reiterates a Buy rating and $8.41 target. Macquarie notes management did not provide detail on acquisition opportunities but highlighted they were open to potential in either categories or geographies.

The new NSW distribution centre is is on track to open in June and the current centre continues to operate well above capacity. Macquarie observes the new centre should provide savings from July 1, predominantly across employment costs and through a reduction in spoilage.

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.

Upside For CSR

By Michael Gable

This week is a big one with ANZ, NAB, and WBC posting results and CBA releasing quarterly earnings. At time of writing, ANZ just released their results at first glance seem to be in line. This week we have spotted a potential trade in CSR Limited ((CSR)).

CSR may appear to have downside this year from a valuation perspective, but the chart is looking very positive. When you look at a long-term monthly chart, we can see that it has pushed through a very significant resistance level. This inverse head and shoulders pattern from the last nine years implies potential upside towards $7.50. That would take a long time to occur, but if CSR can establish a baseline now on top of $4.50 then it should start trading in a higher range.

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)

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Treasure Chest: Competition To Bite G8

Canaccord Genuity has downgraded G8 Education as the addition of new child care supply accelerates.

- New centre count accelerating - Government funding delayed - risk of demand/supply imbalance

By Greg Peel

In the March quarter 2017, 113 new child care centres were opened in Australia, Canaccord Genuity notes. This compares to only 70 in the March quarter 2016 and 61 in the December quarter 2016. Even if a moderation of this growth rate is assumed for the rest of the year, the broker estimates the number of new centres for 2017 could exceed 350, representing a 5% increase in supply.

Canaccord believes the supply increase is a response to proposed changes to government funding initially tabled in 2015, with implementation expected on July 1, 2017. But given a delay in getting the changes through parliament, increased funding appears unlikely to be available until July 1, 2018, the broker suggests.

The rapid increase in supply is likely to create pockets of demand/supply imbalance. In recent discussions with a number of private sector child care operators, the broker learned that the typical ramp-up in centre occupancy early in a year has been slower than expected this year. Canaccord suspects this is not an issue of lower demand, but of increased supply absorbing typical demand.

This is alone an issue for listed child care operator G8 Education ((GEM)), but more so because there appears to the broker to be an increase in the number of centres within close proximity to G8's exiting centres. Of the 113 new centres opened in the March quarter, 45 are located within a three kilometre radius of a G8 centre and 20 are located within two kilometres.

That compares to 6 in the December quarter within 2km, and 35 out of the total 250 opened in 2016.

Canaccord recognises this trend is not lost on G8, and management is attempting to position the business to address the increase in supply. But this will not happen overnight. The broker warns supply risk is likely to increase over the next twelve months. This will have a flow-through impact on child care pricing and further acquisition opportunities.

The stock is not trading on a demanding PE multiple, the broker acknowledges, and near term catalysts such as bank funding and the aforementioned government funding changes remain. However the supply issue has the potential to weigh on earnings growth and investor sentiment, and thus on share price.

Canaccord, not one of the eight stockbrokers monitored in the FNArena database, cuts its earnings forecasts and its target price to $3.80, down from $4.30, representing a 10% discount to the average Small Industrials PE.

The broker downgrades to Hold from Buy.

The four brokers in the FNArena database covering G8 Education have not updated since the company's earnings result in February. At the time, increasing capacity was flagged by analysts but this was overshadowed by the announced placement of a 12.5% stake in the company to China First Capital Group, allowing for debt reduction and providing funds for further acquisitions.

The database currently shows three Buy (or equivalent) and one Hold rating. The consensus target is $4.05.

A Market Full Of Strength, And Questions

In this week's Weekly Insights:

-A Market Full Of Strength, And Questions -One That Got Away: GUD Holdings -IPO Monitor -Conviction Calls: Bell Potter, UBS And Shaw -Telstra: The Other View -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

A Market Full Of Strength, And Questions

By Rudi Filapek-Vandyck, Editor FNArena

The Reflation Trade, all-dominant in the second half of calendar 2016, has hit the pause button in 2017.

Less ebullient economic data. The first 100 days of the Trump administration generating a lot of controversy and hot air, but very little in the form of tangible progress. Crude oil prices running against an impregnable barrier in the mid-US$50s/bbl. US bond yields retreating from rally highs. The Federal Reserve sticking to its cautious, gradual projections.

The combination of all these factors has meant investors were left reconsidering their positions and projections. Mining companies thus corrected, with the strong rally in 2016 leaving plenty of investors with plenty of profits to secure while bank shares held up, but even they have found the going tougher over the past two months.

Three of the Big Four in Australia, plus Macquarie Group ((MQG)), are about to release financial results while announcing half-yearly dividends. The real litmus test will be how share prices respond after going ex-dividend later this month.

Not that any of the above has held the local share market back in April. After a difficult first set of weeks in January, the ASX200 powered higher in February and in March, then added yet another positive performance in April.

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A correction for resources stocks plus a tougher going for Australian banks implies fresh money had to flow into other stocks to keep pushing major indices higher. Investors have responded by revisiting quality industrials, including small and mid-cap growth stocks; those that were eagerly left behind last year when all that mattered was "are you cheap and cyclical?"

This revival of the Best and Most Resilient in the Australian share market has translated into a noticeable come-back for All-Weather Performers such as CSL ((CSL)), Amcor ((AMC)), ARB Corp ((ARB)), Carsales ((CAR)), and others. In fact, FNArena subscribers visiting the dedicated section on the website can see most stocks mentioned enjoyed solid gains in April.

In addition, investors showed renewed appetite for smaller and midcap growth stories, including Altium ((ALU)), NextDC ((NXT)), WiseTech Global ((WTC)), Speedcast International ((SDA)), Breville Group ((BRG)), as well as the China consumer stories A2 Milk ((A2M)) and Bellamy's ((BAL)).

Meanwhile, the resurgence of traditional yield stocks continues, as long as there is no direct exposure to bricks and mortar retailers, with the notable exception of Telstra ((TLS)). The record high popularity of online retailer Amazon in the USA is having an inverse impact on bricks and mortar retailers on the ASX. Shares in Harvey Norman ((HVN)) and JB Hi-Fi ((JBH)) are well off their recent highs, and so is Super Retail ((SUL)), but for smaller peers the dominant trend remains persistently south.

Watch share prices for Shaver Shop ((SSG)), Baby Bunting ((BBN)), RCG Corp ((RCG)) -the latter after a second profit warning on Monday- and shudder. This looks like graveyard territory, despite the fact that all have been on lists of favourites and conviction buys in 2016. Furniture retailer Nick Scali ((NCK)) remains the stand-out exception in this segment of the market.

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The international debate over whether equities are overvalued, and whether current levels will prove sustainable, is not foreign to Australian equities. Here the average Price-Earnings (PE) ratio remains above the long term average of circa 14.5x, but there is a valid argument this premium is supported by still exceptionally low bond yields.

While just about every expert and his dog expects to see higher bond yields going forward, it is merely the pace at which bond yields rise that has a direct impact on equity markets and investor sentiment. At least in the present context. Last year's Big Switch occurred alongside a rapid increase in US bond yields. A repeat this year would likely require an outburst in inflation, which will be a surprise if it eventuates, or big stimulus from the Trump administration, which equally will come as a "phenomenal" surprise, were it to ever materialise.

The average Price-Earnings (PE) ratio for the ASX200 sits above 16x for FY17, and at around 15.5x for FY18. These numbers are above the historical average, but not alarmingly so. Of more concern, possibly, is the observation the average PE for the Big Four Banks has now risen above 14x on FY18 forecasts. Historically, most times this is as high as it gets for the sector, further illustrated by the observation CommBank's ((CBA)) implied dividend yield has now fallen below 5%.

History also shows this PE level is usually not sustained for a prolonged period. All this can change, of course, if the upcoming results force analysts into lifting forecasts and valuations. But what applies to the banks also applies to large segments of the share market in general. It goes without saying, all worries about index levels and share price valuations can be overcome with a big boost to corporate profits, but what are the chances, really?

Projections for corporate profit growth in Australia remain robust for FY17, but this remains a story of resources, predominantly. Few analysts to date have been willing to incorporate growth for resources stocks beyond 2017. In fact, last week I discovered Macquarie has started to project negative growth for the sector next year, and thus only negligible growth for the Australian market overall.

Underlying these projections there remains a positive undercurrent as industrial companies such as CSL, Ramsay Health Care ((RHC)), Aristocrat Leisure ((ALL)), Corporate Travel ((CTD)), others will continue growing, but at what point will their share price be deemed too excessive?

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Like a helium balloon in a public swimming pool; one cannot hold back tested and proven quality industrial stocks for long. Such is my observation over many years of monitoring Australian equities. Hence, it has been no surprise to see the All-Weather Model Portfolio jumping back to life in February and March, and following up with a market-beating catch-up performance in April.

If anything, our cautious attitude in light of high valuations and multiple threats has been holding back the Portfolio's performance, given a healthy chunk of our funds is being held in cash. Entering May, investor attention seems to focus on North Korea and on seasonal patterns ("Sell in May"), but maybe Pimco's Head of public policy, Libby Cantrill, summed it up best when she stated:

"We've been skeptical that comprehensive tax reform would pass through Congress quickly; our view remains that if we see action on tax reform at all, it won’t be until the end of 2017 or the beginning of 2018, and it will likely be smaller in scale and scope than any of the proposals we have seen to date. And if action on taxes slips beyond that time frame, it would become increasingly likely that we won’t see action until after the midterm elections (if at all), a development that markets would not welcome."

This is the problem with equity markets high on hope and expectations: disappointment and nervousness can hit anytime. Or never. Probably best not to go full in either way.

One That Got Away: GUD Holdings

One company that has been on my radar for a while is GUD Holdings ((GUD)) and with good reason. If management's strategy to rebuild this former dividend stalwart around fuel transmission and other automobile parts proves successful, we might be witnessing the birth of a fresh All-Weather Performer on the local stock exchange. This is not a regular occurrence.

Unfortunately for investors who as yet have not caught up with this corporate transformation, the company has been providing fans and stockbrokers with positive feedback in the months past and the share price started a relentless rally in early February, pushing the price above $12.50 while none of the stockbrokers covering the stock has a price target that comes even close.

On Monday, we had the confluence of two non-aligned events, both negative, and the share price responded swiftly to the downside. First up was funds manager Wilsons, whose analyst decided it is time to downgrade to Sell. Wilsons' valuation/target doesn't reach higher than $9.97, or close to -20% below the share price close on Friday.

Amongst observations made by Wilsons is that GUD shares are now more highly valued than Bursons Group's ((BAP)), while recent history shows a discount of -20-35% was pretty much standard. Clearly, the market likes the prospect of a potentially successful turnaround, but maybe it likes this story too much?

Stockbroker Morgans added the observation that GUD shares, from a technical perspective, look overbought, overpriced and well due a correction. Stockbroker price targets aside, Morgans' technical chartist reports levels of support are located at $11.71, then $11.14, then $10.30.

Most stockbroker targets were set in February, at the interim result, though Macquarie updated in early April with a price target of $10.40. Both Citi and Credit Suisse are only marginally higher at $10.45. One to keep an eye on, for sure, but not one to chase after such strong momentum. Patience can be a real asset when applied diligently.

IPO Monitor

Last year FNArena teamed up with OnMarket BookBuild in order to provide readers and subscribers regular updates on Australia's booming IPO market, as well as give investors easier access to fresh ASX listings.

As this is not an exclusive alliance, FNArena only benefits when investors sign up through our dedicated channels. If you are interested, and you want FNArena to benefit too, use the following link:

https://au.onmarketbookbuilds.com/?refID=97XGXOZ5

Or click through via the final page of the PDF report update we published last week:

http://www.fnarena.com/wp-content/uploads/2017/04/OnMarket-2017-First-Quarter-IPO-Report-FNArena.pdf

Among the observations included inside the report:

-Only two out of eight IPOs from January are still in positive territory today. One of the two, Lifespot Health ((LSH)), experienced a jump of 100% on the first day of listing -February was the best performing IPO month in Q1 with most listings adding to their gains from Day One -The Materials sector is back, offering 10 out of 26 IPOs in Q1 2017 -Best performing sectors have been Industrials and Healthcare

Conviction Calls: Bell Potter, UBS And Shaw

Personally, I don't like the term "Defensives", but I am all too aware others are using the term in abundance, so here they are, the Top Ten Defensives as identified by Bell Potter Head of retail research, Peter Quinton:

-GPT Group ((GPT)) -SCA Property Group ((SCP)) -Stockland ((SGP)) -Transurban ((TCL)) -Spark Infrastructure ((SKI)) -CSL ((CSL)) -Challenger ((CGF)) -Link Administration ((LNK)) -Coca-Cola Amatil ((CCL)) -Orora ((ORA))

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Strategists at UBS reiterated their allegiance to the global reflation trade last week, arguing what we are witnessing right now is nothing but a pause in a trend that has much longer to run. UBS's Model Portfolio therefore remains Overweight resources stocks and Underweight bond proxies.

UBS is also Overweight stocks that benefit from higher US interest rates. Domestically, i.e. Australia-specific, the strategists find it difficult to identify favourable trends. They've chosen the East Coast gas crisis -through AGL Energy ((AGL)) and Origin Energy ((ORG))- as well exposure to public sector infrastructure investment. UBS reduced its weighting to local banks to Neutral.

In terms of individual stock decisions, UBS strategists have added AGL Energy, Brambles ((BXB)) and Sims Metal Management ((SGM)) to the Model Portfolio. They dropped Amcor ((AMC)), Costa Group ((CGC)) and Star Entertainment Group ((SGR)).

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Chief Investment Officer Martin Crabb runs a Magnificent Seven portfolio for Shaw and Partners clientele and the selected basket is running ahead of market performance after four months in 2017. Albeit, it has to be said, this outperformance is largely the result of Qantas' ((QAN)) inclusion; up more than 25% since January 1st.

The Magnificent Seven currently comprises of:

-Flight Centre ((FLT)) -Qantas -BHP Billiton ((BHP)) -Henderson Group ((HGG)) -Alumina Ltd ((AWC)) -Lend Lease ((LLC)) -Mirvac ((MGR))

Note: since early March, every Weekly Insights has contained updates on Conviction Calls by stockbrokers and other experts in the local share market. See Rudi's Views on the website.

Telstra: The Other View

Last week, I wrote a story on Telstra ((TLS)) in which I dared to made a few predictions, including:

-Investors better not hope for a return in share price to $5, not to mention $6 or higher -Ultimately the board will be forced to reduce the dividend, but not in the short to medium term -The downward trending share price will find support as the yield differential with peers has widened considerably

For those who missed out, see last week's Weekly Insights: Telstra Is Not BHP.

There are opposing views though. Two local experts who are stridently in disagreement with me on this topic are telco analysts at Shaw and Partners, David Spotswood and Annabel Riggs. The two are rating Telstra Sell with a twelve month price target of $3.78, suggesting a lot more pain lays in store for today's loyal shareholders.

Shaw and Partners' view is, at its core, premised on the assumption that present industry dynamics for the telecommunication sector in Australia are negative for everyone in the industry, with consumers possibly the sole beneficiary. This then leads to the prediction Telstra's pain will stretch a lot further than what analysts at Deutsche Bank, UBS, et al are willing to contemplate.

And this then leads to the projection of a much greater earnings and cash flow shortfall than is being reflected in current market consensus forecasts. These consensus forecasts, by the way, don't project Telstra will cut its dividend this year or next. I explained last week, most analysts believe Telstra's 31c annual payout is not under threat until, maybe, 2019 or later.

Shaw's Spotswood and Riggs are challenging that assumption with a projected payout of 28c in FY18, next to be followed up by a further cut to 25c.

Shaw's revised projections are possibly the most bearish I have come across to date. They also stand in sharp contrast with analysts at JP Morgan who believe Telstra shares still deserve to trade at $5 as its market position and pricing power is much more resilient than the market is giving it credit for in 2017.

2016 - L'Année Extraordinaire

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

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

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

All-Weather Model Portfolio

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

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

Rudi On TV

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

-Tuesday, 11.15am Skype-link to discuss broker calls -Thursday, 12.00-2.00pm, co-host in the studio -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

Your Editor has been invited to present at the Australian Shareholders Association's (ASA) 2017 Securing Your Investing Future Conference to be held at the Grand Hyatt Melbourne from 15-16 May.

The conference details - www.australianshareholders.com.au/conference-2017

Speaker information - www.australianshareholders.com.au/speakers

Program information - www.australianshareholders.com.au/program

Telephone: 1300 368 448

(This story was written on Monday 1st May, 2016. It was published on the day in the form of an email to paying subscribers at FNArena).

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

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

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- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?) - Make

Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate) - Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection) - Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow. - Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

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