WEEK 49

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Fisher & Paykel Healthcare Too Pricey?

NRW Holdings Diversifies Growth Options

Mocka Brings More Furniture To Adairs

CONTENTS

AUSTRALIA

COMMODITIES

WEEKLY REPORTS

SMALL CAPS

RUDI'S VIEWS

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AUSTRALIA

Fisher & Paykel Healthcare Too Pricey?

Fisher & Paykel Healthcare experienced a jump in device sales during the first half but brokers remain concerned about the high price of the stock.

-Will new mask quality/features be enough to drive an improvement in US market share
-Decline in gross profit margins of around -50 basis points expected in FY20
-Launch of Vitera in the US a key catalyst for mask growth in 2020

By Eva Brocklehurst

Nasal high-flow therapy performed strongly for Fisher & Paykel Healthcare ((FPH)) in the first half of FY20. The company has lifted FY20 expectations for a third time this year, Wilsons notes, albeit for low-quality reasons such as FX and R&D grants.

Full-year guidance is for operating revenue of NZ$1.19bn and net profit of NZ$255-265m, which Credit Suisse assesses has absorbed a modest adverse impact from a higher assumed NZD/USD rate.

Macquarie believes the results provide a platform for the company's revenue outlook over the medium term but notes valuation multiples are priced ahead of Australasian healthcare peers, and elevated versus historical levels.

Moreover, risks remain significant and temper the view. The broker awaits feedback from the US market and new releases in early 2020, noting this is a high-quality business and the market is capitalising market-leading growth opportunities across both hospital and homecare.

UBS agrees that the stock is trading well above global peers on an EPS (earnings per share) growth-adjusted basis. New applications for consumables were robust in the first half, with a growth rate of 23% on a constant currency basis.

A jump in device sales was underpinned by tenders, which is a reflection of the company's dominance of humidification, UBS asserts, and less about large Airvo orders for OptiFlow use outside of the intensive care unit.

Wilsons finds a couple of characteristics of the business at odds with the valuation. The **sleep business within the Homecare division faces structural challenges**, given competitor activity ahead of a new round of US reimbursement reform. The broker is also not convinced the new mask quality/features are enough to drive an improvement in market share in the US.

The company still expects a decline in gross profit margins of -50 basis points in FY20 on the back of additional depreciation and start-up costs, associated with the commissioning of the second manufacturing facility in Mexico.

Macquarie was expecting a more pronounced impact on margins in the first half and suspects margins will remain relatively static over FY20. Headwinds to margins include the start-up of the Auckland manufacturing facilities in FY21. Management has highlighted an additional $20m in capital expenditure as it improves capacity in both Mexico and New Zealand.

UBS suspects US durable medical equipment suppliers are likely to ask for price relief in the next round of the competitive bidding program. Reimbursement rates are due to be released in mid 2020 with implementation in January 2021. Based on the round 2 experience this could result in a modest increase in manufacturer price discounts, towards the upper end of the -3-5% historical level.

UBS assesses this would be slightly worse for Fisher & Paykel, given its heavy skew towards masks. The broker calculates a -3% change in US OSA (obstructive sleep apnoea) mask prices for the company would equate to a -60 basis points change in gross margin.

Hospital

The hospital division delivered revenue growth of 17%, supported by demand for nasal high-flow therapy. There was also an extended flu season in the US that underpinned sales. Normalising for the extended flu season and the sales of hardware, Credit Suisse estimates the hospital division delivered 14% growth.

Wilsons believes this segment is in excellent shape, although management has provided a conservative message regarding gross margins, which seems inconsistent with how the product mix should develop. Divisional revenue grew 19% to NZ$353m.

Homecare

Homecare operating revenue declined -1% because of declining sales in legacy OSA masks. This was partly offset by sales from the new Vitera full-face mask in Australasia, Canada and Europe, where the product has been well received.

The launch of Vitera in the US in late October is now expected to offset a further deterioration in legacy mask sales in the second half. Macquarie was surprised by OSA mask results in the first half, expecting a larger contraction, but believes the US launch is a positive sign for a return to growth in market share, albeit it is early days.

UBS notes homecare growth remains well below system growth and, while in the long-term **myAirflow for home treatment of COPD (chronic obstructive pulmonary disorder) is critical, supportive US clinical trial results and reimbursement are probably more than three years away**.

Wilsons points out mask re-supply programs facilitated by competitors are limiting sales for Fisher & Paykel, although new patient commencements appear positive. The broker, not one of the seven stockbrokers monitored daily on the FNArena database, maintains a Market Weight rating with an A$18.69 target. The database has three Sell ratings and one Hold (Macquarie).

AUSTRALIA

CSL Reaping The Reward Of Foresight

CSL has shown foresight in expanding plasma collection over recent years, enabling significant share in a market where demand for immunoglobulin has run ahead of supply.

-Several brokers raise price targets substantially
-Global immunoglobulin market growing faster than the historical average
-Possibility that prices for immunoglobulin rise to meet those of the US

By Eva Brocklehurst

Several price targets for CSL Ltd ((CSL)) have breached $300 recently, as brokers re-evaluate the global opportunity for its plasma collection facilities. The company's foresight in expanding its plasma collection has enabled significant share for its immunoglobulin products. Critically, demand for immunoglobulin is exceeding supply, and CSL has increased its footprint in the US by 110% over the past five years.

After a US investor briefing on plasma from Takeda, Citi's CSL growth forecasts for immunoglobulin in FY20-22 have been upgraded. The broker assesses **revenue growth for CSL will be driven by a combination of underlying market volume and price growth as well as increases in product mix and some minor market share gains.**

The global immunoglobulin market is growing faster than the historical average, the broker adds, and CSL is best positioned because of its investment in plasma collection. Currently the market is growing at around 9-10% per annum.

Credit Suisse assumes CSL will continue to grow above the market, namely with Privigen and Hizentra, because of a continued shift in mix and a reliable supply compared with competitors. The US Food & Drug Authority has not noted any shortages for CSL products. The broker forecasts 15% volume growth for Privigen and 18% for Hizentra.

This year Takeda was short supply of both Gammagard and Cuvitru and Citi notes it has committed to increase plasma supply by 65% over the next five years. Meanwhile, Grifols has increased its plasma collection largely via acquisitions and should have sufficient supply to meet demand.

The broker calculates it is possible for CSL to grow immunoglobulin revenue at around 16% for the next three years as Grifols is yet to launch its SCIg in the US and Takeda has a lot of catching up to do regarding plasma collection.

Macquarie agrees the company's plasma collection centre network has a competitive advantage relative to peers. The other main operators in the industry have not invested enough in collection capacity and CSL is reaping the reward.

Haemophilia

Haemophilia products accounted for around 15% of CSL Behring revenue and 12% of group revenue in FY19. Recombinant products have also accounted for an increasing proportion of these revenues. Haemophilia is a hereditary condition caused by a gene defect and resulting in impaired blood clotting. Haemophilia A is estimated to occur in 20 per 100,000 people while haemophilia B is estimated in five per 100,000.

Macquarie believes near-term revenue growth in CSL's haemophilia product is underpinned by Idelvion. Uptake of Idelvion has been robust following the launch and the broker expects further uptake and market share growth out to FY22 is likely. Earnings estimates are upgraded modestly out to FY22, and the target is raised to $300 from $250 in line with these revisions and a lower assumption for the AUD/USD.

Citi upgrades its target to $282.60 from $252.60 and also increases estimates by 1-6% over FY20-22. The broker believes earnings risk is to the upside given the strong dynamics in the plasma market and the company's superior position in collections.

Europe

Credit Suisse suspects the US political environment is likely to limit any significant price increases, despite the limited supply. CSL generates around 55% of its immunoglobulin revenue from the US. **The opportunity lies in Europe as immunoglobulin prices are -20% or more lower than in the US, and the broker believes prices will converge as a result of the strength in immunoglobulin demand**.

This would equate to price increases totalling 3.5% in FY20 for CSL, in the broker's calculations. Credit Suisse assumes 2% growth from a positive mix, i.e. Hizentra, and 13% volume growth, resulting in revenue growth in immunoglobulin of around 18.5% for CSL in FY20.

Moreover, Credit Suisse believes its estimates of 2% price growth beyond FY22 are conservative, as this assumes that pricing in the rest of the world is at -8-10% discount to the US. Credit Suisse has raised its target to $305 from $249, lowering its risk-free rate assumption to 3% while noting sustained lower bond yields. While the valuation may be considered demanding, the broker believes this is justified because of the strong market position and robust fundamentals.

In early November, UBS increased its target to $295 and upgraded to Buy from Neutral. The broker believes CSL's expertise in deploying collection centres, improving immunoglobulin yield and general manufacturing efficiencies make it best place to benefit from the current demand.

Risks

The main risk ahead for CSL, in Citi's view, is a likely competitor to Hizentra being launched by Grifols in the current quarter as well as any slowing in albumin volume growth in China, which could pose risk to CSL's margins. Takeda has also indicated it will launch a competitor to CSL's Kcentra.

While a number of companies are trialling the use of FcRn inhibitors for treatment of some of the illnesses currently treated with immunoglobulin, at this stage Citi believes it is unlikely these will be commercially available within the next five years.

FNArena's database has five Buy ratings and two Hold. The consensus target is $273.40, signalling -4.2% downside to the last share price. Targets range from $220.30 (Morgans) to $305.00 (Credit Suisse).

See also, Positive Momentum Continues For CSL on November 14, 2019.

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AUSTRALIA

NRW Holdings Diversifies Growth Options

BGC Contracting is highly complementary to the NRW Holdings maintenance business but, as this is the compnay's largest acquisition to date, it is not without risks.

-Large overlap in the mining and civil construction businesses
-Acquisition enhances scale and earnings diversity
-NRW Holdings chance of winning tenders is skewed to the upside

By Eva Brocklehurst

NRW Holdings ((NWH)) will expand its growth opportunities from civil work in Western Australia following the acquisition of BGC Contracting, which has a high profile in that state, delivering on road and bridge work as well as mining services.

Moreover, the shutdown and maintenance services business is highly complementary to NRW's maintenance business which has largely had a focus on product. The company may be considered the natural owner of BGC Contracting, given the high degree of overlap between the mining and civil construction businesses but, as Citi notes, this is its largest acquisition to date and integration represents a key risk.

Converting the pipeline of contracts is critical, in the broker's view, particularly in the BGC Contracting civil business, which has a $300m order book of which $280m is to be delivered in FY20. That, in turn, will be needed to deliver growth in FY21.

NRW will acquire BGC Contracting for an enterprise value of $310m, comprised of $116m in cash and the assumption of $194m in asset finance obligations. The acquisition will be funded by a $120m placement and $10m share purchase plan at $2.85 a share.

Based on consensus estimates the acquisition implies pro forma FY20 accretion to earnings per share of 14% pre synergies and 27% post synergies. Citi forecasts BGC Contracting to deliver $56m in earnings (EBIT) in FY21, including $15m in synergies.

Moelis does not believe the value of NRW is demanding, given the enhanced scale and earnings diversity and maintains a Buy rating with a $3.40 target. Moreover, successful conversion of the $2.0bn worth of tenders in which the company is involved could mean it trades at a premium. The broker increases FY20 estimates for operating earnings (EBITDA) to $228.8m to reflect around seven months contribution from the BGC Contracting acquisition.

UBS points out NRW is operating at mines that have long lives and BGC Contracting adds commodity diversification and further visibility. While the broker has a Buy rating and $3.85 target, a risk discount is retained on the stock, considered necessary because of the lack of detail on specific contracts. The main positives are the incremental growth opportunities in Western Australian infrastructure and more scale in recurring maintenance works.

However, **the broker would like further detail on the BGC Contracting depreciation schedule, which appears aggressive relative to NRW, as well as the divisional margins, in order to assess relative operating performance**. There is upside potential for synergies from procurement and deeper consolidation.

UBS estimates around US$19bn will be invested across 2018-22 in Western Australian iron ore replacement and sustaining capital projects. In light of NRW's capability, the chance of winning tenders is skewed to the upside.

Specifically, UBS envisages potential from the award of the Eliwana and Ironbridge projects and assesses $650-700m per annum is obtainable in operating earnings from mining services, with a full-year contribution from the Golding contract and the ramp up of the $420m Baralaba contract.

The BGC Contracting acquisition adds five mining contracts and $1.2bn to the order book. All five of the contracts end by FY22, with Iron Baron having an extension option. Furthermore, the Mount Webber contract expires in FY22 and, Citi notes, will need to be replaced with other work given the estimated mine life of the project is only until 2022.

Citi also points out **BGC Contracting recognised a provision of $22m in relation to an east coast infrastructure project in FY19**. This is expected to be completed early in the second half of FY20, although further losses are delays cannot be ruled out. The company has also indicated that a BGC Contracting client holds an option to acquire all, or part of, the associated mining fleet used to provide services to that client.

AUSTRALIA

Taco Bell Sizzles For Collins Foods

The KFC Australia franchise performed strongly for Collins Foods in the first half, while Taco Bell offers a future expansion opportunity.

-Brokers confident the KFC Netherlands business will improve
-Price increases anticipated, to offset chicken and wage cost increases
-Taco Bell considered the "exciting" opportunity for the company in Australia

By Eva Brocklehurst

It was another record result in the first half for the KFC Australia franchise and Collins Foods ((CKF)) has highlighted robust momentum in the business. While no formal guidance was provided, Collins Foods has reiterated plans in FY20 for the rolling out of a net nine KFC Australia stores and four to five KFC Europe stores. Meanwhile, KFC Europe continues to underperform broker expectations.

Same-store sales growth of 4.9% was recorded in Australia while operating earnings (EBITDA) margins expanded by 50 basis points, reflecting operating expenditure leverage and network efficiencies. Growth was supported by a refreshed value menu offering and uptake of delivery options.

There was some comparable improvement in sales in Germany, underpinned by a promotional campaign, but the Netherlands was much weaker, offsetting the gains. **The Netherlands business is expected to improve in the second half, but Morgans asserts it will take some time to be sustainable, although the medium-term opportunity is significant.**

The disappointing Netherlands result was attributed to customer leakage from the lack of a value offering, and UBS incorporates a slower ramp-up in Europe along with a softer margin recovery in the Netherlands. Wilsons assesses the cost base in Europe has now stabilised and is optimistic about improvements in the Netherlands. On balance, and based on current forecasts, Wilsons retains a Market Weight rating and $10.65

target.

Taco Bell

Taco Bell continues to perform strongly and seven stores have now been opened, with an additional five expected over the second half. Taco Bell is now expected to make a -$2.2-2.3m loss in FY20 and break even in FY21.

Both UBS and Wilsons believe this business is an exciting opportunity for the company in Australia and will be a driver of growth over the medium-longer term, along with portfolio expansion and operating leverage in the European businesses. Wilsons currently models 77 stores and an operating earnings margin of 13.3% in FY25 for Taco Bell, with potential upside to both assumptions.

Revenue in the first half of $449m was up 9% and operating earnings of $57.7m were up 7%. KFC Australia operating earnings increased 12% while Europe declined -35%. Sizzler reported a -8.9% decline in revenue, primarily the result of two closures, and partially offset by same-store sales growth in Sizzler Australia of 4%. Sizzler Asia's royalty revenue increased by 17.9%.

Morgans upgrades to Add from Hold, with an $11.76 target, confident of positive momentum in the KFC brand in Australia. The broker also notes the company has de-geared the balance sheet to the top of its target ratio, with the **potential for further accretive acquisitions**.

UBS goes the other way and downgrades to Neutral from Buy with a $10.60 target believing, after a material re-rating, the valuation is fair. The broker expects the company will need to implement above-average price increases because of the increased costs of chicken and wages. Price increases of 1.6-2.0% would be required to offset 1-2% in wage increases and 2-3% incremental chicken cost increases and UBS assesses this should be achievable.

AUSTRALIA

Buoyant Outlook For Select Harvests

Select Harvests has used strong cash flow over FY19 to pay down all debt and underpin production growth for the future.

-Best almond crop yield in the past decade
-Potential for geographic diversification
-Key challenge lies with water costs

By Eva Brocklehurst

Almond grower and processor Select Harvests ((SHV)) has used strong cash flow from both its almond and food division over FY19 to pay down all debt, ex leases, and underpin growth in the future.

FY19 results were ahead of broker estimates while yields in the almond divisions were above historical industry averages, and there was of -15% reduction in production costs per kilo.

Operating net profit of $53m was up 160%, including an unfavourable marking to market of the 2018 crop. Almond earnings increased 132% because of higher prices and the best crop yield for the past decade that comparably offset higher water costs.

There was no formal earnings guidanceprovided for FY20 but the company assesses, based on a yield of 1.35t/acre, the theoretical crop would be around 21,000t with scope for a variance either way of 10%. Bell Potter upgrades estimates for FY20 by 8% and FY21 by 18% to reflect changes to yields, costs and pricing assumptions and assumes FY20 yields are -5% below theoretical levels.

The company generated $46m in free cash flow in FY19. UBS forecasts net debt in FY20 of $600,000, signalling the company could use around $80m of its $100m in undrawn facilities for growth and retain an acceptable leverage ratio of around 1x operating earnings.

The broker also envisages potential for geographic diversification amid expansion opportunities in California.

Wilsons, too, notes the potential for further investment in almond and/or macadamia production.

Prices

With Californian crop commitments up 18% over the year and volume risks to the downside, UBS envisages a favourable pricing outlook and upside risks to estimates, maintaining a Buy rating on the stock with a $9.10 target.

Bell Potter suspects Select Harvests will have greater operating leverage to elevated almond prices in the current cycle and also has a Buy rating with a $9.10 target, noting pricing trends in Australian dollars are reasonably strong in both Australia and the US.

Australian port prices are $9.90/kg while US prices are around $8.50/kg. The broker compares this to FY19 realised prices of $8.60/kg, noting this was achieved at an Australian dollar rate of just under US$0.71.

Water

The price of water remains a substantial challenge and elevated costs are expected to persist in FY20. Water costs were up 30% in FY19 on a per kilo basis, although the company has indicated that it will not be fully impacted by current pricing given prudent management of water purchases.

With water purchases now largely complete for FY20, Bell Potter assumes costs of water are in line with the allocation pricing over the year to date on the company's unhedged requirements. Given lower projected yields and elevated water costs, the broker's forecasts project a 23% increase in the cost per kilo.

Wilsons points out Select Harvests is currently below its targeted water entitlement level and may need to allocate expenditure to address the situation over the next couple of years. Meanwhile, Phytec technology has been installed and the company is targeting a -8% reduction in water usage without an adverse impact on yield, and remains confident in its ability to maintain yields above industry averages.

Wilsons assumes crop yields normalise in FY20 and, along with further significant increases in water costs, this drives expectations for an earnings decline in FY20. Still, the broker believes **the production growth profile offers investors an opportunity to invest in sustained growth** and the share price broadly reflects fair value, maintaining a Market Weight rating with a $7.71 target.

COMMODITIES

Material Matters: Energy, Aluminium & Nickel

A glance through the latest expert views and predictions about commodities. Oil; LNG; aluminium; and nickel.

-Calls grow for greater reductions in oil production
-Near-term headwinds for LNG producers
-Rising volumes of low-cost capacity thwart aluminium pricing
-Drop in the nickel price increases near-term risk for key miners

By Eva Brocklehurst

Oil

The upcoming OPEC (Organisation of Petroleum Exporting Countries) meeting may be another defining moment for the **oil** market, ANZ analysts suggest. They believe OPEC has three options, either to roll over the current production agreement, extend the agreement and pursue compliance for those over-producing, or deepen production cuts.

Calls for greater reductions in production are growing, although with considerable uncertainty regarding supply the analysts suspect OPEC would be unlikely to take that option.

The most likely outcome is simply to roll over the current agreement and increase the pressure on non-compliant countries. The analysts suspect, while market will be initially disappointed, this should ultimately support Brent crude at above US$60/bbl in 2020.

LNG

Citi envisages some headwinds for those companies with **LNG** in their portfolios, given upcoming price reviews for existing contracts that were signed at the top of the price cycle.

The broker forecasts subdued spot prices before physical gas markets tighten in 2023. **Woodside Petroleum**

((WPL)) is considered the most exposed, with over 80% of its LNG portfolio today at legacy prices. This will reduce to under 40% in 2020 on the broker's estimates and to around 10% by the mid 2020s.

Accordingly, Citi estimates the slope of contract pricing will decline by -100 basis points over the next two years and suspects buyers of LNG will wait for existing arbitration cases to be finalised before considering whether to purchase arbitration in their own right.

However, with a backlog of cases globally, buyers may miss the opportunity. Moreover, independent arbitrators do not necessarily have the power to determine the price and are often only afforded the ability to define the terms for determining the prevailing market price.

Citi has neutral ratings across its coverage and believes the sector is fairly priced. The implied oil price across the large cap stocks is US$55-63/bbl, which compares to Citi's US$55/bbl long-term forecast. Over a long-term investment horizon growth prospects and robust balance sheets mean **Santos** ((STO)) and **Beach Energy** ((BPT)) are the broker's preferred stocks.

Meanwhile, global LNG production increased in October amid supply growth from US exports. JP Morgan estimates LNG production was up 3% in October and 5% above the prior corresponding period. Production in the Americas was up 10% on the previous month and up 24% on the prior corresponding October.

This supply growth coincided with increases in spot prices despite reports of the supply glut developing in Europe. JPMorgan expects spot LNG prices will weaken now, particularly as no commercial cargoes have been observed from Freeport LNG and Elba Island.

The broker also points out incremental volumes are likely to enter the market at a period when east Asian LNG demand growth could decline. Any import growth is largely dependent on these countries and their uncontracted winter demand requirements. Flat demand growth over 2019 would follow two consecutive years of double-digit growth.

Aluminium

There is a problem facing the **aluminium** industry - rising volumes of low-cost smelting capacity. Morgan Stanley notes, together with weak demand and rising inventory, this is keeping the price firmly in the US$1700/t region and putting downward pressure on premia.

This scenario is further illustrated by the formal opening of the sixth line at Alba's 1.5mtpa smelter in Bahrain. In the absence of higher-cost smelter closures, and with a likely return to supply growth in China, the broker envisages the price risk is to the downside.

In terms of demand, the automotive sector accounts for 38% of demand for aluminium in the US, 31% for Europe and 48% for Japan. These three markets have all contracted in 2019 and there is potential for more downside in 2020.

Moreover, excess scrap availability and consequent low scrap prices outside of China have meant that, even where end-use is growing, the impact on primary demand has been limited. While China's stimulus efforts have targeted construction/infrastructure, new smelters and Chinese exports of aluminium semis suggest there will be plenty of supply to meet any uptick in demand.

The trend in inventory levels has reversed, Morgan Stanley points out, and the London Metal Exchange is back above 1.2mt with new warehousing rules likely to bring more inventory to light in 2020, weighing on the price.

Nickel

Macquarie observes a -20% drop in the **nickel** price has increased the risk for base metal miners. Spot nickel prices are now trading -14% below the broker's FY20 and FY21 forecasts.

The larger nickel miners, **Independence Group** ((IGO)) and **Western Areas** ((WSA)) have closely tracked the nickel price over 2019. The broker acknowledges this is somewhat surprising, given the former's heavy exposure to **gold**.

Incorporating a spot price scenario translates to a -13% and -32% downside risk to earnings forecasts for Independence Group and Western Areas, respectively, in FY20. For the higher-cost miners, **Panoramic Resources** ((PAN)) and **Metals X** ((MLX)), the downside is more material, reflecting marginal earnings at spot prices.

Over the past couple of months **copper and tin** prices have been relatively flat while nickel has declined. Macquarie reiterates a preference for Independence Group and **OZ Minerals** ((OZL)) in base metal stocks as these offer some near-term downside protection to weaker prices through lower-cost operations and exposure to gold. Meanwhile Western Areas offers greater exposure to a bullish outlook for nickel in the medium term.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 29-11-19

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday November 25 to Friday November 29, 2019
Total Upgrades: 10
Total Downgrades: 11
Net Ratings Breakdown: Buy 37.57%; Hold 45.70%; Sell 16.73%

Changes in recommendations for ASX-listed stocks by the seven stockbrokerages monitored daily continue to carry a slight bias towards downgrades. For the week ending Friday, 29th November 2019 FNArena registered ten upgrades and eleven downgrades with Telstra the sole recipient of two upgrades, both to Buy.

Only three out of the ten upgrades stopped at Hold/Neutral, while four companies received a fresh Sell recommendation: AMP, IOOF Holdings, Perpetual and Sigma Healthcare.

Positive changes to price targets and valuations remain few and far between, but some did leave an impression. Caltex Australia enjoyed an improvement of more than 21% on the back of plans to spin-off property assets and the emergence of a Canadian suitor. Sigma Healthcare, Mineral Resources and IOOF Holdings each enjoyed sizeable increases.

A lot less was happening on the negative side with Bank of Queensland, Westpac and Healius the only ones worth mentioning.

With the out-of-season corporate reports now winding down, and quarterly updates on commodities still ahead, it is no surprise overall activity in further adjustments to earnings estimates remains rather benign. Though, it has to be pointed out, corporate Australia is still issuing profit warnings.

For the week, Caltex Australia took the honours in positive amendments to earnings forecasts, at a distance followed by Mineral Resources, and further down Fisher & Paykel Healthcare (FY19 release), and IOOF Holdings. The negative side of the ledger, on the other hand, has plenty of action on display with Orocobre's forecasts getting yet another chainsaw treatment, followed by equally significant reductions for Nearmap, Nufarm (yet another profit warning), Superloop, Sims Metal Management (was that another profit warning?), and Westpac.

The greatest discrepancy for the Australian share market remains the fact that fresh money keeps flowing in, pushing indices to new all-time highs, while momentum for earnings estimates remains (quite noticeably) weighted to the downside. One cannot help but wondering what the implications are for the upcoming February reporting season.

This, however, might remain a question for next year?

Upgrade

BANK OF QUEENSLAND LIMITED ((BOQ)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/2/4

Bank of Queensland will undertake a capital raising of $275m. The book build will be priced between $7.69 and $7.78 per share, representing a -10-11% discount to the last close and a 6% premium to net tangible assets.

The bank will outline a new strategy in February and UBS expects this will focus on niche areas where Bank of Queensland has an advantage.

The broker does not envisage a rapid turnaround, given the current environment, and upgrades to Neutral from Sell. Target is $8.25.

COLLINS FOODS LIMITED ((CKF)) Upgrade to Add from Hold by Morgans .B/H/S: 1/1/0

The first half highlighted strong momentum in the base KFC Australia business while Europe continues to underperform. The company has highlighted same-store sales growth in the second half to date of 4.5% for KFC Australia.

Store roll-out expectations have been reiterated. Morgans expects FY20 operating earnings (EBITDA) of $122.3m, up 7.5%.

The broker notes the stock trades at a discount to listed peers and points to de-gearing of the balance sheet to the top of the target range with the potential for further accretive acquisitions.

Rating is upgraded to Add from Hold and the target raised to $11.76 from $8.20.

See also CKF downgrade.

CALTEX AUSTRALIA LIMITED ((CTX)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 2/4/0

Caltex Australia has announced a plan to spin off its retail property division, selling up to a 49% interest in 250 sites. This is in addition to the 50 that will be sold separately.

Morgan Stanley considers this a sensible strategy as it improves the balance sheet and offers the potential for buybacks.

At the same time, retail fuel margins appear to have improved and downside risk is reduced, in the broker's opinion.

Rating is upgraded to Overweight from Equal-weight. Target is raised to $34 from $24. Industry view is In-Line.

See also CTX downgrade.

EBOS GROUP LIMITED ((EBO)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/2/1

UBS upgrades to Buy from Neutral as the stock now offers a 16% total return based on the current target. The broker's FY20 operating earnings (EBITDA) forecast now sits at $294m.

Given the strong capital allocation record, UBS would expect the company to, at a minimum, achieve its stated 15% return on capital target on future acquisitions.

Assuming EBOS Group does deploy $300m of capital into acquisitions by the end of FY20 it could add 14% to group earnings (EBIT). Target is reduced to NZ$25.50 from NZ$25.90.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/3/2

Evolution Mining will acquire Red Lake in Canada from Newmont for US$375m. Citi notes the company intends to deliver the same re-capitalisation that was performed on previous acquisitions.

While the deal fits, Citi cautions that this is a different mine, operationally, to past deals. The broker considers the earnings value is modest for the near term, pending the three-year operational turnaround.

Rating is upgraded to Buy from Neutral on the pullback in the share price. Target is steady at $4.60.

METCASH LIMITED ((MTS)) Upgrade to Neutral from Sell by Citi .B/H/S: 1/3/2

Metcash has confirmed the loss of one of its largest customers, 7-Eleven. While the $800m in wholesale sales is much larger than that of the Drakes contract loss, Citi calculates a similar earnings impact.

The broker expects Metcash will retain around 10% of the contract in Western Australia and selected categories.

The broker upgrades to Neutral from Sell and raises the target to $2.80 from $2.60 as earnings downgrades are offset by revised cost assumptions and a re-rating in global comparable multiples.

See also MTS downgrade.

SPARK INFRASTRUCTURE GROUP ((SKI)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/4/1

The company has flagged a tough environment and a shift to tax being paid. The re-sets in South Australia and Victoria have an -89 basis points reduction in equity risk premium.

Macquarie updates estimates for the final price outcome for the VPN 2020 pricing and change in the timing of the final decision to July 2021. Target is lowered to $2.37 from $2.41.

Rating is upgraded to Outperform from Neutral. The broker notes the yield of 6% in 2021 is superior to the company's regulated utility peers.

TELSTRA CORPORATION LIMITED ((TLS)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/1/1

The company's investor briefing flagged declines in the near term for mobile revenue per unit amid competition in enterprise. However an improving trend has been noted.

Credit Suisse suspects capital intensity is likely to improve while the dividend appears sustainable at $0.16 per share.

While recognising the stock has had a good run over the past 12 months, as momentum is positive Credit Suisse upgrades to Outperform from Neutral. Target is raised to $3.90 from $3.70.

It appears the usual uptick in competitive behaviour among mobile providers in the run-up to Christmas is absent this year. Macquarie hasn't changed its Telstra forecast, but is more confident in its FY21 mobile growth forecasts.

Leading indicators suggests a competition inflection point in the next twelve months.

Mobile improvement, as well as reduced capital intensity, provide scope for dividend growth down the track, the broker suggests. Upgrade to Outperform from Neutral, target rises to $4.00 from $3.75.

WESTPAC BANKING CORPORATION ((WBC)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/5/0

Westpac has announced CEO Brian Hartzer will step down, making this the third CEO of a major bank to have resigned in the last two years. Peter King, the current CFO, has been appointed acting CEO.

Chairman Lindsay Maxsted will also bring forward his retirement. While UBS has a limited basis on which to estimate the extent of the likely fine from AUSTRAC it maintains a -$1bn estimate for the first half of FY20. However, the fine could be significantly higher, or lower.

The broker believes Westpac may need to spend a significant amount of money to address compliance issues. The share price has fallen sharply and UBS upgrades to Neutral from Sell, given it is approaching the price target.

Downgrade

AMP LIMITED ((AMP)) Downgrade to Sell from Neutral by UBS .B/H/S: 1/4/2

UBS envisages risks to the Contemporary platform profit margins while the economics around the pivot towards advice are untested. Execution risks around the strategic outlook are expected to grow.

As a result, with the shares now trading at a 10% premium to the $1.80 target, the broker finds little allowance for medium-term risks and downgrades to Sell from Neutral.

ALUMINA LIMITED ((AWC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/2/2

Credit Suisse downgrades to Neutral from Outperform as the stock has "defied gravity", despite alumina prices falling significantly. The broker believes the alumina price has found a floor at US$280/t.

While there is no reason to sell the stock, the broker suspects there may be opportunities to enter at a more attractive level if the current macro environment does not improve. Target is reduced to $2.40 from $2.70.

COLLINS FOODS LIMITED ((CKF)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/1/0

The first half result would have beat UBS estimates had the Netherlands not underperformed. Customer uptake at the new Taco Bell locations remains strong and the broker considers this a core driver for medium and long-term growth.

Nevertheless, after a material re-rating the broker considers the valuation fair and downgrades to Neutral from Buy. Target is raised to $10.60 from $8.75.

See also CKF upgrade.

CALTEX AUSTRALIA LIMITED ((CTX)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/4/0

Canada based convenience retailer Alimentation Couche-Tard has made a conditional non-binding bid for Caltex Australia at $34.50 a share. This follows an earlier proposal of $32.00 per share that was rejected by Caltex Australia.

Ord Minnett suspects Foreign Investment Review Board approval may not be easy, given the nature of the infrastructure and terminal assets. Caltex Australia is yet to engage on the deal. Ord Minnett downgrades to Hold from Accumulate and retains a $32 target.

See also CTX upgrade.

IOOF HOLDINGS LIMITED ((IFL)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/2/1

With the acquisition of the ANZ P&I business looking increasingly likely to proceed, UBS expects earnings per share will lift 32% into 2020.

However, the broker highlights risks to platform profit margins from new entrants, while the company's decision to double down on platform administration raises medium-term strategic challenges.

UBS downgrades to Sell from Neutral and raises the target to $6.70 from $6.60.

MCMILLAN SHAKESPEARE LIMITED ((MMS)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/3/0

Credit Suisse observes the company is still struggling to find a tailwind, noting market conditions were described as "challenging" at the recent AGM. Novated lease volumes have been hampered by weak car sales in recent months and yields negatively affected by credit availability.

While the broker believes group remuneration services will generate a modest increase in novated lease volumes and salary packaging, this will mostly be offset by yield pressures and higher expenditure from the Beyond 2020 program.

Rating is downgraded to Neutral from Outperform and the target reduced to $16.10 from $16.55.

METCASH LIMITED ((MTS)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/3/2

Metcash has announced 7-Eleven will not be renewing its east coast supply contract upon expiry in August 2020. UBS notes the profitability of the contract is low but it is the second major loss in two years.

The broker factors in a -$24m earnings (EBIT) impact on the first full year (FY22), to reflect the loss. There is potential for the impact to be less, the broker acknowledges.

Rating is downgraded to Neutral from Buy as, while the stock screens inexpensive, there are few catalysts for outperformance. Target is reduced to $2.80 from $3.10.

See also MTS upgrade.

PANORAMIC RESOURCES LIMITED ((PAN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Panoramic Resources has slashed its FY20 production guidance for all of nickel, copper and cobalt at its Savannah operation, opening up funding gap of some -30%. The miner has secured short-term financing ahead of a likely rights issue.

The size of the downgrade and the funding gap have surprised Macquarie, leading to material forecast earnings reductions.

The broker downgrades to Neutral from Outperform and cuts its target to 40c from 50c, balanced by Independence Group's ((IGO)) conditional takeover offer at 46c.

PERPETUAL LIMITED ((PPT)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 0/6/1

Perpetual reaffirmed business-as-usual cost and cost savings guidance at its AGM. Macquarie suggests the organic and inorganic pipeline for Perpetual Private is encouraging. Perpetual Investments is still looking for an acquisition as outflows continue.

Those outflows are likely to sustain pressure on the stock's relative multiple to peers thus the broker downgrades to Underperform from Neutral, noting Perpetual has joined in a recent re-rating for the sector. Target rises to $35.50 from $32.00.

SIGMA HEALTHCARE LIMITED ((SIG)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/0/4

Sigma Healthcare has reached agreement with Chemist Warehouse to resume the distribution of FMCG product. The details of the contract remain commercial in confidence and the company is still assessing the required cost.

Citi incorporates the agreement in forecasts, despite the lack of guidance, and believes the share price now fully reflects the benefits of the contract. Rating is downgraded to Sell from Neutral/High Risk.

The broker expects investors will focus on FY21 and the new long-term targets. Citi estimates that the original $1.7bn contract was worth around $35-40m in earnings (EBIT) and new forecasts assume almost half comes back in FY22. Target is raised to $0.65 from $0.52.

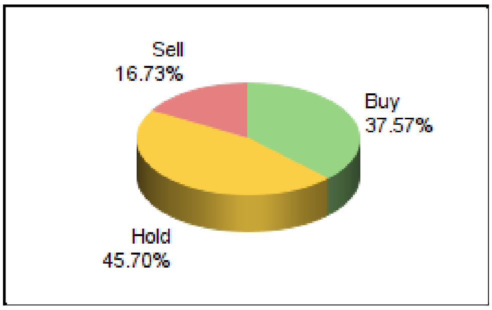
SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Downgrade to Hold from Add by Morgans .B/H/S: 2/3/1

Morgans downgrades to Hold from Add, given the strength in the share price has compressed the total return potential.

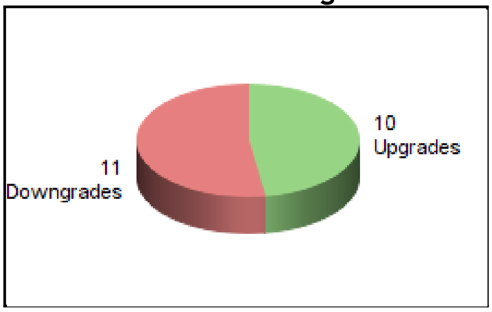
The share price has surged 14% since early October, which the broker believes has been on the back of a retreat in government bond rates amid the market appetite for high-quality businesses with yield and defensive growth.

Short-term weakness in traffic growth appears to have been disregarded. Target is raised to $8.75 from $8.71.

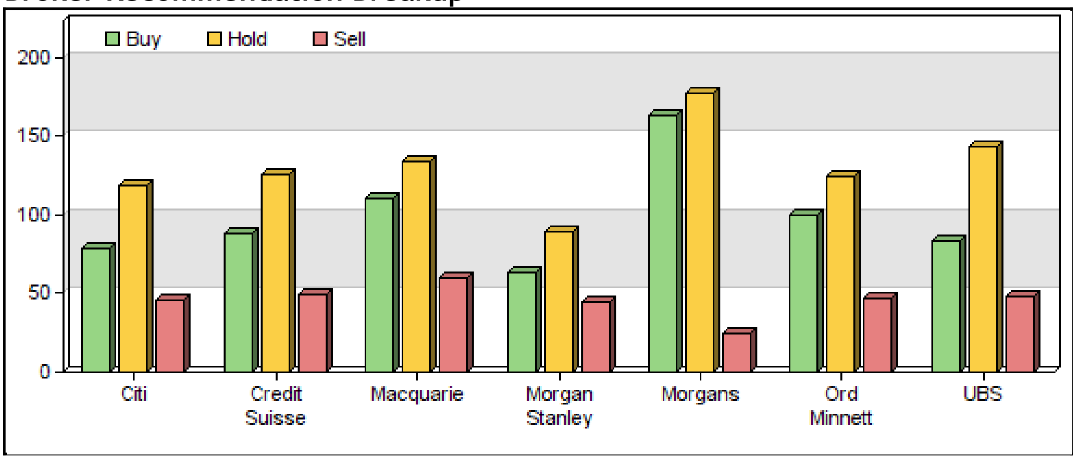
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BANK OF QUEENSLAND LIMITED	Neutral	Sell	UBS
2	CALTEX AUSTRALIA LIMITED	Buy	Neutral	Morgan Stanley
3	COLLINS FOODS LIMITED	Buy	Neutral	Morgans

4	EBOS GROUP LIMITED	Buy	Neutral	UBS
5	EVOLUTION MINING LIMITED	Buy	Neutral	Citi
6	METCASH LIMITED	Neutral	Sell	Citi
7	SPARK INFRASTRUCTURE GROUP	Buy	Neutral	Macquarie
8	TELSTRA CORPORATION LIMITED	Buy	Neutral	Macquarie
9	TELSTRA CORPORATION LIMITED	Buy	Neutral	Credit Suisse
10	WESTPAC BANKING CORPORATION	Neutral	Sell	UBS
Downgrade				
11	ALUMINA LIMITED	Neutral	Buy	Credit Suisse
12	AMP LIMITED	Sell	Neutral	UBS
13	CALTEX AUSTRALIA LIMITED	Neutral	Buy	Ord Minnett
14	COLLINS FOODS LIMITED	Neutral	Buy	UBS
15	IOOF HOLDINGS LIMITED	Sell	Neutral	UBS
16	MCMILLAN SHAKESPEARE LIMITED	Neutral	Buy	Credit Suisse
17	METCASH LIMITED	Neutral	Buy	UBS
18	PANORAMIC RESOURCES LIMITED	Neutral	Buy	Macquarie
19	PERPETUAL LIMITED	Sell	Neutral	Macquarie
20	SIGMA HEALTHCARE LIMITED	Sell	Neutral	Citi
21	SYDNEY AIRPORT HOLDINGS LIMITED	Neutral	Buy	Morgans

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	TLS	TELSTRA CORPORATION LIMITED	42.0%	8.0%	34.0%	6
2	MIN	MINERAL RESOURCES LIMITED	67.0%	50.0%	17.0%	3
3	WBC	WESTPAC BANKING CORPORATION	29.0%	14.0%	15.0%	7
4	BOQ	BANK OF QUEENSLAND LIMITED	-64.0%	-79.0%	15.0%	7
5	ORG	ORIGIN ENERGY LIMITED	71.0%	57.0%	14.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	SIG	SIGMA HEALTHCARE LIMITED	-100.0%	-75.0%	-25.0%	4
2	HLS	HEALIUS LIMITED	8.0%	30.0%	-22.0%	6
3	MMS	MCMILLAN SHAKESPEARE LIMITED	40.0%	60.0%	-20.0%	5
4	IFL	IOOF HOLDINGS LIMITED	8.0%	25.0%	-17.0%	6
5	AWC	ALUMINA LIMITED	-25.0%	-8.0%	-17.0%	6
6	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	17.0%	33.0%	-16.0%	6
7	CTX	CALTEX AUSTRALIA LIMITED	33.0%	42.0%	-9.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CTX	CALTEX AUSTRALIA LIMITED	32.775	26.937	21.67%	6
2	SIG	SIGMA HEALTHCARE LIMITED	0.548	0.503	8.95%	4
3	MIN	MINERAL RESOURCES LIMITED	17.533	16.300	7.56%	3
4	IFL	IOOF HOLDINGS LIMITED	7.375	6.900	6.88%	6
5	TLS	TELSTRA CORPORATION LIMITED	3.968	3.893	1.93%	6
6	ORG	ORIGIN ENERGY LIMITED	8.481	8.420	0.72%	7
7	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	8.230	8.223	0.09%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	BOQ	BANK OF QUEENSLAND LIMITED	7.793	8.300	-6.11%	7
2	WBC	WESTPAC BANKING CORPORATION	26.550	27.836	-4.62%	7
3	HLS	HEALIUS LIMITED	3.092	3.220	-3.98%	6
4	AWC	ALUMINA LIMITED	2.217	2.267	-2.21%	6
5	MMS	MCMILLAN SHAKESPEARE LIMITED	16.318	16.408	-0.55%	5

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CTX	CALTEX AUSTRALIA LIMITED	137.333	127.000	8.14%	6
2	MIN	MINERAL RESOURCES LIMITED	181.000	171.133	5.77%	3
3	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	42.491	41.579	2.19%	4
4	IFL	IOOF HOLDINGS LIMITED	50.533	49.533	2.02%	6
5	ORG	ORIGIN ENERGY LIMITED	57.393	56.964	0.75%	7
6	CSL	CSL LIMITED	658.755	655.243	0.54%	7
7	MTS	METCASH LIMITED	22.208	22.150	0.26%	6
8	WHC	WHITEHAVEN COAL LIMITED	20.570	20.539	0.15%	7
9	STO	SANTOS LIMITED	55.991	55.910	0.14%	6
10	AQG	ALACER GOLD CORP	43.840	43.777	0.14%	3

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ORE	OROCOBRE LIMITED	-1.254	-0.681	-84.14%	7
2	NEA	NEARMAP LTD	-6.933	-4.767	-45.44%	3
3	NUF	NUFARM LIMITED	21.066	27.984	-24.72%	5
4	SLC	SUPERLOOP LIMITED	-5.867	-4.800	-22.23%	3
5	SGM	SIMS METAL MANAGEMENT LIMITED	6.908	7.625	-9.40%	6
6	WBC	WESTPAC BANKING CORPORATION	189.671	204.200	-7.12%	7
7	VUK	VIRGIN MONEY UK PLC	45.430	48.412	-6.16%	3
8	NHC	NEW HOPE CORPORATION LIMITED	18.953	20.083	-5.63%	4
9	BOQ	BANK OF QUEENSLAND LIMITED	66.329	70.114	-5.40%	7
10	HLS	HEALIUS LIMITED	16.260	17.130	-5.08%	6

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Everyone Wants In

Volumes in uranium markets surged in November as buyers from all corners jumped on the bandwagon.

-Spot uranium volumes up 50%
-Uncertainties still linger
-Swedes prefer green

By Greg Peel

"The month of November was tumultuous on a number of fronts for the nuclear fuel industry," notes industry consultant TradeTech. "The decision by the US government to lift the waiver on Iran's Fordow Fuel Enrichment Plant sent the already uncertain uranium market into overdrive."

Implications of the termination of the one waiver were covered in last week's report.

"Market participants across the board, whether utilities, producers, traders, or financial entities, found themselves confronted with another political policy decision that could have major repercussions for the commercial nuclear fuel sector," TradeTech continues.

The month of November saw 6.0mlbs U3O8 change hands in the uranium spot market – 50% greater than the 2019 monthly average to date.

TradeTech's weekly spot price indicator rose another US10c to US$26.10/lb in the final week, to end the month up 6.5% from end-October's US$24.50lb. That's over 6% above 2018's average spot price of US$24.56/lb, and the 2019 average to date is US$25.66/lb.

A similar volume surge was evident in term markets during the month, which is where utilities secure future requirements. Contracts for delivery over the 2020-27 period settled during the month totalled 9.7mlbs U3O8 equivalent.

TradeTech's monthly term price indicators have risen to US$29.50/lb (mid) from US$27.50/lb in October, and US$33.00/lb (long) from US$31.00/lb.

Yet the entire nuclear industry, from miners to power generators, will end the year in the same state of uncertainty as they did at the beginning.

Investment Option

The first uranium-based exchange-traded fund listed in the US last week. The North Shore Global Uranium Mining ETF (URNMX) contains both mining companies and physical uranium holders and will focus largely on junior miners in the sector.

That said, Cameco is in there, and 30% of the ETF is Canada-based, with another 18% US-based.

The ETF may be an option for Australian investors frustrated by a lack of direct domestic investment opportunity. Energy Resources of Australia ((ERA)), two-thirds owned by Rio Tinto ((RIO)), is currently not mining uranium. Nor is Paladin Energy ((PDN)), although the latter company is working towards restarting its Namibian mine.

Western Australian miners who began development before the new state government reintroduced a mining ban are still in development, while potential projects in other states perennially await a lifting of relevant state government bans.

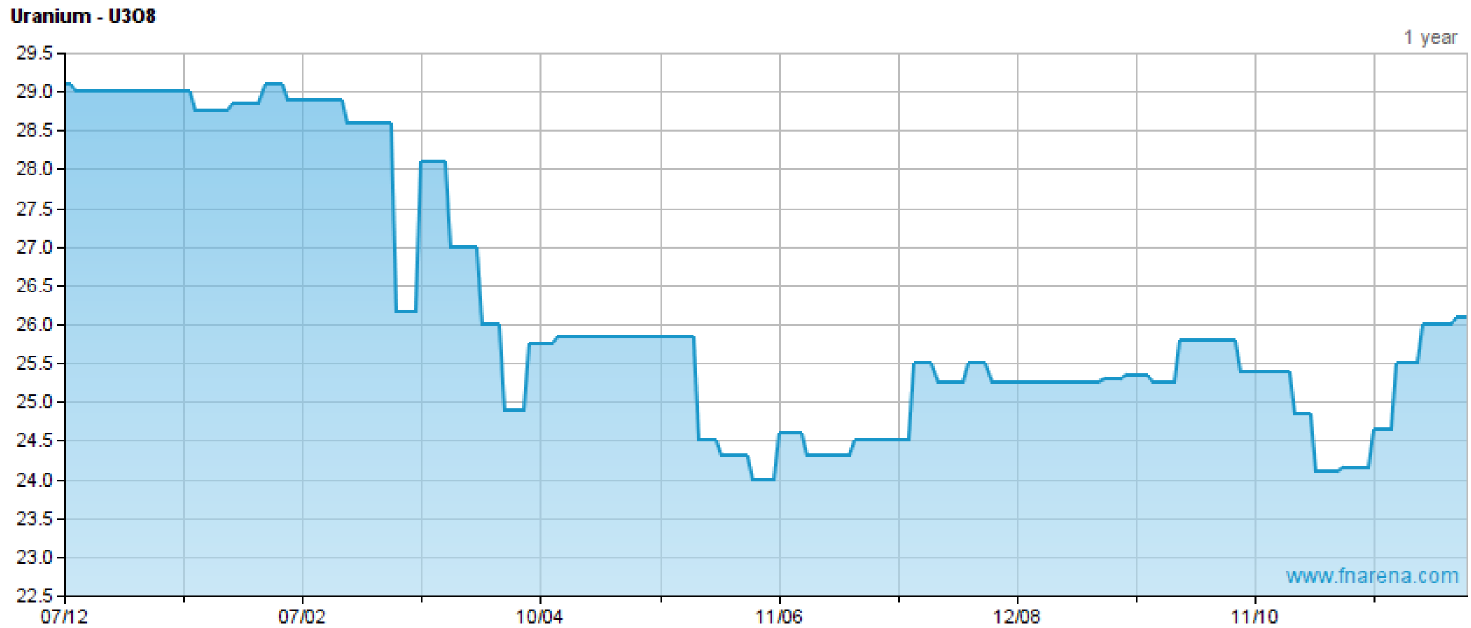
BHP Group ((BHP)) is a large producer of uranium, but that is lost among the conglomerate's other operations. Ditto Rio Tinto, which has since divested of its own Namibian interest anyway.

Power to the People

Sweden currently has eight operating nuclear reactors providing 40% of the country's power needs. In the wake of Fukushima, the Swedish government vowed to phase out nuclear power by 20240 – a policy still held by the current government.

A recent poll found 78% of Swedes strongly support nuclear energy, up from 71% a year ago, while 11% are against.

Don't suppose a local teenage heroine had any influence?



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

WEEKLY REPORTS

The Short Report - 05 Dec 2019

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

Summary:

Week ending November 28, 2019

Last week the ASX200 recovered from the Westpac-inspired sell-off and once again shot up to new highs on little more than momentum, before it all once again ended in tears this week.

There's a lot of shuffling around on the table below, mostly bracket creep, but a couple of moves are worth noting.

Kirkland Lake Gold ((KLA)) shorts had jumped to 12% then to 7% and back again four weeks in a row, before last week breaking the pattern and rising to a table-topping 17.9%. Last week the Canadian based miner announced a takeover of compatriot Detour Gold and the share price promptly fell -9%.

Still in the dark here, other than to reiterate that Kirkland is listed in all of Canada, the US and Australia, opening up geographical arbitrage opportunity.

Fruit & veg grower Costa Group ((CGC)) has had an annus horribilis, and not just because of the drought, forcing a capital raising. Discounted capital raisings provide the perfect opportunity for successful shorts to cash out by applying for new shares. Costa shorts fells to 9.6% from 11.6% last week.

Bank of Queensland ((BOQ)) shorts fell to 7.4% from 12.3%. Just slot BOQ in for CGC in the paragraph above.

Bellamy's Australia ((BAL)) shares have rallied 60% since the Chinese bid for the company, and strangely received Treasurer approval. Bellamy's fell off the 5%-plus table two weeks ago from 8.4% shorted. Shares in peer a2 Milk ((A2M)) have consequently risen 20% in the same time frame, on the PE re-rating implied for the sector by the Chinese bid, and the simple hope a2 Milk is the next target.

The shorters don't think so. Shorts in a2 Milk have been gradually rising ever since, and last week hit 9.1%, up from 8.0%.

And finally just a shout out to the shorters of oOh!media ((OML)). Last week OML shorts sat at 7.5%. Yesterday a trading update had the out-of-home advertiser leaping 24%.

No Movers & Shakers this week.?

Weekly short positions as a percentage of market cap:

10%+
KLA 17.9
GXY 17.0
SYR 16.0
GWA 14.9
ING 14.0
ORE 13.9
SDA 13.1
NXT 11.6
JBH 11.3
WEB 11.0
MIN 10.6
BGA 10.5
NEA 10.3
BKL 10.3
DMP 10.2

MTS 10.1
HUB 10.0

In: MTS Out: BOQ, CGC

9.0-9.9

CGC, A2M

In: CGC, A2M Out: MTS, IVC

8.0-8.9%

IVC, PPT, SUL, CLH, HVN

In: IVC, CLH Out: A2M, BIN, CGF

7.0-7.9%

CGF, NCZ, PLS, BIN, NUF, RSG, OML, BOQ, IFL, MYR

In: BOQ, CGF, BIN Out: CLH, DCN

6.0-6.9%

CUV, BWX, DCN, RWC, SGM, CTD

In: DCN, CTD Out: SLR

5.0-5.9%

SLR, CMW, NWL, COE, CLQ, AMP, WOR, PNI, RFF, LNG, GMA, MYX, MLX, NEC, GNC

In: SLR, WOR, PNI, MYX, MLX, GNC Out: CTD, PGH, SAR, OGC

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	1.1	0.9	RIO	4.1	3.9
ANZ	0.7	0.7	S32	1.6	1.7
BHP	3.3	3.4	SCG	0.4	0.4
BXB	0.1	0.2	SUN	0.5	0.3
CBA	0.6	0.7	TCL	0.4	0.4
CSL	0.1	0.1	TLS	0.3	0.3
GMG	0.3	0.4	WBC	0.6	0.7
IAG	0.4	0.5	WES	0.6	0.7
MQG	0.3	0.4	WOW	0.8	0.9
NAB	1.0	0.8	WPL	0.8	1.0

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

WEEKLY REPORTS

The Wrap: Consumers & Financial Advisers

Weekly Broker Wrap: cash rate; housing; consumer; port volumes; health insurance; and financial advisers.

-NAB analysts include an additional cut to cash rate forecasts
-House price growth to moderate, credit growth subdued
-UBS finds consumer outlook positive for home improvements and fast food
-Australian port volumes weaken
-Financial adviser numbers continue to dwindle for major operators

By Eva Brocklehurst

Cash Rate Outlook

National Australia Bank analysts include an additional -25 basis points reduction to the Reserve Bank of Australia's cash rate in forecasts. Cuts are expected in February and June 2020, taking the cash rate to 0.25%. From there, the analysts expect an increased risk of unconventional monetary policy in the second half of 2020, should the labour market weaken more significantly.

The NAB forecasts are for below-trend growth, and a deterioration in the unemployment rate with inflation firmly below the RBA's target band of 2-3% over the cycle. This implies the need for policymakers to do more. The analysts remain more optimistic on public spending vs the RBA's forecast but expect the household sector and business investment to be notably weaker.

Housing Outlook

Australian house prices grew in November at the fastest pace since 2003. Morgan Stanley notes national house prices are now up 5.7% from the June 2019 trough. Detached house prices grew faster than apartments and, by city, Sydney led the way.

The broker expects price growth to moderate into 2020, based on a view that credit constraints will be a deterrent. Credit growth remains very subdued and investor lending growth is negative. Investor loan approvals have typically been important for the housing cycle and house price growth.

In contrast, building approvals have fallen to a seven-year low. Building approvals are down -23.6% from a year ago, and in trend terms are annualising at 158,000, the weakest level in over seven years. While the broker expects approvals will trough early in 2020, the lags in the construction cycle mean activity will still decline through 2020 and be a drag on both jobs and activity in the economy.

Consumer Outlook

UBS found results, overall, in its consumer outlook survey were positive, particularly in home improvements and fast food. Travel intentions were slightly softer, although key brands such as **Flight Centre** ((FLT)) and **Webjet** ((WEB)) are winning share. Superior sites and improved pricing have reinforced the broker's view on the volume opportunity in fuel & convenience at **Viva Energy** ((VEA)), while for **Wesfarmers** ((WES)) the home improvement indicators are resilient.

Online shopping intentions in the survey were also strong and rising, particularly for local brands. Meanwhile, the results were slightly negative for **Domino's Pizza** ((DMP)) as aggregators are growing rapidly and there is a risk the company may not be able to hold share.

Citi notes Australian retail expenditure has been sluggish since a small uptick in August after the federal government's tax cuts. It appears households are paying down credit cards faster than usual, which may be positive for spending in November and December. The recent increase in house prices also points to improving sales growth in the first half of 2020.

Citi has reviewed recent APRA data which shows household deposits grew by 7% in the four months to October, a similar pace to the 3-year average of 6%. It appears that, while bank accounts have not ballooned, credit card balances have been reduced by -6% over the period.

The broker also suggests the short-term rise in the savings rate in the September quarter may unwind if house prices continue to rise. Meanwhile, there appear to be some pockets of strength Citi has noted in retail sales anecdotes. In particular this includes consumer electronics, groceries and sporting goods.

Port Volumes

Container movements at Australia's four major ports are down on average -5.6% in the first half of FY20 to date. Citi asserts this is the worst performance for a half-year since the second half of FY09. Weakness was characterised by a drop in both exports and imports. Empty container movements are experiencing the largest declines, down -12.1%.

Qube Holdings ((QUB)) has noted weaker industry volumes for Patricks. If sustained, lower industry volume growth and spare road freight capacity are likely to put downward pressure on industry pricing and margins, Citi suggests.

The broker believes the current share price is reflecting optimism about the long-term success of the company's Moorebank project and is yet to reflect the emerging risks to operating earnings from weaker industry growth in FY20. Citi has a Sell rating on the stock with a $2.70 target.

Health Insurance

UBS believes more detail is required on the new private health insurance capital standards in order to assess the impact. The proposals are designed to bring the capital framework in line with standards in general insurance and life insurance, both in terms of assessing capital requirements and permissible regulatory capital.

UBS suspects some participants may be more affected than others, such as **nib Holdings** ((NHF)) versus **Medibank Private** ((MPL)), although the extended implementation timeframe should enable both to assess shortfalls gradually. With margins under pressure, UBS maintains a Sell rating on both stocks.

Advisers

The largest six financial advice operators, i.e. the four major banks plus **AMP** ((AMP)) and **IOOF Holdings** ((IFL)), have collectively lost -28% of their advisers so far in 2019, Bell Potter notes. **Westpac Bank** ((WBC)) is now officially out of the advice market while IOOF is selling its Ord Minnett business.

There is also recent media speculation that signals **ANZ Bank** ((ANZ)) is considering exiting its remaining advice business, that was not sold to IOOF. Bell Potter expects the move to independence will continue, now the regulatory landscape is becoming clearer following the release of the Royal Commission report. The broker also points out both AMP and IOOF are behind in their remediation programs.

The definition of a financial advisor on the ASIC (Australian Securities and Investments Commission) register puts emphasis on the term "relevant financial product", the broker explains. This is also defined as "all financial products other than basic banking products, general insurance products, consumer credit insurance or a combination of any of these products".

Those professionals who qualify under this definition can be financial planners & private bankers, stockbrokers or SMSF (self managed super fund) advisers. These do not include institutional/wholesale advisers, general advice mortgage brokers and direct channel/insurance sales representatives.

The register, which includes around 25,000 financial advisers in Australia, provides the best measure of the total exposure to retail customers in the market, Bell Potter contends.

The broker also notes a trend in recent years to move towards self-licensing, as opposed to operating under a dealer group banner, which allows advisers a greater level of freedom. Dealer groups facilitate collective bargaining power and reduce the operating burden but the flexibility of each varies.

Meanwhile, the Australian superannuation system has underpinned the financial advice sector, at $2.87 trillion as of June 2019. Bell Potter estimates it will reach around $3.64 trillion by June 2022. Industry funds are closing in on the top spot in super, growing market share by 1.8% over the last year while SMSFs shrank by -1.6%.

SMALL CAPS

Mocka Brings More Furniture To Adairs

Adairs has expanded its range of home furnishings with the acquisition of NZ-based furniture and homewares business, Mocka.

-Mocka expected to help shape the longer-term growth outlook for Adairs
-Forecast to produce 17-23% growth in earnings per annum
-Competitive pressure in home furnishings increasing with international arrivals

By Eva Brocklehurst

The addition of NZ-based furniture and homewares business, Mocka, will provide Adairs ((ADH)) with increased exposure to the online sales channel, lifting this to 30% of total sales. The acquisition has added to the Adairs furnishings range, as 65% of Mocka sales are of furniture.

Mocka, a pure online retailer, has experienced strong top-line growth and generated earnings (EBIT) margins of 21-22%. Mocka sells home furniture, decor and childrens' categories. Sales of NZ$45m are expected in FY20. Wilsons suggests the acquisition will help shape the longer-term growth story for Adairs, envisaging potential upside from omni-channel options, online distribution leverage and key supplier terms.

Adairs is forecasting 17-23% growth in earnings per annum for Mocka, supported by category growth and improved brand exposure in Australia. Guidance does not take into account any cost synergies and, while both teams will remain separate, Wilsons suspects Adairs may start to look at supplier distribution terms almost immediately

Morgans agrees the deal elevates the Adairs growth profile in a low-risk way and articulation of long-term returns from the supply chain presents a further catalyst the first half result in February.

The total consideration is $85-91m comprising $43.4m in cash and $5.7m in scrip up front. The balance in deferred payments will be based on earnings hurdles. **Mocka has achieved a compound revenue growth of 32.6% since FY17**. Current forecasts imply growth in New Zealand may be slowing but growth rates in Australia remain robust and have far greater potential.

Moreover, considerable expansion of market share is still achievable in Australia, Wilsons points out, as Adairs, in turn, offers Mocka opportunities. Adairs will allow the existing Mocka management to run the business separately while Mocka should benefit from the Adairs Australian customer base and scale (55% of Mocka revenue is in Australia) to enhance brand awareness.

While the price of the acquisition is not cheap, **Morgans notes it is rare to acquire an online business that is profitable and light on capital requirements**. The broker includes the acquisition in modelling, which results in 9% accretion in FY20 and 15% in FY21, and retains an Add rating and $2.42 target for Adairs.

Wilsons calculates a 100 basis points improvement in the Mocka gross margins would result in 4.8% upgrades to earnings in FY20 and has an Overweight rating and $2.76 target. UBS, too, considers Adairs is a well run, cash generating business with a solid growth profile, maintaining a Buy rating with a $2.60 target.

While fashionable home furnishings are unlikely to be a fad, competitive pressure is increasing, the broker adds, although the company appears to have tapped into a market that sits below the international entrants, being mid-priced.

UBS expects Adairs to reach 190 stores by FY28, up from 165 in FY19, and suspects 'upsizing' will be the name of the game in future, as opposed to increasing the store count, and this will be done via the roll-out of homemaker stores and increasing the space of the small format stores.

The Adairs debt facilities have been increased to $90m to fund the majority of the deal. Adairs has also reiterated its underlying guidance for FY20 (ex Mocka) at $43-46m, emphasising it is well-placed in terms of planning and inventory ahead of the important Christmas trading.

RUDI'S VIEWS

Next Year Will Be Different

Next Year Will Be Different

By Rudi Filapek-Vandyck, Editor FNArena

MFS strategist Robert Almeida summarised it best in his latest reflections: "*Investing is simple, but hard*".

Those who had been expecting logical, straightforward outcomes for financial assets in calendar year 2019 have been hit with multiple surprises as the year went by.

One of the biggest surprises, no doubt, is that the year that saw corporate earnings growth grind to a halt in the USA, with Australian dividends going backwards on top of falling profits, while there has been no tangible progress in the conflict between Washington and Beijing, yet also witnessed share market indices surging to new all-time highs, with short term momentum pointing further upwards.

This ain't normal, is it?

Well, according to Jeremy Siegel, the Russell E. Palmer Professor of Finance at the Wharton School of the University of Pennsylvania in Philadelphia, global equities don't seem overvalued, but rather fairly valued and there are no signs bond yields should be surging higher any time soon.

Siegel's view, which usually swings between mildly optimistic and outlandishly bullish, is based upon the observation that financial markets function differently in a world of persistently low interest rates. In simple terms: equities have become the main attraction for income-hungry investors whereas government bonds are now being used to hedge against negative risks.

Irrespective of whether one agrees or disagrees with Siegel's optimistic outlook for equities in 2020, maybe the more important question is whether things are genuinely different this time, and if so, whether investors can expect things to revert back to the old normal?

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Share market experts and commentators like to talk about the longest bull market in history, but nowhere has the equities bull market been as consistent and as profitable as in the USA. At face value, this is easily explained by what investors casually refer to as "market fundamentals".

In practice this means: American companies have shown better growth than their foreign counterparts. It seems but fair their share prices have outperformed the rest of the world. Add bond yields persistently near historically low levels and it should be no surprise equity valuations have moved beyond historical averages too.

The fact US utilities and infrastructure stocks have become a popular go-to destination for investors worldwide seems to combine all the important themes that have dominated this bull market since 2012: income plus growth.

Behind the scenes of it all, there is one ingredient to the secret sauce that receives far less attention: the fact that American companies have used this new environment of exceptionally low interest rates and bond yields to buy back their own shares and leverage up their balance sheets.

It has been dubbed "financial alchemy" by some of the more critical bystanders. One of the direct consequences is that American share markets have shrunk in recent years (less shares available to invest in), which could explain why markets kept rising while investors have been withdrawing more funds than directing them towards US equities.

Note: post 2012, every single year has seen the US share-count shrink compared with the year prior, including 2019.

Buying back shares also improves the apparent growth in earnings and in dividends. American companies have been far more proficient in using these financial tools to accommodate shareholders (and C-suite bonuses). At the very least, this additional piece of insight suggests American companies are a lot less superior than their peers in Australia and elsewhere.

This also opens up an interesting dilemma. At what point does this financial alchemy become exhausted? American companies have continued to apply their financial tools throughout 2019 yet there has been no earnings growth for US corporates in aggregate. A recovery in global growth, from depressed level this year, might provide some stimulus next year, but how much longer before there is no more magic sauce to be added?

In addition, this raises a lot more questions about the risks for corporate balance sheets in the US if/when the environment changes and higher interest rates alongside bond yields rising become the new normal again.

In a recent update on this matter, analysts at Citi highlighted some 25 companies in the US are responsible for nearly 50% of all buybacks. They anticipate US Financials are next to join in.

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The US experience thus far once again highlights one fact that usually escapes investor attention: the superior investment strategy when bond yields are low and corporate profitability is challenged is achieved through combining yield/income with growth. It's not either, it's both.

Recent analysis by analysts at Citi shows a global dividend momentum strategy (picking dividend paying stocks that enjoy positive growth momentum) would have outperformed the MSCI All-Country World Index -an oft used proxy for global equities- by no less than 13% since 2010.

This strategy does not solely involve high yielding stocks. In Australia, it would include Goodman Group as well as Aristocrat Leisure and CSL as opposed to regional lenders and the Big Four banks, AMP and Challenger Financial who have all at best kept their dividends stable and saw their share price underperform noticeably.

Remarkably, on Citi's assessment, taking guidance from dividend momentum now would continue to favour US equities over the rest of the world (Australia is one of few countries where dividends are retreating). Amongst global sectors, Energy and IT look better placed than Materials, while Healthcare still looks attractive too.

On this specific measure, US equities have outperformed since 2010 because they offered 11% per annum dividend growth over the period. High-yielding Australia, on the other hand, has only managed 4% growth per annum over the period. Since the August reporting season Australia is facing contraction in dividends, as witnessed from banks reporting recently.

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Equally different has been the enormous incremental support provided by central banks from all the major economies around the world, including China. Originally employed to prevent the world from going under post the demise of Lehman Brothers in late 2008, central bankers have increasingly morphed into the world's fire brigade, opening up the liquidity tap whenever economies or financial markets needed additional support.

Everybody is now convinced this never-before-witnessed tsunami in global liquidity has propped up asset prices, from bonds to equities to real estate, while also sharpening social inequality which has led to the surge in anti-democratic populism and political extremism. But what if the global financial system is now addicted to the drug and can no longer function without it?

This time last year the Federal Reserve thought it was mildly tightening and reducing its balance sheet but global equities quickly fell into a bear market spiral. A reversal into renewed stimulus, followed by other central banks around the world, has allowed equities to recover and subsequently gain in excess of 25% (with no profit growth in Australia and the USA).

Does this imply we can never go back to what it was pre-2008?

Equally important: can we count on financial banks and their liquidity taps indefinitely to keep solving all problems, including preventing equity bear markets and economic recessions forever? Is this now an integral part of the New Normal?

Within this framework, it remains remarkable the Federal Reserve is having difficulties to sooth the repo market where US companies turn to for short-term lending. When the first signals of problems occurred back in September, the official mantra was this was nothing unusual and would simply be taken care of via the injection of extra funds by the Fed.

Almost three months later, the Fed has injected US$300bn and counting, but the repo market won't settle down. Is this the first sign that showering the world with sheer endless liquidity is creating unforeseen problems?

Nobody knows, but the world is watching.

Of course, the other Big Elephant in the room is that global debt, in aggregate, continues to rise, year after year after year. By the end of 2019 global debt is projected to accumulate to more than US$255trn, with no end in sight to it further accumulating next year. Forget about paying back this debt, what are the real consequences and can the world simply keep on functioning as if it wasn't there?

Macquarie analysts recently spelled out the bad news: any time the world attempts to constrain debt, GDP growth rates rapidly fall-off. Something else fundamentally has changed too. Whereas in the 1970s and 1980s one extra dollar in debt translated into an extra unit of global GDP, nowadays the global economy requires four to five units of debt to generate one incremental unit of global GDP.

One key source for the rapid expansion in debt has been China. The country's debt has grown from US$3.5trn in Q1 2015 to US$42trn by Q2 2019. This is more than three times the size of the Chinese economy and represents by far the fastest debt accumulation ever. So don't count on China to keep bailing out the rest of the world.

One oft mentioned prospect is that when central bankers' policies stop having an impact, governments can step in through fiscal stimulus and infrastructure spending. The key danger here is that those governments won't jump in unless there is a crisis first.

(See Canberra and farmers and fires).

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One of the straightforward consequences of seeing equities rise by 25% without any growth in aggregate earnings per share is that the share market has simply become more expensive, in generalised terms. Price earnings (PE) multiples have risen in the absence of higher profits and dividends and this even applies to the banks whose share prices are higher compared to this time last year.

This might imply that higher profits and/or dividends next year might not be sufficient to push share prices higher. If global growth does recover, as many anticipate, and there are no major calamities, geopolitically or otherwise, bond yields might settle around current level, or even rise a little. This means there won't be an extra kick for equity valuations from lower trending bond yields.

It is for this reason that (some) strategists are advocating investors should redirect their funds into cheaper priced cyclicals and other "Value" stocks. The relative gap between the winners and losers in the share market -between "Growth" & "Quality" and "Value" including energy stocks, miners and banks- has never been wider in modern times.

However, the experience in Australia since September, when this switch started taking place, has been mixed at best. It seems every time investors decide now is the moment to make that switch, something happens to interrupt or even push back the newfound momentum for yesterday's share market laggards.

Strategists at JP Morgan -a fierce proponent for making the switch- recently observed "Value" stocks on the ASX had two of their weakest monthly performances from the past twelve months in October and November. The local banks are greatly responsible for this.

Globally, the strategists highlight, "Value" has had a great time for three months in a row, with global financials (up 12% since September) making a significant contribution. There are differences in dynamics locally and globally for banks, of course. The RBA is still expected to further cut the cash rate and potentially even apply QE in 2020.

With monthly PMI surveys across the globe expected to bottom out, many a professional funds manager has added positions in Energy and Mining. Equally noteworthy is that many year-end 2020 targets for the ASX200 don't reach much further than where the index is already trading at this year.

Strategists at Credit Suisse, for example, on Monday published a target of 7000 for the ASX200 by year-end next year. Earnings growth next year -finally!- will be withered away, they forecast, by a general compression in multiples. Credit Suisse thus advocates investors should have a firm eye on "income" for their investment return next year. Income combined with growth might just remain the best performing strategy, irrespective of valuations possibly deflating in general terms. See Citi research mentioned earlier.

One other potential source of outperformance might well come from stocks that already had their correction from elevated highs. On the premise, of course, that no bad news -like a profit warning or dividend cut- is forthcoming.

Starting with the February reporting season, and irrespective of macro-themes and trends, Australian companies will be tried and tested on their resilience and ability to overcome threats and challenges.

If recent history can be relied upon, High Quality will be ready to shine, though investors would want companies like ResMed, Cochlear, REA Group and Seek to do better than in February this year when strong results were not enough to hold off a period of underperformance. It didn't last long, though.

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Possibly the key factor that has been responsible for keeping positive momentum alive for global equities throughout 2019 has been the promise of a substantial trade agreement and truce between the two economic super powers of the modern era. I am with the sceptics on this one.

If there is any kind of deal between Trump and Xi Jinping, it will involve a minimum of substance. We have recent history to back up such expectation (Canada-Mexico and North Korea). More importantly, I think the schism is too wide, and the issues too numerous and too heavy-weight to expect any deal of substance in the short to medium term.

But markets have held on to an optimistic mindset.

Within this context, the worst possible outcome might still be no deal in the short term. But how much better is a deal that's essentially empty on substance, making markets realise the art of deal making a la Trump is a lot like parading in front of cameras like an Emperor with no clothes.

Summarising all of the above, it would seem the best advice for investors ahead of 2020 is to enjoy the good, but to prepare for the bad and the ugly because it looks very unlikely that next year will be an extension of this year.

This is the final Weekly Insights for this calendar year. There is still one more Rudi's View story in the pipeline for Friday. Weekly Insights shall resume in late January/early February ahead of the next reporting season. I wish you all a great year-end, with plenty of pleasure and enjoyment during the silly season. Hope to welcome you all in good spirits and in good health in the New Year.

Rudi On Tour In 2020:

-ASA Hunter Region, near Newcastle, May 25

(*This story was written on Monday 2nd December 2019. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).*

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

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

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RUDI'S VIEWS

Rudi's View: Osteopore, Whitehaven Coal and Telstra

Dear time-poor reader: *a lifesciences conference, a stern warning, secular growth stocks and Conviction Calls*

In this Rudi's View update:

-Lots Of Chutzpah In Local Lifesciences
-Day Of Reckoning Coming, Lazard Warns
-Morgan Stanley Updates On Secular Growth
-Conviction Calls
-Rudi On Tour

By Rudi Filapek-Vandyck, Editor FNArena

Lots Of Chutzpah In Local Lifesciences

Corporate sponsored equities research is not everybody's cup of tea, though it has to be noted following Europe's mifid ii legislation this sponsored format of research is undeniably on the rise, including in Australia.

FNArena has a distribution agreement with **Pitt Street Research**, one of the up and coming on the local sponsored research scene. As it turns out, the founders of Pitt Street Research are mighty fine organisers of one day corporate conferences.

I make this observation having attended Pitt Street Research's inaugural semiconductor sector conference in May and, last week, the second conference on life sciences companies. Both events were of admirable quality and investors interested in the smaller segments of the local share market are most likely doing themselves one big favour when attending these events.

One of the surprising new insights from last week's conference is the largely unreported and underestimated importance of the life sciences industry for the Australian economy. It turns out with 232,000 employees in Australia, life sciences companies including the Big Three -CSL, Cochlear and ResMed- employ more people than either mining and telecommunication.

But the economic impact goes well beyond direct jobs creation. With over 1,000 clinical trials taking place in this country each year, the value of these trials in terms of direct investment runs beyond $1bn per annum. And, of course, more than half of the jobs in the sector are highly skilled.

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As became apparent throughout the event, Australia's contribution to the world has gone well beyond blood plasma, hearing aids and breathing support.

It's a sad observation though, many of the speakers -honourable veterans in the local industry- had to make the point they are achieving no traction in Canberra when asking for more equitable and fairer R&D treatment, among many other requests.

The big challenge, or so it seems, is to retain enough of the progress and the promise that emerges every year from this sector locally, so that Australia remains inside the Top Five globally, without selling out too early to foreign suitors with deep pockets.

Or, as it happens, without having to move big chunks of investments offshore because Australian governments don't want to budge on R&D tax treatment. Cochlear, for example, is spending close to $200m on R&D next year, but only half of it is spent in Australia, because the current tax limit is set at $100m.

In terms of that one golden stock tip: investors should keep an eye out for **QBiotics**. Its board is stacked with ex-Cochlear veterans. The technology simply seems fabulous. The clinical results are extremely promising. To keep the company in Australia, the board has made a conscious decision not to list. Of course, one day it will seek an ASX-listing. Make sure you have some money ready then.

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In terms of companies presenting their investment case at the Conference, most are still in a relatively early phase of their corporate development and experienced investors know this translates into above average volatility in the share price as well as above average risk in terms of one day turning into a profitable growth company.

Anatara Lifesciences ((ANR)) is one such early development stage promising company. It is developing non-antibiotics solutions for farm animals with gut problems, as well as an over-the-counter dietary supplement for humans. It had a set-back last year when the international licensee decided to hand the opportunity back to the company and this is reflected in a depressed share price since.

Management is confident, given enough time, 2019 will simply prove a blip in a long term success story. Finding a new partner, one that proves more serious about selling and marketing, might have a significant impact on the share price.

EMvision Medical Devices ((EMV)) listed in December last year and is proudly run by former Nanosonics CEO Ron Weinberger. The company is developing a portable head scanner with first commercial point of application near bed sides of patients who suffered a stroke. The competition reportedly offers a less practical, over-sized solution and thus the marketing opportunity seems obvious, and large.

CannPal Animal Therapeutics ((CP1)) is happy to remain inside the animal health sector, aiming to develop therapeutics for "companion animals" (dogs, cats, but also horses) from cannabis and hemp compounds. The current plan is to tackle anti-inflammation and pain relief, first for dogs (cats will have to wait their turn).

Bio-Gene Technology ((BGT)) is trying to fill the gap that is forming in the slipstream of toxic insecticides, including glyphosate (such as "Roundup"). It's part of a new sector labelled New Chemistry which aims to develop effective insecticides from natural ingredients.

It'll save the global bee population, among many other advantages. Bio-Gene's not so secret ingredient is a compound from a local species of eucalyptus. James Cook University and German giant Bayer are involved with product development and third party validation.

Three of the presenting companies have already progressed further down the corporate development route. **Abundant Produce** ((ABT)) is selling products every day and its CEO Tony Crimmins has personally been involved with no less than 18 IPOs over the decade past.

Abundant develops and markets plant-based over-the-counter relief products. It currently offers products for pain, psoriasis, migraine and rosacea with plenty of testimonials from happy customers on the company's website and head office walls. The United States and China are waiting to be conquered.

PharmAust ((PAA)) is a vastly different proposition. One of its two divisions, Epichem, is trading profitably which allows it to invest in the repurposing of an existing anti-parasites product for sheep. This product, Monepantel also has anti-cancer qualities.

If successful, dog owners who receive the sad news their pet has cancer will no longer have to choose between putting their canine friend to sleep or paying for expensive and excruciating radiation. The goal is an anti-cancer tablet with preventative qualities.

Osteopore ((OSX)) only listed less than three months ago and its share price has lost some steam after the initial enthusiasm. This company listed with already close to $1m in annual sales under its belt, predominantly in Asian markets.

Osteopore has successfully developed a 3D printable bioresolvable scaffold that allows bones and cartilage to regenerate, for example after surgical procedures or major accidents. Applications could also include dental adjustments. The company is developing new formats and applications while the marketing effort is focused on Europe and the USA. A deal for access into China was signed recently.

As per always: investors should know their tolerance for risk and volatility, and add their own research.

One more final tidbit: of the 2218 ASX listed entities 169 are officially classified as pharma, biotech, healthcare or lifesciences.

Pitt Street Research reports have a dedicated section on the FNArena website:

https://www.fnarena.com/index.php/pitt-street-research/

Day Of Reckoning Coming, Lazard Warns

2019 is the year when equity investors went a little crazy. I am paraphrasing Warryn Robertson, portfolio manager for **Lazard Asset Management** in Sydney.

Lazard recently organised a media briefing during which Robertson and Aaron Binsted, portfolio manager for the Australian Equities team, argued valuing stocks at 2% bond yields will prove a recipe for disaster within the next three years.

Either earnings are going to disappoint because growth is lower or interest rates have to rise, at some point, which means bonds at 2% cannot last. Robertson predicts a painful process, in particular for the most overvalued companies.

Lazard adheres to a "value"-oriented style of investing and Robertson admitted the methodology for valuing stocks uses quite the conservative input, including US bond yields above 4%, a phenomenon last time witnessed on 1st October 2008.

Probably the most eye-catching chart shown during the presentation was a graphical ranking of all equities covered by Lazard globally showing projected expected return for the three years ahead. The graphic is very much an 80% vs 20% proposition with only a small group expected to stay positive for the period.

Those companies are the ones that have not been priced at 2% bond yields. Needless to say, the asset manager is advising investors should temper their enthusiasm and start focusing on a much more conservative, cheaper valuation-based approach. This does not automatically imply there no longer is value among growth stocks, bond proxies or quality franchises. Not by definition.

In Australia, the team likes quality resources with growth potential, including Rio Tinto ((RIO)), Woodside Petroleum ((WPL)), Whitehaven Coal ((WHC)), and Alumina ltd ((AWC)), while also some of the fast-growers that are still attractively priced, including Reliance Worldwide ((RWC)), Domino's Pizza ((DMP)) and Flight Centre ((FLT)), alongside some of the defensives with stable cash flows, including Atlas Arteria ((ALX)), Spark Infrastructure ((SKI)) and Transurban ((TCL)).

Internationally, Lazard is looking for companies with large economic moats, a stable history and a higher degree of earnings forecastability. Think Oracle, Anheuser-Bush, Visa, Costco and National Grid.

Morgan Stanley Updates On Secular Growth

Those familiar with my research into All-Weather Performers know I am not the only one trying to distinguish the vulnerable from the superb among listed companies. Morgan Stanley has a long legacy of publishing research, and investing in secular growth stocks, defined as deliverers of leading growth based on idiosyncratic strengths.

In other words, these companies should be able to deliver value for shareholders, irrespective of whether the global climate changes overnight. If you think about it, this comes pretty close to the concept of an **All-Weather Performer**.

The latest update, researched and published by the US team, contains 35 stocks that carry the label of **Secular Growth Stocks**. In alphabetical order: Alphabet, Amazon.com, Anaplan, The Blackstone Group, Coupa Software, Datadog, DexCom, Equinix, Estee Lauder, Facebook, Five Below, Incyte, Live Nation Entertainment, Lululemon Athletica, Lyft, MasterCard, MongoDB, Netflix, Nike, Palo Alto Networks, PayPal, Q2 Holdings, Salesforce.com, SBA Communications, ServiceNow, Splunk, Spotify Technology, Tenable, Tesla, Twilio, Uber Technologies, Verra Mobility, Vertex Pharmaceuticals, Visa, and Workday.

FNArena subscribers can access my research into All-Weather Performers on the Australian stock exchange via a dedicated section on the website:

https://www.fnarena.com/index.php/analysis-data/all-weather-stocks/

Conviction Calls

Wilsons' selection of **Conviction Calls** has been on a tear in recent months, decisively outperforming the broader market. The latest update which measured performance data as per the end of October (why not November?) proudly states the outperformance over twelve months has been 8.11%.

Included on the list are: Bravura Solutions ((BVS)), Class ((CL1)), EML Payments ((EML)), ReadyTech ((RDY)), Whispir ((WSP)), ARB Corp ((ARB)), Ridley Corp ((RIC)), ImpediMed ((IPD)), National Veterinary Care ((NVL)), Countplus ((CUP)), EQT Holdings ((EQT)), Pinnacle Investment ((PNI)), Mosaic Brands ((MOZ)), Perenti Global ((PRN)), Mastermyne ((MYE)), and Whitehaven Coal ((WHC)).

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Strategists at **Credit Suisse**, who have set their end of year 2020 target for the ASX200 at 7000 have selected the following stocks from the ASX100 to own for the year ahead: Mirvac Group ((MGR)), Beach Energy ((BPT)), Stockland ((SGP)), a2 Milk ((A2M)), Charter Hall ((CHC)), James Hardie ((JHX)), Origin Energy ((ORG)), Newcrest Mining ((NCM)), GPT ((GPT)), Dexus Property ((DXS)), Lendlease ((LLC)), Downer EDI ((DOW)), Aurizon Holdings ((AZJ)), Vicinity Centres ((VCX)), Scentre Group ((SCG)), BlueScope Steel ((BSL)), CSL ((CSL)), Goodman Group ((GMG)), ResMed ((RMD)) and BHP Group ((BHP)).

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Strategists at **stockbroker Morgans** have published their **Best Buy ideas** for each sector for the year ahead. Standout opportunities, in their view, are currently Telstra ((TLS)), Treasury Wine Estates ((TWE)), and Oil Search ((OSH)).

Other Best Buy Ideas are:

-Banks: Westpac ((WBC))
-Diversified Financials: Link Administration ((LNK)), Kina Securities ((KSL)), Generation Development ((GDG))
-Industrials: Orora ((ORA)), Cleanaway Waste Management ((CWY)), PWR Holdings ((PWH))
-Healthcare: ResMed ((RMD)), Sonic Healthcare ((SHL)), Pro Medicus ((PME)), Volpara Health Technologies ((VHT))
-Telcos and IT & Software: Over the Wire ((OTW))
-Consumer Staples: none
-Consumer Discretionary: Lovisa Holdings ((LOV)), Baby Bunting ((BBN)), Super Retail Group ((SUL))
-Resources: OZ Minerals ((OZL)), Orocobre ((ORE)), Red 5 ((RED))
-Energy: Woodside Petroleum ((WPL)), Cooper Energy ((COE))
-Online Media: Iress ((IRE)), Frontier Digital ((FDV))
-Property: Aventus Group ((AVN)), APN Convenience Retail REIT ((AQR)), Viva Energy REIT ((VVR))

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While reading through various 2020 Outlook reports published by **Morgan Stanley** these past few weeks, I picked up that the three most preferred large cap stocks in Australia are Aristocrat Leisure ((ALL)), Sydney Airport ((SYD)), and Macquarie ((MQG)).

Investors should note Morgan Stanley still does not like Australian banks, or Telstra.

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And finally, Model Portfolio strategists at UBS have retained their highest preference for CSL, REA Group ((REA)) and Altium ((ALU)), while the three least preferred are InvoCare ((IVC)), Sims Metal Management ((SGM)), and IOOF Holdings ((IFL)). They still do not like retail REITs at UBS.

This is my final update for 2019. I hope you all enjoyed reading my weekly updates as much as I enjoyed researching and writing them. I'll be back in action in January next year. Enjoy the festivities. Don't overdo it. Until next year.

Rudi On Tour In 2020:

-ASA Hunter Region, near Newcastle, May 25

(*This story was written on Thursday 5th December 2019. It was published the following day as a story on the website*).

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

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

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