WEEK 12

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AUSTRALIA

Digital A Trump Card For Aristocrat Leisure

Aristocrat Leisure's gaming products are increasingly digital, which may be a positive when it comes to large numbers of people having to self-isolate.

-Existing digital consumption is increasing exponentially in Italy
-Main issue is whether US casinos close, and for how long
-In Australia, the company leases machines and regulations prevent participation in daily revenue

By Eva Brocklehurst

Aristocrat Leisure ((ALL)) is in an unusual position. The company's gaming products are increasingly digital, a positive when it comes to large numbers of people having to self-isolate.

Evidence from Italy is signalling a marked increase in the activity of those existing users of digital titles such as Raid: Shadow Legends. Hence, JPMorgan suggests Aristocrat Leisure is likely to experience and increase in digital revenue as a result of recent self-isolation and working-from-home policies.

Furthermore, the experience in Italy provides enough of a timeframe and examples that are sufficient to observe the benefit. Hence, as the virus spreads in other markets there could be a similar increase in consumption of digital entertainment.

Italy is the only market at this stage with both an advanced level of coronavirus cases and a relatively large digital presence for Aristocrat Leisure. Most of the improvements in performance are coming from existing activity, which is increasing exponentially. Apparently, daily sessions among users, which had a 2019 average of 6, have risen in tandem with coronavirus cases and now are at 22 for Raid: Shadow Legends and 20 for Vikings: War of Clans.

Meanwhile, **downloads and active users are stable, with new downloads not increasing substantially**. Hence, it appears consumers affected by the virus are increasing their use of existing digital entertainment rather than finding new titles. JPMorgan, not one of the seven stockbrokers monitored daily on the FNArena database, has an Overweight rating for Aristocrat Leisure and a target of $37.50.

Credit Suisse recently upgraded to Outperform from Neutral, given the weakness in the share price and continued momentum in the digital business. The business is also entering a period of weak comparables for social casino revenue.

Digital accounts for around 40% of group revenue and, while modelling 10% revenue growth for the division in FY20, the broker's data indicates the run rate for Aristocrat Leisure may be modestly ahead of that, depending upon sales erosion for legacy games.

Under-geared

Citi assesses the **under-geared balance sheet is also an asset in the current environment**. The vast majority of the company's $2.8bn in gross debt does not mature until October 2024. Free cash flow generation is high, with the broker calculating $580m is available after dividends are paid.

US Casinos

The impact of coronavirus is highly uncertain at this stage but Citi calculates it should eliminate earnings growth in FY20. This is dependent on whether casinos close, and for how long. Gaming operations are expected to bounce back relatively quickly.

Credit Suisse suspects the pandemic may have some impact on the land-based revenue if people avoid casinos in North America, and to a lesser extent in Europe and Latin America. Aristocrat Leisure is the leading generator of revenue among slot machine manufacturers in North America.

Citi centres its case on a three-month closure for all Las Vegas casinos and half of the rest of the casinos in the US. Casino closures account for around -9% of the broker's FY20 downgrade to earnings estimates. Otherwise, North American earnings could prove relatively defensive, given the mix towards fixed-fee product.

In Macau, Credit Suisse assesses that Aristocrat Leisure has virtually no revenue share exposure, as casinos there prefer outright purchases. Meanwhile, in Australia, the company leases machine and regulations prevent participation in daily revenue. On the other hand, the broker compares this with North America, where a drop in yield goes straight to the profit line. Credit Suisse currently models a flat yield for North American revenue share in FY20.

The database has has seven Buy ratings. The consensus target is $36.23, suggesting 51.8% upside to the last share price. Targets range from $32.10 (Citi) to $39.60 (UBS).

AUSTRALIA

Slow Recovery More Likely For Cochlear

Cochlear has withdrawn FY20 guidance and expects the subsequent recovery in implant surgery will be slow.

-Coronavirus cases expected to sideline adult implant surgery
-China recovering and surgeries in South Korea remain strong
-Balance-sheet remains in the company's favour

By Eva Brocklehurst

While recovery is undoubtedly on the (distant?) horizon after severe turmoil in markets, the issue for many brokers centres on corporate quality and balance sheet strength. In the case of Cochlear ((COH)), management suspects recovery will be measured.

The company has withdrawn FY20 guidance, as the number of coronavirus cases is expected to have a substantial negative impact on cochlear implant surgery, particularly in the US and Western Europe. Cochlear is expecting a sharp slump in implant candidates and a soft recovery. This stems from the prospect that adult candidates could have their surgery on a reduced priority listing once the epidemic is over.

Credit Suisse concurs that surgery for adult implants is unlikely to be a high priority, even when the threat of coronavirus is reduced, and the company could lose potential recipients. The broker does not forecast implant unit sales recovering to pre-virus levels until the second half of FY21 and FY22.

Funding caps may also limit the speed of recovery in FY21. Funding for cochlear implants is capped in most of Europe, excluding Germany. It is unlikely caps will be reached in 2020, Citi points out, but what is unclear is whether unused funds will be carried to 2021, given extreme demands on the health care systems.

As these funding caps affect adult patients, a source of growth for the company, this will reduce the speed of the recovery in FY21. Citi estimates that 60-70% of cochlear implants are sold in the adult market.

Credit Suisse expects limited surgery will be performed for cochlear implants up until September 2020. The broker also suggests, as countries lock down, only a limited number of paediatric surgeries may occur. In a bear case scenario, where no cochlear implant surgeries are performed for the remainder of FY20, the broker forecasts unit sales will be down -55% in the second half.

UBS assumes cochlear implant unit sales will return to historical levels from the first half of FY22 but suspects this could be ambitious. The broker still ascertains Cochlear will maintain its dominant market share in the US. Earnings downgrades, meanwhile, are large and the broker finds it difficult to forecast unit sales and processor upgrades over the next six months.

China Recovering

One encouraging sign is that China has experienced a growing number of surgeries over the past week or so. In February, Cochlear lowered guidance by -5% because of delays in surgery in greater China.

Credit Suisse also points out the run rate of surgeries in South Korea has remained strong, so the impact across countries varies. In Japan and South Korea paediatric patients account for 50% of surgeries.

Citi takes the view that while there is a short-term shutdown of many economies and it is impossible to predict near-term earnings, the focus, therefore, must be on gearing. In this case the Cochlear balance sheet is assessed to be fine, as all non-essential expenditure is reduced for the balance of FY20.

Management has signalled it does not plan to reduce its workforce, given the likelihood the disruption is only temporary. Moreover, Chinese suppliers have resumed production of components. Cochlear is also rolling out its new bone conduction hearing implant, the Ostia 2 system.

UBS assumes cochlear implant unit sales will return to historical levels from the first half of FY22 but acknowledges this could be ambitious. The broker still expects Cochlear will maintain its dominant market share in the US. Earnings downgrades, meanwhile, are large and the broker finds it difficult to forecast unit sales and upgrades over the next six months.

Macquarie considers the balance sheet is in the company's favour. Moreover, in the medium to longer term there are **opportunities for growth, given a lack of penetration in addressable markets**, as well as the potential for market share gains following the recent recall from Advanced Bionics.

As the stock has fallen -44% since its peak in mid-February and this is a quality company with a “superb” product portfolio, Credit Suisse believes there is a long-term opportunity for growth, particularly in the adult market. Still, uncertainty over the next 12-18 months keeps the broker on a Neutral footing.

Citi reduces FY20 estimates for earnings per share by -79% and upgrades to Neutral from Sell, given the decline in the share price, while Ord Minnett, with a Lighten rating, suspects the current share price still has insufficient allowance for the uncertainty over the next 18 months.

FNArena's database has two Buy ratings, three Hold and two Sell. The consensus target is $200.77, suggesting 13.5% upside to the last share price. Targets range from $160 (Ord Minnett) to $251 (Morgan Stanley).

AUSTRALIA

Does BHP Group Deserve This Hammering?

As a substantial exporter of iron ore to China's recovering steel industry, does the share price of BHP Group deserve to be slammed so hard?

-Several brokers consider now is the time to gain exposure to BHP Group
-Oil may be down but iron ore is driving upgrade momentum
-Growth projects likely to be delayed

By Eva Brocklehurst

The slump in oil prices and the subsequent de-rating of the sector has dragged BHP Group ((BHP)) into the morass. However, is the stock deserving, considering it is a substantial exporter of iron ore to China's recovering steel industry?

The slump in global oil prices will have an impact on the company's petroleum earnings as well as growth aspirations in that division. Macquarie notes BHP Group's petroleum business accounts for around 14% of group operating earnings (EBITDA), using its forecasts, albeit only 7% using spot prices.

Hence, running spot oil prices and keeping all forecasts unchanged translates to a -11-12% reduction to earnings forecasts, which compares with the decline of around -14% in the stock price.

Morgan Stanley agrees the markets have overreacted and now is the opportunity to gain exposure, as BHP has potential to generate attractive free cash flow through the cycle. Gearing is at the lower end of the target range and affords significant protection and flexibility as well.

The broker also favours BHP's commodity mix relative to Rio Tinto ((RIO)), given its diversification and higher exposure to copper compared with aluminium. The **main risk is if demand disruption spills into the second half** and leads to a broader downturn.

Credit Suisse has cut forecasts for 2021 to US$45-50/bbl from US$55-65/bbl and cut BHP earnings estimates by

-2% and -7% over FY20 and FY21 on the back of the changes. Still, the broker acknowledges its downgrades are likely to be too punitive, as there are small cost tailwinds from lower diesel prices and the currency is also turning in the company's favour.

Iron ore is definitely running in BHP's favour, driving upgrade momentum, particularly for FY21 and beyond. As a result, while acknowledging the oil weakness erodes short-term earnings momentum, Macquarie lifts FY20 and FY21 estimates by 16% and 25% respectively.

Several brokers have acknowledged this situation by upgrading the stock to Buy over the past month. Citi, the most recent to do so, believes the **low-cost assets provide an attractive entry point for long-term value**.

Reasonable Yield

Citi runs a test scenario, using increasingly bearish commodity forecasts, and while gearing rises for those companies with growth projects this is not to the levels considered of concern. Under this test, BHP's net debt increases to $12.9bn in FY21 versus a base case of $10.9bn and, while the dividend is likely to be cut under the stress test, the yield is still reasonable at 3.8%.

Citi suggests investors are now being paid to wait and, while not absolutely sure the low has been reached, is confident global macro economic policies and stimulus in China should improve the 2021 outlook for commodities.

Morgans expects the BHP share price will recover once the coronavirus impacts are contained, while the major miner is likely to maintain an attractive yield profile throughout the disruption. Moreover, the iron ore exposure should be enough to offset the elevated weakness in energy and some base metals.

Steel markets have proved far more resilient to underlying demand conditions, with the broker noting that while smaller infrastructure-constrained steel mills were operating at just 20% utilisation, the larger ones have maintained production.

This appears to be confirmed by iron ore inventory at Chinese ports. China's domestic iron ore production has also been affected by suspensions which provides further support to seaborne prices.

China's government is expected to respond to the coronavirus conditions (and the rate of infections appear to have stabilised) with stimulus that could mean a sharp recovery in commodities demand in the second half of 2020, Morgans points out.

The current conditions are also unlikely to lead to any structural changes in the steel or iron ore industry, the broker adds. On a longer-term basis, with little structural implications from the coronavirus, Morgans assesses the big miners BHP Group and Rio Tinto are now in value territory.

In contrast, Credit Suisse prefers pure iron ore stocks such as Fortescue Metals ((FMG)) and sticks with a Neutral rating for BHP.

Growth Projects

Macquarie also points out that long-term growth projects for the oil & gas sector are now under pressure, and BHP's interest in both Scarborough and Trion do not generate acceptable returns at a spot oil scenario. Hence, there is a risk these are delayed if it recovery in the oil price does not occur in the near future.

While satisfied that BHP's two thermal coal assets are immaterial in terms of the earnings mix, Morgans also suspects market valuations from potential suitors are likely to be shrinking and would be impressed if the company moved to cut these carbon-intensive assets.

FNArena's database has five Buy ratings and two Hold. The consensus target is $38.08, suggesting 39% upside to the last share price. Targets range from $35 (Citi) to $41 (Credit Suisse).

AUSTRALIA

Long-Term Opportunity In Altium

Altium may have slightly lowered FY20 guidance but brokers are confident there is a long-term opportunity in the stock, and the valuation is attractive.

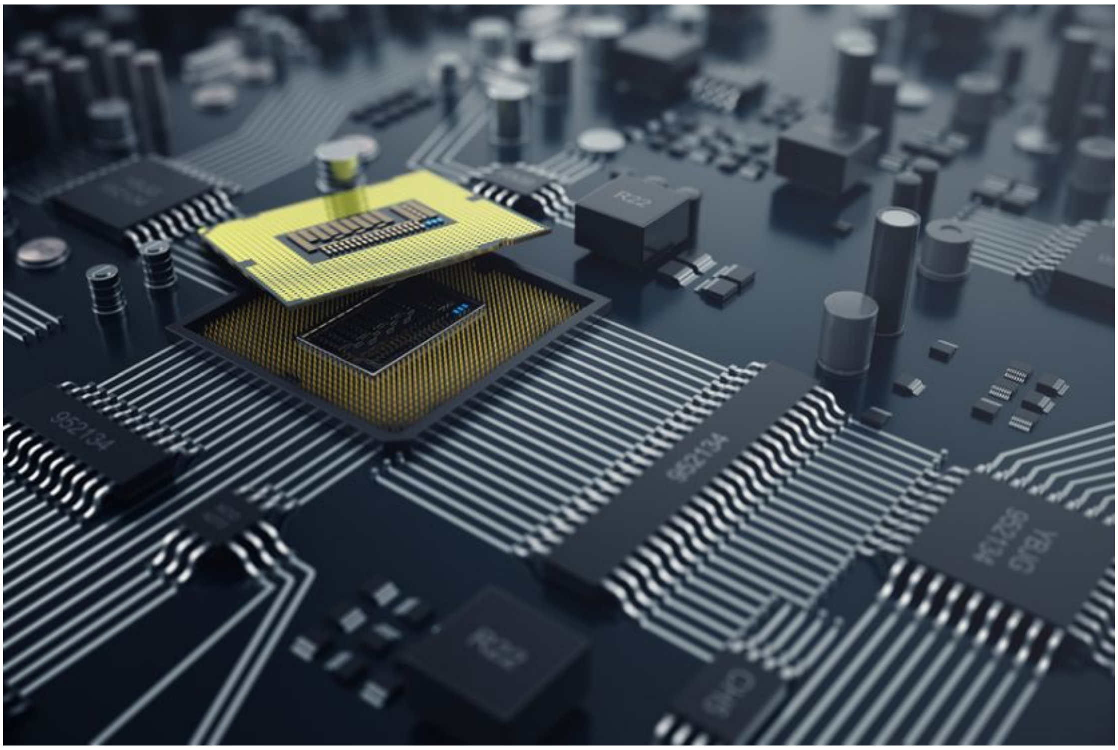
-May need to invest more in sales & marketing
-Aspirational targets still appear achievable
-Materially de-rated versus software stocks globally

By Eva Brocklehurst

Altium ((ALU)) may be well-placed to weather the coronavirus storm as its electronic design work is not tied to manufacturing volumes. FY20 guidance may still be optimistic but brokers assess the valuation is highly attractive.

UBS upgrades to Buy and notes Altium is now trading on an FY21 price/earnings (PE) ratio of 33.8x with a FY21-23 compound growth rate in earnings per share of 30%.

The commercialisation of the relationship with Dassault is also a material catalyst for the near term. Still, Altium is unlikely to achieve its FY20 guidance range of US$205-215m, brokers suspect, as the impact of coronavirus globally has come into play since the February results.



Nevertheless, UBS does not envisage this will be materially lower, with revenue of US$204m anticipated, slightly below the lower end of guidance. This reflects an expectation that Altium will need to invest more heavily in sales and marketing to offset the pressures from the pandemic.

Referring back to the GFC, industry feedback revealed the impact was relatively minor for printed circuit board design software, and the focus turned to research and development to capture the next wave of demand when economic conditions improved.

The aspirational targets set for FY25 of US$500m in revenue and operating earnings margins of more than 40%

remain achievable. UBS notes the upside risk in relation to this target stems from accelerating momentum in China, as well as lower churn from a more automated platform and faster adoption of Altium365.

Bell Potter agrees the aspirational targets are achievable and has a Buy rating, recently upgraded from Hold, with a $35 target. The broker suggests the main risks centre on FY20 guidance being downgraded because of a worsening macro environment. The broker now forecasts an operating earnings margin of 39.8%.

Resilient

UBS asserts the category is less likely to be affected by coronavirus compared with other parts of the electronics value chain. There are also options on the balance sheet and, **given a strong market position, the company may even be a focus for corporate activity**.

Ord Minnett, earlier this month, jumped straight to Lighten from Buy, believing the stock represented good value. The share price had fallen -23% through February and, despite the unknowns, this is a material de-rating compared with software stocks globally.

The broker assesses the valuation is broadly similar to late 2018 when software stocks de-rated globally on the back of rising interest-rate expectations. Moreover Altium is trading below global small cap software stocks at present.

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, also believes Altium is a potential takeover target as it is a top-five player in a growing global market while still obtaining market share.

A strong earnings growth path and strategic opportunities means Macquarie is also positive. It is difficult to know the extent to which coronavirus will affect the economy, and the broker points out Altium relies on perpetual license sales so weaker sentiment could delay sales to some extent.

This also makes near-term earnings more vulnerable to market shocks compared with those that are more heavily skewed to subscription revenue. Still, the company is in a net cash position and generates cash so the balance sheet should be sound.

There are three Buy ratings on the database, and all were upgrades in March. The consensus target is $36.13, suggesting 51.0% upside to the last share price.

AUSTRALIA

Social Distancing Better With Coke!

Coca-Cola Amatil has positives and negatives from the impact of the coronavirus outbreak but remains well-placed to deal with the crisis.

-Strong growth in grocery channel, declines in on-the-go channels
-After the crisis, consumption of Coca-Cola may surge
-Strong balance sheet should underpin the business during a period of uncertainty

By Eva Brocklehurst

The cancellation of much-loved sporting events will go better with a Coke! (or two), although the need for social distancing is still likely to weigh on soft drink volumes over the next few months. Coca-Cola Amatil ((CCL)) has decided to withdraw earnings guidance for 2020, given the uncertainty regarding the duration and impact of coronavirus.

Strong growth has, however, been observed in the grocery channel as consumers stock up on their soft drink, while declines are being experienced in the on-the-go channels. The company expects the latter weakness to accelerate, amid preferences for staying at home and the widespread cancellation of sporting events.

Also, the company has stated it expects to be able to operate its business and avoid significant disruption to the supply chain. Macquarie envisages limited risk to consumer staples, particularly when it comes to supermarkets, noting Coca-Cola Amatil has more staple characteristics than those of a discretionary consumer product

Morgans assesses the petrol & convenience channels will be severely affected by coronavirus as fewer people will be commuting. **The second half should benefit from the skew to Christmas activities in the Australian summer.**

December alone can account for around 25% of sales in Australia. The broker also points out consumers are increasingly ordering more products online and this will advantage the company as volumes are shipped to food aggregators.

Ord Minnett speculates, given the potential timing of when constraints on activity are eased, there could be a build up of resentment from consumers to social distancing, such that they will "socialise with abandon". This is called a party, and could be positive for the consumption of Coca-Cola! At least in Australia.

While there is a structural decline in demand for the product, **consumer choice is not likely to be adversely affected by the virus or economic shocks**. Still, it is frustrating that the business has just returned to growth, Morgans adds.

UBS emphasises the headwinds facing carbonated soft drinks are structural, not cyclical, although company-specific initiatives are aimed at softening the blow. Hence, flat volumes are forecast out to FY22.

Indonesia

Meanwhile, in Indonesia there has been a reduction in foot traffic with volumes in Bali affected by severe decline in tourism. This is been exacerbated by the timing of Ramadan.

This becomes a key period for the company because of the greater consumption of sparkling beverages to celebrate the end of Ramadan. Ramadan will occur from April 23 to May 23, when the concerns about social distancing are expected to remain heightened.

UBS believes the market is pricing in the re-building of momentum in Indonesia/PNG as the company focuses on lower value segments.

Balance Sheet

Brokers assess Coca-Cola Amatil has a strong balance sheet that can sustain the short-term uncertainty. There are significant cash reserves and undrawn debt facilities to cover maturities of $200m in June and $100m in November 2020.

UBS upgrades to Neutral from Sell because the valuation is now fair, albeit there are few catalysts. The company has outperformed the ASX 200 by 13% in the last three months, partly because of perceptions about defensive earnings and a strong balance sheet.

FNArena's database has two Buy ratings, four Hold and one Sell (Citi). The consensus target is $11.57, signalling 27.5% upside to the last share price. Targets range from $10.00 (UBS) to $13.60 (Macquarie, yet to update on the latest announcement).

AUSTRALIA

Short-Term Impact Likely On Ramsay Health

While the impact of the pandemic on Ramsay Health Care's hospital income is uncertain most brokers agree, for the longer term, the hospitals are quality assets, catering to the demands of an ageing population.

-Non-urgent surgery likely to be deferred in both Europe and Australia
-Debt position considered sound, short-term breaches unlikely to be a concern
-Issues over value in private health insurance in Australia will remain

By Eva Brocklehurst

As the coronavirus outbreak reaches a crisis in Europe, Ramsay Health Care ((RHC)) is faced with the deferral of elective procedures at its hospitals. France has decided to cancel or defer non-urgent elective surgery and other countries are expected to follow.

The company has withdrawn FY20 guidance because of the uncertainty. Yet, while the near-term may be affected, one thing is well known. An ageing population means the demand for surgery will continue to grow.

Ramsay Health Care is currently in discussions with the UK public health service to provide for any overflow and this is likely to occur in Australia as well. The company will assist with any acute surgical work initially, followed by more medical work as public hospital capacity is reduced.

Brokers assume the lower elective volumes are only partly offset by the increased outsourcing from the public sector. UBS, because of this, makes no changes to revenue and earnings forecasts in Europe due to the inability to quantify the impact.

In Australia, the broker reduces private hospital volume growth in the second half and factors in a recovery in FY21. However, with a high fixed cost base, UBS points out, lost revenue will flow directly to earnings.

With no shortage of patients and amid funding commitments from governments, Ord Minnett remains confident the business can continue to generate a profit, even if this is reduced. Macquarie considers the earnings impact for Australia is likely to be less than Europe, because the company's asset ownership position is favourable in the current environment.

The broker continues to believe **the business is well-positioned for growth in the longer term** via brownfield developments at key sites in Australia, stable tariffs in France and the benefits from the Ascension joint venture from FY21 onwards.

Debt

Elevated debt metrics may be a cause for concern, although Ord Minnett is comfortable sufficient cash can be generated. Much of the debt is held in European joint ventures and is non-recourse to the company.

Based on UBS estimates net debt/EBITDA would be 3.9x in FY21. The broker assumes an allowance will be made for a technical breach (if the covenant is 3.5x) because of a likely recovery in FY22. However, should elective surgery deferrals drop more rapidly than forecast and there are more limited payments from the public system the broker does not rule out the need for equity.

Citi upgrades to Buy from Neutral. The broker assesses the debt position of the company is strong and, when the pandemic subsides, the relative value of hospital infrastructure will be enhanced.

Credit Suisse also suspects that there will be a resurgence in elective private hospital volumes as public hospitals will remain constrained even when the impact eases. Despite the stock having more defensive earnings compared with the broader market, the broker notes it has underperformed since the peak in February.

With a more positive outlook, and noting sufficient liquidity and capacity for growth, Credit Suisse raises the rating to Outperform from Neutral. The broker maintains current earnings forecasts, with a view that it remains possible these will be even be supported as elective surgery is brought forward and some government services are moved to the private sector.

However, over a longer timeframe this is hard to predict, although as the crisis is likely to last less than 6-12 months it has little impact on valuation, in the broker's view. A one-off -25% decline in operating earnings forecasts for FY21 would reduce the valuation by just -5%.

Assuming a -10% reduction in global volume for the June and September quarters, and a 25:75 variable fixed cost base, Morgan Stanley reduces FY21 and FY22 estimates for earnings by -21%. While there may be some offset from public-sector volume, the broker suspects this will involve lower tariffs and therefore provide lower margins.

Value Proposition

The assessment of whether the stock is cheap is still difficult, in Morgan Stanley's view. Moreover, long-term issues of Australian margins and the debate about the value of private health insurance will still be there when the virus has passed.

Around 55% of surgeries are conducted in the private sector in Australia and Ramsay Health Care has around 30% share of the private hospital market. Most services, even if deferred, are expected to get done sooner or later.

This is particularly the case for surgical procedures. However, UBS does not expect Australian private hospital growth will return to historical levels. The broker suggests **pricing will remain an issue because of the level of price increases the hospitals can achieve from insurers**.

In the event of a prolonged recession, Citi acknowledges the percentage of the population with private health insurance will decline and this could have an impact on the private hospital sector. However, this outcome is not in the broker's base case.

Although Ord Minnett is not calling the bottom of the market, given deep uncertainty, the pressures on hospital affordability are expected to grow amid the disruption to the economy caused by the outbreak.

Yet, even in the event of a precipitous decline in health fund membership, the need for the company's hospitals will not diminish, the broker asserts. Furthermore, the weakness presents an opportunity to build a position the stock and Ord Minnett upgrades to Accumulate from Hold.

FNArena's database has four Buy ratings, two Hold and one Sell (Morgan Stanley). The consensus target is $65.91, suggesting 21.4% upside to the last share price.

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

AUSTRALIA

Fonterra Retains Positive FY20 Outlook

While several risks remain, Fonterra has emerged from the first stage of its restructure with a positive earnings outlook for FY20.

-Improved ingredients returns in NZ and recovery in China's foodservice
-Pricing pressure in UHT cream and cheese in NZ
-Knots in capital structure still to be ironed out

By Eva Brocklehurst

One of the more positive news items in the current environment has come from Fonterra Shareholders Fund ((FSF)), which has signalled the first stage of its earnings recovery has been achieved. The company reported first half net profit of NZ$293m and normalised earnings of NZ584m, ahead of broker forecasts.

While no interim dividend was declared Fonterra aims to pay a final dividend. While there is still a risk around the drought and higher milk prices as well as the impact of coronavirus on foodservice volumes, the company has maintained guidance for earnings per share of NZ15-25c.

After several challenging years, Credit Suisse observes the balance sheet is on track for substantial reductions in debt, which could underpin a resumption of dividends in the second half. UBS also notes growing confidence in the ability for earnings to reach the top end of the forecast range in FY20, despite some modest demand risks stemming from coronavirus.

Evidence for this comes from improved ingredients returns in New Zealand and a recovery occurring in China's foodservice demand. **The pace of an earnings recovery from FY21 could be slower**, nevertheless, as the company confronts margin pressure from higher milk costs and the task of downsizing.

The first half normalised earnings (EBIT) lifted to NZ$570m, ahead of UBS estimates. This was driven by stronger gross margins in foodservice and reduced losses in Australian ingredients. Australian ingredients sales volumes fell by -24% because of reduced milk supply.

UBS retains a Neutral rating and NZ$3.95 target. The main area that disappointed the broker was lower gross margins in NZ, amid pricing pressure in UHT cream and cheese because of greater competition. Macquarie also was disappointed with gross margins.

Guidance has revealed some earnings risk in the second half from reduced foodservice sales initially in China and throughout Asia as virus containment measures affected restaurants. Moreover, early in 2020 there was unrest in Hong Kong and Chile which is expected to have influenced dairy demand.

Fonterra is still progressing divestments of the China Farms and DPA Brazil and Credit Suisse welcomes the exit of the former. Still, the broker assesses the investment case remains difficult and current earnings need to grow to support the valuation and maintains a Neutral rating and NZ$3.97 target.

The company completed the sale of DFE and foodspring during the half year, making NZ$401m and NZ$68m in gains on sale respectively.

Capital Structure

No update was provided on the review of the capital structure except that **Fonterra will remain as a co-op**. The exit of phase 1 of the restructure has removed the risk to the balance sheet and the board and management is working with farmers regarding the future of the co-op in 2020.

Credit Suisse expects this next phase will be difficult and achieving consensus will take time, believing investors should wait for more detail on the capital structure plans and the size and scope of the co-op.

The broker points out retention of lower growth and non-NZ milk pool businesses need to be tested against what it means for supporting more capital flexibility for farmers and improve sustainable returns.

Macquarie asserts the current structure works against unit holders and the company's policies appear to be about maximising costs and investing in working capital to favour farmers. Macquarie has an Underperform rating and NZ$3.50 target and assesses the volatility in the business makes forecasting a challenge.

FEATURE STORIES

Close The Borders And Unite The World

Nothing short of containment and massive coordinated monetary and fiscal stimulus will save the global economy, economists believe. The RBA is now in on the act and the Australian government is doing its bit as well.

-Monetary and fiscal stimulus rolled out across the globe
-RBA goes unconventional
-Forget the GFC, this is BIG
-Will it work?

By Greg Peel

"Credit meltdowns are fuelled by self-perpetuating panics. The uncertainty of economic impact of COVID-19, collapse in the oil price and rising geopolitical pressures are aggravated by computerized trading and more than a decade of extreme monetary policies, which left investors marooned in overcrowded positions. Unless this death spiral' is arrested, all assets (except extreme safety) will collapse, capital will freeze, and liquidity disappear. At that point our entire asset-based financialized world will reset. Funds will collapse, pensions won't get paid and we will need to recognize that decades of growth were not sustainable, ultimately converging money supply and GDP, and in the process wiping out years of rising standards of living. While it sounds extreme, if there is no coordinated action, this will be the likely outcome."

-Macquarie Wealth Management, March 13

Macquarie believes that rate cuts by themselves are not sufficient, hence central banks need to embark on quantitative easing with no limitations on size or asset classes. Regulatory and prudential controls must also be aggressively deployed, such as reducing capital buffers. But the government will also need to do its bit with fiscal policies, including aggressive spending and bail-outs of the more vulnerable segments.

"One can't predict when policymakers will coalesce but a global economic reset is neither politically nor socially acceptable. Indeed, yesterday's liquidation might be eventually heralded as one of the events that ushered the new world."

A Call to Arms

The "yesterday" to which Macquarie refers was the -10% plunge in the ASX200 and in the S&P500, the biggest one-day falls since the 1987 crash.

The US Federal Reserve has since slashed its cash rate by -100 basis points to the 0.00-0.25% lower bound, having already cut by -50 points only a week earlier. The last time the Fed cut by -100 points, also to zero, was October 2008 after the collapse of Lehman Bros.

That was the last in a trail of ten cash rate cuts, which began in September 2007 at the starting point of 5.25%. The Fed delivered what was then described as a "shock & awe" cut of -50 points, which it was assumed at the time would signal the end of this pesky Credit Crunch. Between the first cut and the last, the Fed made a further three cuts of -25 points, three of -50bp and two of -75bp.

The Fed cash rate remained at the zero bound until 2015, when the Fed began a series of nine rate increases of 25 points each, culminating in December 2018, which cemented the last major stock market correction. The starting point for the Fed's two virus-related cuts was 1.75%, a far cry from 5.25%. While the GFC was a slow motion event compared with coronavirus, it is clear the Fed learned a lesson at that time. Don't muck around. Go early, go hard.

Go QE.

The concept of quantitative easing was merely a theory before the Fed enacted it in 2008, retrospectively dubbed QE1, and in so doing prompted the US stock market bottom in March 2009 following a -50% fall from

October 2007. At the time of writing, the S&P500 has fallen -29% in less than a month.

On top of its -100 point rate cut last weekend, the Fed announced a US$700bn QE program split US$500bn in US government bond purchases and US$200bn in mortgage-backed security purchases. It has also began making what are ostensibly limitless injections into overnight money markets and commercial paper markets and then on to municipal bond markets to ensure liquidity.

US fiscal stimulus packages are moving slowly through Congress, although urgency has finally crept in, and US$1.3trn has been pledged to date across various targeted measures. Given the extent of the government's prior current account deficit, further trillions in fiscal injections suggest "limitless" as well. The printing press is running hot, yet the US dollar is now back on the rise given rate cuts, QE and fiscal stimulus have become a worldwide response.

Subsequent to the Bank of England cutting its cash rate by -50 points, the UK government has announced a GBP350bn stimulus package of loans, grants and tax relief. That's around 1.7 times larger per capita than the US package.

Having been initially criticised for promising much and doing nothing, the European Central Bank, which already has a zero cash rate, has announced a EUR750bn purchasing program of public and private sector securities.

Everyone's in on it

To date, the Australian government has announced a $2.4bn health package and a $17.6bn economic package and is set to announce a second economic package, likely larger still. Having already cut by -25 points, the Reserve Bank of Australia has now cut by another -25% points to 0.25%. The reason the RBA did not follow the trend and cut to zero is because even before the virus outbreak the central bank said it saw anything below 0.25% as ineffective, hence that was the point at which unconventional measures could be enacted.

The RBA had also suggested it was sceptical about QE, hence there was strong speculation it would not go down the QE path initially but rather first enact "yield curve control" (YCC), which in simple terms means setting a target rate not just for overnight cash but for a maturity or maturities further down the yield curve, such as four to five years, which is where the concentration of Australian debt securities lies.

Typically when the RBA makes cash rate adjustments money markets adjust on their own, not requiring a draw on the central bank balance sheet. It was assumed the RBA was hoping the same might be true if it were to set a target rate for five year bonds.

As it transpires, the RBA has gone YCC. As well as setting a 0.25% target rate for overnight cash, it has set a 0.25% target for three year bonds, a little shorter than anticipated. To maintain the target, the RBA will purchase government (federal) and semi-government (state/Territory) bonds across maturities in the secondary market.

A point to note here: there is no such thing as a three-year bond except on the day one is issued. As each day passes, that bond becomes shorter than a three-year bond. The price quoted as the three-year bond rate, ten-year and other maturities is a running calculation based on prevailing market prices at the time. Hence, while the RBA may purchase bonds "across the curve", it is zeroing in on the three-year period.

The RBA has not put a figure on its intended bond purchase total, as have the Fed (US$700bn) and the ECB (E750bn) for example, because it will only buy in the secondary market (existing bonds) rather than primary (new issue) market. This implies the central bank will only buy when necessary, may not even need to buy at all if the market adjusts by itself, and may need to even sell again if the three-year rate falls too low.

However, given market dislocation driven by virus impact uncertainty, and a market physically disrupted simply because traders are forced to work alone from home, the RBA will likely need to jump straight in to close widening bid/asks spreads and ensure ample liquidity from the outset.

The RBA has also been making frequent injections into the short term credit markets to ensure liquidity and will continue to do so.

And the RBA will provide a three-year term funding facility for Australian banks at 0.25% for up to 3% of that bank's existing credit, or more if the money is lent to businesses, especially SMEs. That facility does have a number "at least" $90bn.

The jury is out to some extent as to whether the RBA's plan amounts to "QE" or not. The governor says no. Economists say yes, because bond purchases announced to underpin yield curve control are by any other name QE. It's just a label anyway, and has expanded since the GFC to generally refer to any "unconventional" central bank policy.

Will it Work?

Generally, JPMorgan' economists regard the RBA's announcement as significant. After a slow start, the central bank has delivered a package that should engineer a meaningful easing of financial conditions, assuming long-end bond yields can be encouraged lower, the economists suggest. This should help to preserve the flow of cheap credit into the economy for both households and SMEs, and indeed the term funding facility is structured such that incentives are stronger for banks to lend to SMEs.

The RBA's actions are decisive and broader in scope than the market was expecting, Citi's economists suggest. In addition to providing the expected -25bps cash rate reduction, the central bank effectively provided forward guidance that the cash rate will remain unchanged for at least a few years, possibly longer. This statement should help anchor short-dated yields at a generational low.

Citi had previously argued that a term funding facility for the banking sector was a necessary requirement.

The RBA also offered to ensure full monetary policy transmission approaching the effective lower bound, despite not even being considered by the governor in his speech last December. The change of heart is welcome, says Citi, and will support banks providing credit at low rates for a meaningful period of time.

"In summary, the RBA's actions will ensure that the financial system can support the real economy, not just now but when demand growth improves, which will help the recovery process more generally when it occurs."

With regard the term funding facility for banks, UBS notes this will support the supply of credit to SMEs, but it remains to be seen if demand will meet it. Given the rapidly deteriorating economic outlook, the economists are not convinced SMEs will rush to borrow, even at concessional rates. They think more needs to be done, and still expect a recession and spike in unemployment towards their pandemic scenario of 8%.

The Australian Government flagged more fiscal stimulus in coming days, which will be substantially different to the first package, UBS notes, likely including income support which the economists expect to be much larger at $50bn plus, or 2.5% of GDP, and could easily total $100bn (5%), versus the $25bn or so announced so far (including state governments).

Bigger then the GFC

Do we now have globally coordinated action?

Since mid-January, 18 of the 30 central banks Morgan Stanley economists cover have eased monetary policy. The global weighted average policy rate has declined -54 basis points since December 2019 and -166bp since December 2018. By the end of the June quarter 2020, Morgan Stanley expects 25 central banks to be easing. Once the Bank of England relaunches its QE program, we will have all G4 (US, UK, Japan, eurozone) central banks back on the quantitative easing path.

While the initial response from developed economies was slow, the economists note, over the last few days, as economic and financial market disruptions persist, we have started to see strong commitments from policy makers, indicating that a sizeable fiscal expansion plan is in the offing.

Morgan Stanley now expects that in the G4 plus China, the combined primary fiscal balance will rise to around US$1.7trn. As a percentage of GDP, the G4 plus China cyclically adjusted primary deficit will rise. Indeed, the G4 plus China deficit will reach 6.9% in 2020, higher than the GFC's 6.5% in 2009.

Global monetary and fiscal responses to the GFC were slow, mostly because no one (bar a few smart people) saw it coming, no one outside the market understood it, few inside the market actually understood it, and it played out in slow motion over a period of time. In June 2007, two Merrill Lynch funds holding sub-prime collateralised debt obligations could not find buyers. One year and three months later, Lehman Brothers went under.

As noted, back then quantitative easing was just a theory. It was not put into action by the Fed until November 2008 and given markets kept falling, was bumped up in size in March 2009. Finally Wall Street turned. March 2009 was also the month the then Australian government provided a cash handout of $900 to most Australians, the most significant of its fiscal responses.

Coronavirus, on the other hand, came out of the blue. The subsequent plunge into a bear market is the fastest ever seen. The GFC taught central banks and governments a valuable lesson not only what tools can be used, but how quickly they should be used.

Enter Modern Money Theory, which in essence suggests any country which prints its own currency can happily print as much as it likes without fear of repercussion. If the GFC alerted the world to a thing called QE, the virus will soon educate the world on the concept of MMT.

How long will it take to pay back all this suddenly accumulated and massive debt? MMT suggests it doesn't matter.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 13-03-20

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday March 9 to Friday March 13, 2020
Total Upgrades: 45
Total Downgrades: 6
Net Ratings Breakdown: Buy 42.96%; Hold 43.75%; Sell 13.30%

Stockbroking analysts have been frantically upgrading their recommendations for individual ASX-listed stocks in Australia as the share market underwent unprecedented volatility last week. The interesting part of that sentence is that while it looks like I am exaggerating just a little bit in my choice of words, the fact is there is not even a hint of hyperbole in it.

As every battle-hardened industry veteran will tell us, a 13% turnaround in Australian indices within a matter of hours has simply never, ever, happened. Never. Ever.

For investors, it's good to keep in mind we are living through truly historic moments and those analysts do not have the superpower of foresight. They are trying to assess what share prices should/could be worth under less extreme circumstances, and with less uncertainty about the ultimate economic fall-out from this year's pandemic, but that's about it.

There is no such thing as "certainty" under global conditions as they are. What we do know is that we will get through this, exact timing and circumstances unknown, and we don't know exactly how the present struggle is going to develop further either. Falling share prices are scary on the best of days. They are extremely scary during weeks of extreme volatility, mostly to the downside.

This is as good a time as ever for every investor to weigh up further actions and decisions against their level of anxiety and risk appetite.

For the week ending Friday, 13th March 2020, FNArena counted no less than 45 upgrades for ASX-listed entities and six downgrades (of which two shifted to Sell).

As should be expected, given the world is preparing for a global recession, amendments to valuations/price targets and earnings estimates have a significant skew to the downside. Investors should expect more of the same in the weeks ahead.

Upgrade

AGL ENERGY LIMITED ((AGL)) Upgrade to Add from Hold by Morgans .B/H/S: 1/2/4

Morgans expects electricity demand will remain resilient in the second half despite interruptions to economic activity. Moreover, AGL Energy carries minimal exposure to the spot price as customer demand is well matched by generation output.

The stock has fallen -19% from its post reporting high in the midst of a broader market sell-off and the broker upgrades to Add from Hold. Target is reduced to $18.35 from $18.38.

ALTIUM LIMITED ((ALU)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

Macquarie has used a sector update post the February reporting season to sneak in an upgrade for Altium, to Outperform from Neutral, due to excessive share price weakness.

The analysts see a solid medium-term earnings growth path on top of strategic opportunities, while also acknowledging any market shocks have the potential to highlight Altium's near-term reliance on perpetual licence sales and the fact that China is now important for growth.

Target price remains unchanged at $37.50.

ATLAS ARTERIA ((ALX)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/4/0

Atlas Arteria will feel the impact of the virus, Macquarie notes, but offsetting currency movements are material and medium-term government responses are likely to be positive to valuations. The stock offers material value for investors and while the virus initially hurts, valuation should recover quickly.

The dividend is already below cash flow providing scope to maintain current growth, and if the currency remains low, there is minor upside, Macquarie suggests. Upgrade to Outperform, target falls to $8.14 from $8.42 on short-term impact.

AUSTRALIA & NEW ZEALAND BANKING GROUP ((ANZ)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/5/0

Following the rapid correction in Australian bank share prices, UBS believes value is emerging for the first time in several years. The broker is now incorporating an Australian recession in its economic outlook along with quantitative easing.

While acknowledging a low level of confidence in forecasts, the broker believes consensus is now materially overstating the case and this is reflected in current share prices.

As a result, ANZ Bank is upgraded to Buy from Neutral. This is the first time UBS has had a Buy rating on an Australian bank in three years. Target is $21.

APA GROUP ((APA)) Upgrade to Add from Hold by Morgans .B/H/S: 1/6/0

Morgans upgrades to Add from Hold, given recent share price weakness. The broker considers APA Group the best-of-breed in the energy infrastructure segment.

Furthermore, the broker suggests the nature of the revenue makes it an ideal place to deploy capital to avoid exposure to coronavirus, while delivering a 5.3% cash yield. Target is $10.90.

ASX LIMITED ((ASX)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/4/3

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists.

ASX trading revenue is likely to benefit from increased volatility, offsetting the potential for lower near-term corporate action revenue.

Rating is upgraded to Neutral from Sell and the target reduced to $68.50 from $72.25.

BENDIGO AND ADELAIDE BANK LIMITED ((BEN)) Upgrade to Neutral from Sell by UBS and Upgrade to Hold from Lighten by Ord Minnett.B/H/S: 0/2/4

Following the rapid correction in Australian bank share prices, UBS believes value is emerging for the first time in several years. The broker is now incorporating an Australian recession in its economic outlook along with quantitative easing.

While acknowledging a low level of confidence in forecasts, the broker believes consensus is now materially overstating the case and this is reflected in current share prices.

Bendigo and Adelaide Bank is upgraded to Neutral from Sell. Target is $6.50.

Ord Minnett updates forecasts to allow for the recent passing through of the latest cut to the cash rate and prospects for a further cut in April.

While concerns over the transformation agenda remain, and the bank is the broker's least preferred, the risks appear fairly compensated for in valuation.

Hence, Ord Minnett upgrades to Hold from Lighten. Target is reduced to $8.30 from $9.25.

BEACH ENERGY LIMITED ((BPT)) Upgrade to Outperform from Underperform by Macquarie .B/H/S: 3/2/1

Volume growth is being driven by extensive development in the Western Flank and Cooper Basin. Exploration success and a final investment decision on stage 2 at Waitsia are the main catalysts that should boost certainty, Macquarie suggests.

Given the recent slump in the share price, the broker upgrades to Outperform from Underperform.

Oil & gas price forecasts have been lowered for the near and medium term, with FY20 estimates decreasing by -2% and FY20 by -6%. The broker's target decreases by -9% to $2.10.

CARSALES.COM LIMITED ((CAR)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/4/1

While there are short-term risks stemming from the impact of coronavirus, UBS makes only minor changes to online media forecasts, assessing valuations are long-dated.

The broker suspects the greatest impact from the current epidemic is likely to be on new listing volumes.

Rating is upgraded to Neutral from Sell. Target is reduced to $15.65 from $17.50.

COMMONWEALTH BANK OF AUSTRALIA ((CBA)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/2/4

Following the rapid correction in Australian bank share prices, UBS believes value is emerging for the first time in several years. The broker is now incorporating an Australian recession in its economic outlook along with quantitative easing.

While acknowledging a low level of confidence in forecasts, the broker believes consensus is now materially overstating the case and this is reflected in current share prices.

UBS upgrades Commonwealth Bank to Neutral from Sell. The main concern previously was a stretched valuation but the share price has now fallen such that it represents reasonable value. Target is $65.

COCA-COLA AMATIL LIMITED ((CCL)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/3/2

With respect to the virus, Macquarie sees limited risk to Consumer Staples particularly supermarkets, Coca-Cola Amatil and Domino's Pizza.

The broker has left its forecasts and $13.60 target for Coca-Cola unchanged but has upgraded to Outperform.

Reflecting on the GFC, Credit Suisse believes Coca-Cola Amatil is underpinned by solid revenue, albeit growth is more modest than that achieved a decade ago.

The branded non-alcoholic beverage category has also been growing in the last six months despite the higher prices caused by container deposit schemes.

Credit Suisse upgrades to Neutral from Underperform now the share price has fallen below the target. Target is $11.40.

COMPUTERSHARE LIMITED ((CPU)) Upgrade to Add from Hold by Morgans and Upgrade to Buy from Neutral by UBS.B/H/S: 2/2/2

The company has downgraded guidance for FY20, expecting a contraction in earnings per share of -15%. This stems from the impact of recent cuts to global interest rates.

Morgans considers this reasonably conservative and downgrades FY20-21 forecasts by -9-15%.

While the current operating environment is difficult, Morgans assesses the stock offers long-term value and upgrades to Add from Hold. Target drops to $14.34 from $17.51.

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists.

Among diversified financials Computershare is considered the most affected.

With margin income guidance re-based for lower yield curves and a 12-month PE at the lower end of historical ranges, UBS considers the stock now offers compelling value.

Rating is upgraded to Buy from Neutral and the target is lowered to $12.70 from $17.50.

CSL LIMITED ((CSL)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/4/0

A brave team of healthcare analysts at Citi has upgraded CSL to Buy from Neutral if only because the share price continues to weaken. Citi has kept the $332 price target intact, while forecasting double-digit percentages growth in EPS for each of the following three years.

Moreover, Citi analysts believe risk to earnings in the medium-term remains to the upside because CSL continues to increase market share due to its superior plasma collection position.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/0/2

While there are short-term risks stemming from the impact of coronavirus, UBS makes only minor changes to online media forecasts, assessing valuations are long-dated.

The broker suspects the greatest impact from the current epidemic is likely to be on new listing volumes.

Rating is upgraded to Buy from Neutral. Target is steady at $3.60.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 3/2/2

With respect to the virus, Macquarie sees limited risk to Consumer Staples particularly supermarkets, Coca-Cola Amatil and Domino's Pizza.

The broker has left its forecasts and $66.10 target for Domino's Pizza unchanged but upgraded to Outperform.

DEXUS PROPERTY GROUP ((DXS)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 6/0/0

Morgan Stanley believes Dexus is "ideal" for taking shelter during market volatility. The leases are underpinned by fixed 3.5-4%/year increases, while a tight Sydney office market should cushion the impact of uncertainties.

Rating is upgraded to Overweight from Equal-weight. In-Line sector view. Price target is raised to $13.00 from $12.45.

FORTESCUE METALS GROUP LTD ((FMG)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/2/2

Ord Minnett suggests the crisis centred on coronavirus is likely to play out for several months but the shares of Fortescue Metals have reached a point where they cannot be ignored from a valuation perspective.

While finding it impossible to pick the absolute low, the broker expects the situation will continue for months, not years. Hence, investors with a medium-term horizon should be rewarded for owning the stock.

Rating is upgraded to Accumulate from Hold and the target is steady at $11.

IOOF HOLDINGS LIMITED ((IFL)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/4/0

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists. Among the platforms, IOOF carries greater exposure to lower equity markets than Netwealth Group ((NWL)).

Despite the PE looking particularly compelling, UBS upgrades to Neutral from Sell, rather than Buy, to reflect re-pricing risks. Target is reduced to $4.80 from $6.40.

IGO LIMITED ((IGO)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/3/1

Ord Minnett upgrades to Accumulate from Hold, given the slump in the share price. Target is reduced to $5.40 from $5.70.

After updating commodity price forecasts Ord Minnett retains a relative preference for diversified miners and gold stocks.

The broker finds selective value in base metals while considers it too early for lithium names.

MAGELLAN FINANCIAL GROUP LIMITED ((MFG)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/2/5

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists.

With Magellan Financial's share price sliding -20% in the year to date, despite more resilient funds under management, downside risks have abated, in the broker's view.

Rating is upgraded to Neutral from Sell and the target is lowered to $46.00 from $54.30.

MIRVAC GROUP ((MGR)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/3/0

UBS reassesses FY22-24 earnings estimates, given recent project acquisitions. The broker envisages growth of 7% from FY21-24 as the business maintains a quality bias and defensive characteristics.

Mirvac is the broker's preferred residential exposure and the rating is upgraded to Buy from Neutral. Target is raised to $3.49 from $3.30.

MINERAL RESOURCES LIMITED ((MIN)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/0/0

After the slump in the share price, Ord Minnett upgrades to Accumulate from Hold. Target is lowered to $16.00 from $16.20.

After updating commodity price forecasts Ord Minnett retains a relative preference for diversified miners and gold stocks.

The broker finds selective value in base metals while considers it too early for lithium names.

MEDIBANK PRIVATE LIMITED ((MPL)) Upgrade to Neutral from Sell by UBS .B/H/S: 0/4/2

The impact of coronavirus on health insurers is likely to mean lower travel insurance revenue while lower bond yields will also have an impact.

There remains little empirical evidence domestically as to how private health insurance volumes may be impacted by the epidemic, although elective surgery in Asia has declined.

With hospital utilisation set to slow if the outbreak continues to spread, UBS believes Medibank Private could experience greater earnings support.

Rating is upgraded to Neutral from Sell and the target is reduced to $2.70 from $2.80.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/4/1

Following the rapid correction in Australian bank share prices, UBS believes value is emerging for the first time in several years. The broker is now incorporating an Australian recession in its economic outlook along with quantitative easing.

While acknowledging a low level of confidence in forecasts, the broker believes consensus is now materially overstating the case and this is reflected in current share prices.

UBS upgrades National Australia Bank to Neutral from Sell. The bank is currently facing a number of challenges and the broker awaits the strategic review. Target is $19.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Accumulate from Hold by Ord Minnett and Upgrade to Buy from Neutral by UBS.B/H/S: 3/3/1

Ord Minnett upgrades to Accumulate from Hold, noting Medibank Private ((MPL)) is trading at an undeserved premium to nib Holdings, even though both are subject to the same pressures.

The broker does not expect material headwinds for the health insurers from the coronavirus issue, although there may be some delay in elective healthcare costs. Target is reduced to $4.64 from $5.22.

The impact of coronavirus on health insurers is likely to mean lower travel insurance revenue while lower bond yields will also have an impact.

There remains little empirical evidence domestically as to how private health insurance volumes may be impacted by the epidemic, although elective surgery in Asia has declined.

UBS upgrades nib Holdings to Buy from Neutral, as the stock is down -40% in the year to date and there is attractive medium-term upside. Target is reduced to $4.75 from $5.34.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/3/1

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists.

Lower cost-to-income, divisional diversification and fee thresholds are expected to temper the impact of the market rout.

Although Netwealth Group's platform revenue margins are likely to compress significantly in FY21, UBS considers the value risks are low.

The broker upgrades to Neutral from Sell. Target is reduced to $6.50 from $7.40.

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

After the sale of Australasian Fibre Orora intends to return $1.2bn of capital to shareholders. At the first half result management outlined a more aggressive timeframe than Morgan Stanley had expected.

The broker believes the capital management will include a special dividend, a capital return and an on-market buyback.

Incorporating this, the stock appears undervalued and the broker upgrades to Overweight from Equal-weight. Target is raised to $3.50 from $3.30. Sector view is Cautious.

OROCOBRE LIMITED ((ORE)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 3/3/1

After the slump in the share price, Ord Minnett upgrades to Hold from Sell. Target is raised to $2.60 from $2.55.

After updating commodity price forecasts Ord Minnett retains a relative preference for diversified miners and gold stocks.

The broker finds selective value in base metals while considers it too early for lithium names.

PENDAL GROUP LIMITED ((PDL)) Upgrade to Buy from Sell by UBS .B/H/S: 3/3/1

Weaker equity markets are likely to affect wealth managers, although UBS suggests value still exists.

While JO Hambro remains a headwind for performance fees and flows, Pendal Group shares now provide significantly greater appeal for the broker.

Rating is upgraded to Buy from Sell and the target reduced to $6.15 from $7.75.

REA GROUP LIMITED ((REA)) Upgrade to Buy from Sell by UBS and Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/1/2

While there are short-term risks stemming from the impact of coronavirus, UBS makes only minor changes to online media forecasts, assessing valuations are long-dated.

The broker suspects the greatest impact from the current epidemic is likely to be on new listing volumes.

However, UBS points out investors have shown a willingness to look through short-term volume outcomes for REA Group in the past. Rating is upgraded to Buy from Sell. Target is steady at $110.

Macquarie has used a sector update post the February reporting season to sneak in an upgrade for REA Group to Neutral from Outperform.

The decision seems to be inspired by the weaker share price and the anticipation that listings volumes will rebound. Target price remains unchanged at $110.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/2/1

After the slump in the share price, Ord Minnett upgrades to Accumulate from Hold. Target is raised to $4.40 from $3.90.

After updating commodity price forecasts Ord Minnett retains a relative preference for diversified miners and gold stocks.

The broker finds selective value in base metals while considers it too early for lithium names.

STOCKLAND ((SGP)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/2/2

UBS upgrades to Neutral from Sell on the basis of an improving residential market. The company recently increased FY20 residential volume guidance by 4%.

A strengthening macro backdrop supports longer-term margins and volumes. While retaining a preference for Mirvac Group ((MGR)) the broker acknowledges Stockland has a higher financial and operating leverage to improving residential markets. UBS maintains a $4.80 target.

SPARK NEW ZEALAND LIMITED ((SPK)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/3/0

The sell-off in the stock after the results provides an opportunity, Credit Suisse suggests. The broker remains sufficiently attracted to the company's execution on its strategy and competitive position.

A focus on mobile and cloud services, along with cost reductions, should support modest earnings growth as some of the additional media expenditure rolls off in FY21.

The stock is down sufficiently, in the broker's view, to support an upgrade in the rating to Neutral from Underperform. Target is NZ$4.05.

SANTOS LIMITED ((STO)) Upgrade to Add from Hold by Morgans .B/H/S: 4/2/0

Morgans upgrades to Add from Hold, given the decline in the share price. Target is reduced to $7.97 from $8.49.

While volatiility appears likely to continue in the short term the stock is now in value territory, implying an oil price of US$45/bbl which the broker considers is unsustainable in the long term.

The company has reached an agreement to sell down a 25% interest in Darwin LNG and Bayu Undan for US$390m. Discussions on a sell-down of Barossa to around 40% ownership are also well advanced.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Buy from Neutral by Citi and Upgrade to Buy from Hold by Ord Minnett .B/H/S: 6/0/0

Citi analysts are of the view that management at Senex Energy has materially de-risked the company over the year past, including the balance sheet and performance of the coal seams. As such an upgrade to Buy from Neutral seems appropriate.

The company's guidance for FY22 is seen as in-line with Citi's projections. Following a savage sell-off across the energy sector, the analysts report the share price, post sell-off, implies unrealistic modeling inputs such as a long term oil price of US$15/bbl.

Citi has set a target price of 39c (down from 46c) which implies oil priced at US$55/bbl explain the analysts.

Ord Minnett believes the stock is looking increasingly attractive and upgrades to Buy from Hold.

Well performance has been better than expected, with positive implications for capital expenditure and operating expenses.

Moreover, the company has limited exposure to benchmark commodity prices. Target is raised to 38c from 37c.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Upgrade to Accumulate from Lighten by Ord Minnett and Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/2

The company has provided traffic numbers for February and March to date following the release of Qantas Airways' ((QAN)) reduced capacity numbers.

Ord Minnett has doubled its estimates of passenger number reductions for 2020 and now assumes a -20% fall in international and -6% in domestic for the first half.

The broker also allows for a -10% reduction in rent over a six-month period for the retail portfolio. While the duration and extent of the impact of coronavirus is unknown, Ord Minnett believes Sydney Airport's earnings are defensive and a rebound is likely in 2021.

Rating is upgraded to Accumulate from Lighten, as the stock is considered more than appropriately priced for the uncertainty. Target is reduced to $7.50 from $8.00.

The early disclosure of traffic numbers has revealed a much lower run rate, with international traffic down -25% and domestic down -6% in February.

With evidence of a more protracted and deeper impact on traffic, UBS factors in a -25% decline in international traffic and -5% decline in domestic traffic until September, followed by a gradual recovery and rebound in 2021.

Cash flow estimates are downgraded by -10% for 2020 as a result. The broker upgrades to Buy from Neutral.

Bond rates have further compressed and the government stimulus measures are likely to keep rates lower for longer, which in the broker's view should enhance valuation appeal. Target is reduced to $7.70 from $8.50.

TABCORP HOLDINGS LIMITED ((TAH)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/2/0

Wagering and lottery proved defensive in FY08, Credit Suisse observes, and lottery has a history of outperforming when times are tough.

Despite the defensive nature of the business, the broker takes a more conservative view on growth and downgrades estimates for earnings per share by -5-6% for FY21 and FY22.

Following the recent share price performance, the rating is upgraded to Outperform from Neutral. Target is unchanged at $4.50.

TECHNOLOGYONE LIMITED ((TNE)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/2/1

The market sell-off means TechnologyOne is trading well below Macquarie's target price, which the broker has upgraded to $9.75 from $9.60.

TechnologyOne is a high quality software business with a long track record of growth within its core market verticals, the broker notes. Revenue has seen compound annual growth of 12% from FY04 to FY19, emphasizing the strength of the business and quality customer base.

Macquarie highlights some 85% revenue stems from government, education and health verticals that are highly defensive and where the company has more than 99% retention. Upgrade to Outperform from Neutral.

Downgrade

FLIGHT CENTRE LIMITED ((FLT)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/2/1

Macquarie sees earnings risk for JB Hi-Fi, Harvey Norman, Treasury Wine Estates and Flight Centre from lower consumer discretionary spending in the face of increasing virus risk.

In the wake of the US travel ban on Europe, the broker cuts its FY20 earnings forecast cut by -34% for Flight Centre. Target falls to $17.95 from $35.40.

"We believe consensus is yet to adjust to this new reality," says Macquarie. Downgrade to Underperform. No earnings forecast numbers have been provided.

MACQUARIE GROUP LIMITED ((MQG)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 2/3/1

Ord Minnett still expects Macquarie Group will beat its guidance for cash net profit to be "slightly down" in FY20, and estimates 1.6% growth.

However, there is a risk that FY21 guidance is disappointing versus consensus expectations.

The broker downgrades to Hold from Accumulate and lowers the target to $132 from $149.

Unusually for a market correction, the stock has performed in line with the market over the past two weeks and outperformed its peers and comparable companies, the broker notes.

PROSPA GROUP LTD ((PGL)) Downgrade to Underperform from Outperform by Macquarie .B/H/S: 1/0/1

Prospa Group faces a number of risks in the current environment that could threaten its earnings and funding model, Macquarie warns. While Prospa may see additional demand for its products, the broker believes the company will have to lift its underwriting standards. Given 100% exposure to SMEs, the low level of impairments the company has enjoyed to date is unlikely to continue.

Prospa has benefited from lower funding costs that have acted as an offset to lower asset yields, the broker notes. The risk is that the benefit reverses in the current environment. Macquarie downgrades its valuation to book value. Target falls to 94c from $2.88. Downgrade to Underperform from Outperform.

QANTAS AIRWAYS LIMITED ((QAN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/3/0

Virus uncertainty has led Qantas to further cut its capacity, withdraw earnings guidance and cancel its buyback. Macquarie now forecasts a -41% fall in FY20 profit from FY19. Target falls to $4.80 from $7.90.

The broker remains comfortable with Qantas' balance sheet -- the cancelled buyback helping -- and potentially sees an improved market structure in the medium term supporting longer term share price upside. But for now, the timing of stabilisation or recovery remains unclear so given a high level of operating leverage, Macquarie pulls back to Neutral from Outperform.

RESAPP HEALTH LIMITED ((RAP)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

The US FDA has not approved the de novo application for the ResApp-DX diagnostic, which Morgans suggests highlights the difficulties in obtaining clearance through this pathway.

Moreover, Sanofi has allowed its option for exclusive negotiations to expire. Morgans withdraws its US commercialisation assumptions from forecasts until more clarity is provided.

Rating is downgraded to Hold from Speculative Buy (Add). Target is lowered to 8.6c from 40c.

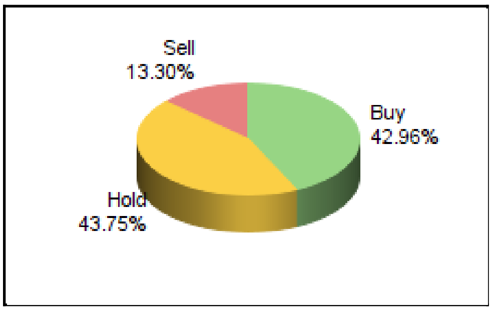
SEVEN WEST MEDIA LIMITED ((SWM)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/3/1

Despite the difficulties in assessing the quantum and duration of the coronavirus epidemic, UBS believes there is enough evidence to reduce media forecasts based on the negative impact on consumer & business confidence, and industry risk stemming from cancelled advertising.

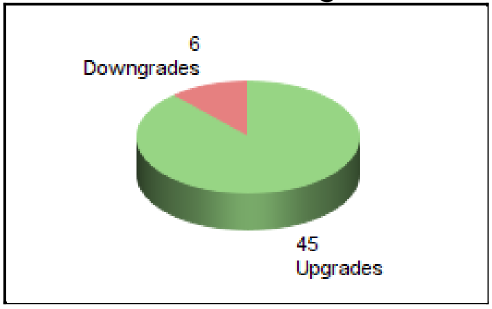
The broker now assumes a -10% decline in the second half in both the metro free-to-air TV and radio markets.

Seven West is downgraded to Neutral from Buy, given heightened refinancing risk, while there is limited visibility on asset sales. Target is reduced to $0.12 from $0.30.

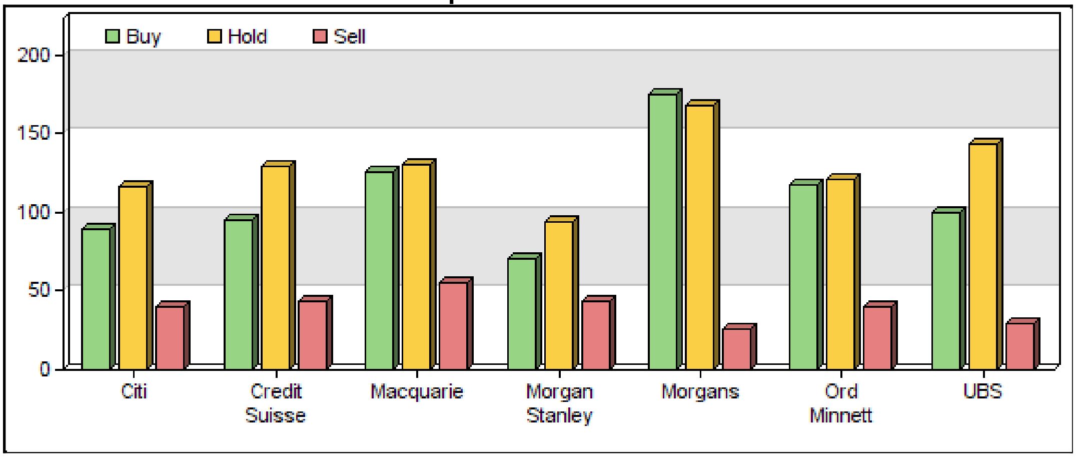
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AGL ENERGY LIMITED	Buy	Neutral	Morgans
2	ALTIUM LIMITED	Buy	Neutral	Macquarie
3	APA GROUP	Buy	Neutral	Morgans
4	ASX LIMITED	Neutral	Sell	UBS
5	ATLAS ARTERIA	Buy	Neutral	Macquarie
6	AUSTRALIA & NEW ZEALAND BANKING GROUP	Buy	Neutral	UBS
7	BEACH ENERGY LIMITED	Buy	Sell	Macquarie
8	BENDIGO AND ADELAIDE BANK LIMITED	Neutral	Sell	UBS
9	BENDIGO AND ADELAIDE BANK LIMITED	Neutral	Sell	Ord Minnett
10	CARSALES.COM LIMITED	Neutral	Sell	UBS
11	COCA-COLA AMATIL LIMITED	Buy	Neutral	Macquarie
12	COCA-COLA AMATIL LIMITED	Neutral	Sell	Credit Suisse
13	COMMONWEALTH BANK OF AUSTRALIA	Neutral	Sell	UBS
14	COMPUTERSHARE LIMITED	Buy	Neutral	Morgans
15	COMPUTERSHARE LIMITED	Buy	Neutral	UBS
16	CSL LIMITED	Buy	Neutral	Citi
17	DEXUS PROPERTY GROUP	Buy	Neutral	Morgan Stanley
18	DOMAIN HOLDINGS AUSTRALIA LIMITED	Buy	Neutral	UBS
19	DOMINO'S PIZZA ENTERPRISES LIMITED	Buy	Neutral	Macquarie
20	FORTESCUE METALS GROUP LTD	Buy	Neutral	Ord Minnett
21	IGO LIMITED	Buy	Neutral	Ord Minnett

22	IOOF HOLDINGS LIMITED	Neutral	Sell	UBS
23	MAGELLAN FINANCIAL GROUP LIMITED	Neutral	Sell	UBS
24	MEDIBANK PRIVATE LIMITED	Neutral	Sell	UBS
25	MINERAL RESOURCES LIMITED	Buy	Neutral	Ord Minnett
26	MIRVAC GROUP	Buy	Neutral	UBS
27	NATIONAL AUSTRALIA BANK LIMITED	Neutral	Sell	UBS
28	NETWEALTH GROUP LIMITED	Neutral	Sell	UBS
29	NIB HOLDINGS LIMITED	Buy	Neutral	UBS
30	NIB HOLDINGS LIMITED	Buy	Neutral	Ord Minnett
31	OROCOBRE LIMITED	Neutral	Sell	Ord Minnett
32	ORORA LIMITED	Buy	Neutral	Morgan Stanley
33	PENDAL GROUP LIMITED	Buy	Sell	UBS
34	REA GROUP LIMITED	Neutral	Sell	Macquarie
35	REA GROUP LIMITED	Buy	Neutral	UBS
36	REGIS RESOURCES LIMITED	Buy	Neutral	Ord Minnett
37	SANTOS LIMITED	Buy	Neutral	Morgans
38	SENEX ENERGY LIMITED	Buy	Neutral	Citi
39	SENEX ENERGY LIMITED	Buy	Neutral	Ord Minnett
40	SPARK NEW ZEALAND LIMITED	Neutral	Sell	Credit Suisse
41	STOCKLAND	Neutral	Sell	UBS
42	SYDNEY AIRPORT HOLDINGS LIMITED	Buy	Neutral	UBS
43	SYDNEY AIRPORT HOLDINGS LIMITED	Buy	Sell	Ord Minnett
44	TABCORP HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
45	TECHNOLOGYONE LIMITED	Buy	Neutral	Macquarie
Downgrade				
46	FLIGHT CENTRE LIMITED	Sell	Neutral	Macquarie
47	MACQUARIE GROUP LIMITED	Neutral	Buy	Ord Minnett
48	PROSPA GROUP LTD	Sell	Buy	Macquarie
49	QANTAS AIRWAYS LIMITED	Neutral	Buy	Macquarie
50	RESAPP HEALTH LIMITED	Neutral	Buy	Morgans
51	SEVEN WEST MEDIA LIMITED	Neutral	Buy	UBS

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	MYR	MYER HOLDINGS LIMITED	50.0%	10.0%	40.0%	3
2	ALU	ALTIUM LIMITED	67.0%	33.0%	34.0%	3
3	REA	REA GROUP LIMITED	-8.0%	-42.0%	34.0%	6
4	SXY	SENEX ENERGY LIMITED	100.0%	67.0%	33.0%	6
5	CBA	COMMONWEALTH BANK OF AUSTRALIA	-64.0%	-93.0%	29.0%	7
6	CCL	COCA-COLA AMATIL LIMITED	-7.0%	-36.0%	29.0%	7
7	NCM	NEWCREST MINING LIMITED	-14.0%	-43.0%	29.0%	7
8	PDL	PENDAL GROUP LIMITED	21.0%	-7.0%	28.0%	7
9	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	21.0%	-7.0%	28.0%	7
10	ASX	ASX LIMITED	-43.0%	-71.0%	28.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	FLT	FLIGHT CENTRE LIMITED	21.0%	43.0%	-22.0%	7
2	QAN	QANTAS AIRWAYS LIMITED	40.0%	60.0%	-20.0%	5
3	GMG	GOODMAN GROUP	50.0%	67.0%	-17.0%	6
4	SCG	SCENTRE GROUP	-42.0%	-30.0%	-12.0%	6
5	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	58.0%	67.0%	-9.0%	6
6	MQG	MACQUARIE GROUP LIMITED	17.0%	25.0%	-8.0%	6
7	BRG	BREVILLE GROUP LIMITED	25.0%	33.0%	-8.0%	4
8	ING	INGHAMS GROUP LIMITED	33.0%	40.0%	-7.0%	6
9	SKI	SPARK INFRASTRUCTURE GROUP	29.0%	33.0%	-4.0%	7

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WTC	WISETECH GLOBAL LIMITED	26.825	23.667	13.34%	4
2	OGC	OCEANAGOLD CORPORATION	3.820	3.700	3.24%	5
3	RRL	REGIS RESOURCES LIMITED	4.843	4.700	3.04%	7
4	TCL	TRANSURBAN GROUP	14.890	14.697	1.31%	7
5	MGR	MIRVAC GROUP	3.460	3.428	0.93%	6
6	REA	REA GROUP LIMITED	103.188	102.355	0.81%	6
7	DXS	DEXUS PROPERTY GROUP	13.668	13.577	0.67%	6
8	NCM	NEWCREST MINING LIMITED	28.266	28.123	0.51%	7
9	GMG	GOODMAN GROUP	16.680	16.613	0.40%	6
10	ORA	ORORA LIMITED	3.200	3.190	0.31%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	MYR	MYER HOLDINGS LIMITED	0.453	0.658	-31.16%	3
2	CPU	COMPUTERSHARE LIMITED	12.010	17.123	-29.86%	7
3	QAN	QANTAS AIRWAYS LIMITED	5.820	7.200	-19.17%	5
4	FLT	FLIGHT CENTRE LIMITED	35.743	39.954	-10.54%	7
5	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	21.083	22.645	-6.90%	6
6	PDL	PENDAL GROUP LIMITED	8.133	8.583	-5.24%	7
7	BEN	BENDIGO AND ADELAIDE BANK LIMITED	8.517	8.967	-5.02%	6
8	SXY	SENEX ENERGY LIMITED	0.428	0.447	-4.25%	6
9	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	7.736	8.063	-4.06%	7
10	BRG	BREVILLE GROUP LIMITED	22.723	23.630	-3.84%	4

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ORA	ORORA LIMITED	16.767	14.267	17.52%	6
2	FNP	FREEDOM FOODS GROUP LIMITED	11.433	11.133	2.69%	3
3	BEN	BENDIGO AND ADELAIDE BANK LIMITED	70.817	69.233	2.29%	6
4	RIO	RIO TINTO LIMITED	851.056	834.764	1.95%	7
5	IPL	INCITEC PIVOT LIMITED	15.654	15.361	1.91%	7
6	BHP	BHP GROUP	291.813	287.832	1.38%	7
7	IFL	IOOF HOLDINGS LIMITED	43.533	42.983	1.28%	6
8	FPH	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	43.781	43.309	1.09%	4
9	BKL	BLACKMORES LIMITED	110.517	109.420	1.00%	6
10	JHX	JAMES HARDIE INDUSTRIES N.V.	118.272	117.780	0.42%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	KAR	KAROON ENERGY LTD	-3.370	0.797	-522.84%	3
2	MYR	MYER HOLDINGS LIMITED	2.983	87.260	-96.58%	3
3	QAN	QANTAS AIRWAYS LIMITED	32.914	50.466	-34.78%	5
4	SXY	SENEX ENERGY LIMITED	0.672	1.005	-33.13%	6
5	OGC	OCEANAGOLD CORPORATION	11.013	15.509	-28.99%	5
6	WEB	WEBJET LIMITED	43.424	59.160	-26.60%	5
7	MIN	MINERAL RESOURCES LIMITED	166.933	187.600	-11.02%	3
8	CPU	COMPUTERSHARE LIMITED	86.092	95.134	-9.50%	7
9	NUF	NUFARM LIMITED	12.770	14.070	-9.24%	5
10	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	16.018	17.385	-7.86%	7

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: Uranium And The Virus

Uranium prices have not gone into a spiral along with other assets, but weakness prevails nonetheless.

-Uranium mining stocks fall net -17%
-DoE asks for comments on US government uranium purchases
-Paladin Energy sells Kayelekera

By Greg Peel

The recent coronavirus outbreak has triggered questions related to certain commodities markets, notes uranium industry consultant TradeTech. The nuclear fuel market is also exposed to outside economic and policy issues in today's global marketplace and even a limited market interruption or challenge has the potential to affect all sectors of the industry.

Uranium equities declined an average of nearly -17% last week, TradeTech reports, as investors weighed the potential economic impact of a slowing global economy on the nuclear fuel market In particular, China's nuclear power program, both domestically and abroad, may be challenged due to the economic stress of the recent quarantines and closure of businesses and manufacturing facilities.

Activity in the spot uranium market last week was slightly down on the week before, with 850,000lbs U3O8 equivalent changing hands in nine transactions. Prices dipped as the week progressed, TradeTech reports, spurred in part by the desire of some sellers to monetise their inventories, especially in light of volatility in the global financial and commodities markets this week.

Buyers are largely taking an opportunistic approach, hence sellers exhibited a greater willingness to drop prices in order to conclude transactions, which led to prices dropping consistently throughout the week.

TradeTech's weekly spot price indicator is down -US30c at US$24.10/lb.

No transactions were reported in term markets but several utilities have entered into negotiations with preferred suppliers. TradeTech's term price indicators remain at US$28.25/lb and US$33.00/lb.

Donald Trump included funds for the strategic purchase of uranium in his 2021 budget, yet to be debated in Congress, in order to support the US uranium industry. This week, the US Department of Energy extended the comment period for its recent Request for Information, which seeks comments on the key challenges related to reconstituting uranium mining and conversion capabilities in the US. Comments are now due on March 30.

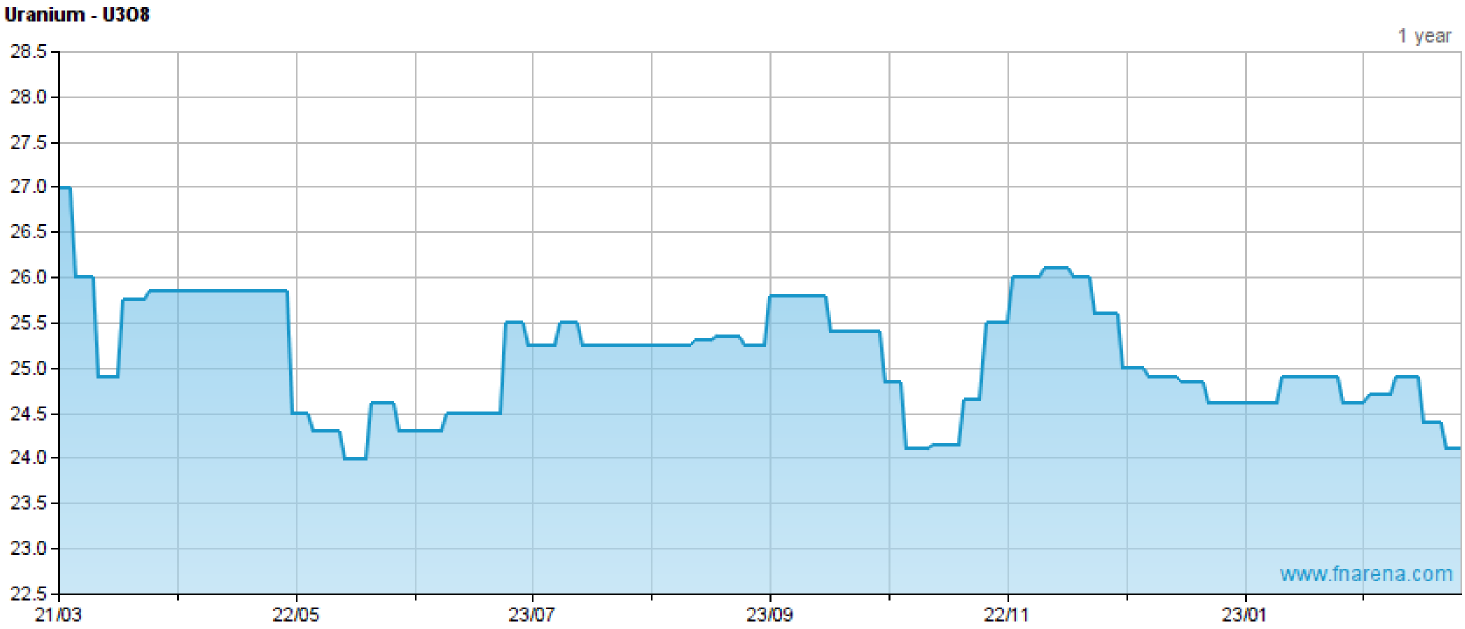
However, as the trade war showed us, the White House or US government is prone to extending such deadlines if other matters are more pressing at the time. One presumes that Trump's 2021 budget is now moot, with agreement on a virus-related emergency fiscal stimulus package currently being sought in Congress.

Paladin Energy

In Australia, Lotus Resources ((LOT)) announced last week it had completed the acquisition of the Kayelekera uranium mine in Malawi from Paladin Energy ((PDN)). The mine has been on care & maintenance since 2014 due to low uranium prices.

Lotus will acquire 85% of the asset, with the remaining 15% retained by the Malawi government. The sale price of $5m comprises of $200,000 in cash plus US$4.8m worth of Lotus shares, and Paladin will receive an ongoing royalty of 3.5% of revenues. Kayelekera hosts a high-grade resource with an existing open-pit mine that produced over 10.9mlbs U3O8 between 2009 and 2014.

The sale will allow Paladin to focus solely on the potential restart of its flagship Langer Heinrich mine in Namibia. While uranium prices have seen little improvement since the mine was shut down, pre-feasibility studies are investigating whether the extent of vanadium by-product from uranium mining may tip the balance.



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

WEEKLY REPORTS

The Short Report - 19 Mar 2020

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

Summary:

Week ending March 12, 2020

Last week the ASX200 fell -15%. No reason to go into detail.

As the table below suggests, precipitous share price falls are not at this stage triggering widespread profit-taking on short positions. Indeed, more red than green implies shorts are net building rather than reducing.

Some exceptions are hard-hit travel agents Webjet ((WEB)) and Corporate Travel Management ((CTD)), which are seeing some profit-taking but only at a gradual pace. Slightly more significant is Bendigo & Adelaide Bank ((BEN)), the shorts of which fell to 7.6% from 9.9% the week before.

Bendalaide shares have fallen -40% from their high, but then Webjet and Corporate Travel have suffered -70% declines (to current prices). The RBA will backstop Bendalaide. The travel agents are reliant upon government support.

More notable are short position increases.

Pact Group ((PGH)) shorts have risen to 7.1% from below 5%. This might be an ASIC data blip so we'll keep an eye out next week. While Pact has fallen along with everything else, its recycling story should be a longer term positive.

No surprises, nevertheless, G8 Education ((GEM)) shorts have risen to 6.9% from 5.0% and oOh!media's ((OML)) to 6.5% from below 5%. In the former case, child care centres are no-go zones. In the latter, lock-downs and work-from-home means outdoor advertising has little audience, and the company is heavily indebted.

No Movers & Shakers this week, as there is only one story to tell.

Weekly short positions as a percentage of market cap:

10%+

GXY	20.2
SYR	20.1
ORE	14.3
SDA	13.2
MTS	13.1
ING	12.6
GWA	10.8
NEA	10.6
NCZ	10.6

No changes

9.0-9.9

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

Out: BEN, WEB, CTD, BGA

8.0-8.9%

CUV, WEB, CTD, SUL, BGA, MYR, BKL, BOQ, NXT

In: WEB, CTD, BGA, MYR

7.0-7.9%

HVN, BEN, IVC, MYX, DMP, PGH

In: MYX, PGH

6.0-6.9%

GEM, SGM, NUF, OML, A2M, RSG, KGN, AMP, SEK, COE BIN, HUB

In: GEM, OML, AMP, SEK, COE Out: MYX, BIN, HUB

5.0-5.9%

CLH, HUB, IFL, AWC, BUB, CLQ, CGF, FLT, BGL, MND, BIN, DCN

In: HUB, BIN, BGL, MND Out: GEM, SEK, AMP, COE, RWC

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	0.8	0.7	NCM	1.4	0.9
ANZ	0.5	0.6	RIO	4.8	4.7
BHP	4.7	3.8	SCG	0.4	0.3
BXB	0.2	0.2	SUN	0.9	0.8
CBA	0.8	0.6	TCL	0.3	0.4
CSL	0.3	0.1	TLS	0.4	0.4
GMG	0.4	0.2	WBC	0.5	0.6
IAG	1.5	0.8	WES	0.6	0.4
MQG	0.5	0.4	WOW	0.9	0.7
NAB	0.7	0.6	WPL	2.0	1.2

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: Economy, Dividends & Retailers

Weekly Broker Wrap: economic outlook; dividends; and retailers.

-Policy stimulus will not be able to offset the loss of demand
-Market should prepare for dividend reductions and suspensions
-Retailers with discretionary product and offshore footprint most at risk

By Eva Brocklehurst

Economic Outlook

Most analysts are anticipating the Australian economy will be in recession over 2020. The shock from coronavirus has materialised as the domestic economy was running out of steam, affected by drought and bushfire.

ANZ analysts expect GDP to drop -2.0% in the June quarter alone and -1.9% in 2020. Australia will be assured of two quarters where growth backtracks and meet the criteria for a technical recession. The main issue is how deep the decline will be and by how much unemployment will rise.

Policy stimulus may help but will not be able to offset the loss of demand that comes from widespread closures. The first impact is currently being felt in the tourism and education sectors, while closure of factories in China and other parts of Asia will cause disruptions to supply chains.

However the main drag comes from a lack of demand. ANZ analysts expect the unemployment rate to rise above 7%. However, the participation rate will not fall far from historical highs as there are strong incentives for households to remain in the labour force.

Westpac economists have also revised forecasts and expect a deeper recession in 2020. Mandatory quarantine requirements for international travellers and restrictions on large public gatherings, amid a brutal sell-off in the equity market, have caused a revision to even recent estimates for a downturn.

Westpac economists expect outbound and inbound tourism to contract by -80% over two quarters. The unemployment rate is also forecast to reach 7% by October. These forecasts will be subject to downward revision in the event of a European-style full lockdown.

Goldman Sachs expects most of the contraction will be driven by a collapse in social consumption. Spending at hotels, cafes and restaurants is expected to fall by more than half and many discretionary categories by up to one third.

The broker suggests the measures announced by the Reserve Bank will do more to maintain the smooth functioning of financial and credit markets than to deliver a sizeable and positive stimulus to growth.

Goldman Sachs now expects the Australian economy to contract by -6% in 2020 in annual average terms. This would represent the sharpest contraction since the Great Depression.

Dividends

As many companies abandon guidance, Morgan Stanley points out solvency has become a major focus. It is highly likely dividend pay-outs will be adjusted and in some cases the adjustment will be much greater than the actual hit to earnings.

The broker suspects it will be very difficult to raise capital and justify high pay-out ratios. A return to lower pay-out ratios will make searching for sustainable yield even more important in a dislocated environment.

Macquarie also warns the market to prepare for dividend reductions and suspensions. In the GFC, 63% of stocks covered by the broker reduced their dividends and 3% suspended them.

The broker suspects similar levels could be reached by the end of FY20. There is also concern about the ability to refinance debt and in this context companies will cut costs and capital expenditure where they can.

A further warning: don't buy stocks just because the yield is high. As earnings fall and returning capital becomes less important than other uses of cash, Macquarie anticipates June-half dividends will be reduced.

However, pay-out ratios have been rising since 2010, meaning the current crisis provides an opportunity to re-base dividend expectations so that there is less pressure in the future.

Retailers

Morgans points out forecasting for the retail sector is incredibly difficult, although it has been well flagged that foot traffic in shopping centres is substantially less in recent weeks. Large format centres are expected to be more resilient than traditional shopping malls, given the nature of the shopping experience.

Online sales growth/penetration is expected to pick up meaningfully but unlikely to offset the impact of in-store sales declines. In the early days trading could be quite solid for some, as consumers bring forward purchasing decisions and brace for further restrictions.

Less expenditure on offshore travel, entertainment and services and more time at home may stimulate demand for takeaway food, white goods, technology, aftermarket automotive and household goods. However the broker remains concerned about the fourth quarter trading conditions in the first half of FY21.

While balance sheets appear okay Morgans finds it near impossible to assess this clearly as earnings uncertainty is so widespread. Debt positions can increase quickly if and when trading stalls.

The broker finds the earnings risk most elevated for **Mosaic Brands** ((MOZ)) and **Apollo Tourism & Leisure** ((ATL)) , because of an older customer demographic and shopping centre locations, **Lovisa** ((LOV)), because of the global footprint and reduced demand, **Accent Group** ((AX1)) because of multiple concepts in shopping centres, **Michael Hill International** ((MHJ)), because of shopping centre traffic risk and a discretionary product, and **Super Retail** ((SUL)), largely because of its leisure-related division.

The least downside risk is envisaged in **Domino's Pizza** ((DMP)), **Bapcor** ((BAP)), and **Baby Bunting** ((BBN)) as these have more defensive products and, in terms of the former, its takeaway is unaffected. Morgans has downgraded **Motorcycle Holdings** ((MTO)) and Super Retail to Hold for now.

Citi also anticipates a material disruption to the retail earnings outlook both in Australia and for those exposed to retailing globally. The broker downgrades non-food FY20 earnings forecasts by -11-19% with the larger cuts reserved for **Flight Centre** ((FLT)) and **Myer** ((MYR)), because of temporary store closures and weaker demand.

However, even with the downgrades, the broker finds multiples have de-rated to a point where some valuations are now attractive. Citi upgrades **Premier Investments** ((PMV)), Flight Centre and **City Chic Collective** ((CCX)) to Buy and **JB Hi-Fi** ((JBH)) to Neutral on this basis. **Wesfarmers** ((WES)) is the broker's only Sell-rated retailer.

Macquarie expects a significant slowdown in discretionary expenditure in the fourth quarter and first quarter of FY21 as a minimum. The broker believes, beyond the temporary possibilities, there are also risks that top-line impacts are extended because businesses are cutting expenses and casual labour hours.

Macquarie has upgraded **Breville Group** ((BRG)) to Outperform on a relative basis as it is a high-quality company with lower risk of liquidity issues, having no stores. On the other hand because of the strong offshore footprint Lovisa and Premier Investments are downgraded to Neutral.

Moreover, Macquarie believes it is too early to be aggressively increasing exposure to the sector, despite retailers being relatively cheap versus their earnings power. The broker expects liquidity will be a major driver of share prices in the near term.

Store Closures

Government-mandated temporary store closures have not yet emerged in Australia but are an increasing feature in European markets where Australian retailers have exposures. Credit Suisse notes Domino's Pizza and Premier Investments have relatively higher exposure to these markets.

The Australian government has indicated that forcing centres to close is not part of its proposed policy response but this situation could change, the broker points out, and a number of retailers have voluntarily closed stores temporarily.

Among discretionary retailers, electrical is proving to be a relatively safe haven, as demand is supported by working from home.

Commentary from National Australia Bank has indicated that spending in supermarkets ramped up in response to the outbreak of coronavirus in late February. Morgan Stanley assesses this would indicates expenditure in the last week of February was up as much as 20%.

Similar trends are being experienced in the US and Europe. **Coles** ((COL)), **Woolworths** ((WOW)) and **Metcash**

((MTS)) are the beneficiaries. These stocks have outperformed the ASX significantly since the market peak on February 20, the broker points out.

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TREASURE CHEST

Treasure Chest: Fortescue The Resilient

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Given the significant correction that has occurred across the market, the spotlight has fallen on the resilient, and one of those is Fortescue Metals.

-Bell Potter highlights iron ore price as "extraordinarily resilient"
-Iron ore has direct exposure to Chinese stimulus measures
-Fortescue Metals' production tracking at the top end of guidance

By Eva Brocklehurst

Value opportunities abound in the current market and one of these is Fortescue Metals ((FMG)). Brokers assess the significant correction that has occurred, combined with the resilience of the iron ore price underpins the miner.

Bell Potter observes the iron ore prices been "extraordinarily resilient" over the last six weeks. While the impact of coronavirus on global economic growth and consumption will be significant, **the Chinese government has signalled intensive expenditure on infrastructure that should support steel demand**.

China's National Health Commission has indicated that the peak in the coronavirus epidemic has passed in China as infection rates are declining. As emergency response levels are lowered several provinces have started to accelerate industrial production or construction projects.

Iron ore has direct exposure to Chinese government stimulus measures, the broker points out. Underpinning this is a lower exchange rate, lower oil price and a higher iron ore price versus previous forecasts.

Macquarie agrees the iron ore market is robust and is underpinning earnings upgrade momentum for Fortescue Metals as well as other iron ore miners. Ord Minnett, too, assesses that investors with a medium-term horizon should be rewarded for owning Fortescue Metals.

Macquarie points out Fortescue Metals is generating strong cash flow at current prices, although this is partially suppressed by higher capital expenditure over the next two years. Despite this, the broker remains impressed by forecast FY20 and FY21 cash flow yields of 19% and 17% respectively.

Production

Moreover, Fortescue's production is tracking at the top end of guidance. Production has been disrupted in Western Australia, as Bell Potter notes Rio Tinto lowered guidance following Tropical Cyclone Damien, and flooding has occurred in Brazil at some mines. However, Fortescue Metals has sustained minimal disruptions.

Higher earnings translate directly through to an increase in Bell Potter's forecast for the final dividend in FY20. In the second half the 62% benchmark price is at around US$91/t while production rates are at the top end of guidance. Bell Potter expects 177mt in FY20, ahead of Fortescue's guidance of 175mt.

The broker also calculates that, for every -US$10/bbl decline in the oil price, there is a C1 cash cost reduction of -US$0.30/wmt. Taking the outlook for the second half in isolation, Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, incorporates this into an updated valuation for Fortescue Metals.

This leads to a 12% increase in reported net profit to US$4.7bn. **Applying an unchanged dividend pay-out ratio for FY20 implies a 14% increase to forecast dividend payments and an 18% dividend yield**. The broker's dividend yield estimate drops to 8.0% in FY21. Hence, Bell Potter upgrades to Buy from Sell and raises the target to $9.10.

The database has three Buy ratings, two Hold and two Sell for Fortescue Metals, with those on the Sell side having not updated for recent movements. The consensus target is $9.98, suggesting 4.3% upside to the last share price. The dividend yield on consensus forecasts for FY20 and FY21 is 23.7% and 18.3% respectively.

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RUDI'S VIEWS

Rudi's View: This Crisis Ain't Over

On Saturday, FNArena Editor Rudi Filapek-Vandyck sent out the following message to subscribers:

Dear Subscriber,

It looks like Friday might have been the bottom in this share market rout, at least in the short term, and on Monday Australian shares might try to emulate at least part of the strong rally that occurred on US equity markets last night.

My message to you is nevertheless to contain your enthusiasm. This is not the end of the crisis. It's simply further evidence that, as I wrote in the week past, volatility works both ways. In this case, we are witnessing volatility showing itself to the upside.

To understand what is happening this month is understanding why share markets are bouncing higher. The fall-out from the spreading pandemic was putting global credit under immense pressure. Central banks around the world identified what was happening and they have used their liquidity taps to prevent another Lehman Bros moment for the global financial system.

This has triggered the relief rally around the world on Friday.

Let's not make the mistake to assume everything will now revert back to pre-February normal. There is still a pandemic that needs to be taken care of. And the impact on businesses and economies is yet to reveal itself.

Simply put: Friday's relief rally doesn't tell us anything about where share prices will be in 3, 6, 9, 12 months from today. My advice to you is therefore the same as over the past few weeks: keep looking for High Quality companies with the least risk of issuing a profit warning.

But also: keep as much in cash as what allows you to sleep at night.

I know that many among you have been paying attention to my research into **All-Weather Performers**. This morning I have updated the lists on the dedicated section on the website. Amcor ((AMC)) has moved to the section with Question Marks (under attack from a short seller), while I have removed the Question Mark for both Wesfarmers ((WES)) and Woolworths ((WOW)).

The section Emerging New Business Models has lost half of the stocks as I want you to now focus on the most solid, least risky business models with the least question marks surrounding.

I remain convinced that my research has identified some of the strongest and most dependable business models listed on the ASX. History only adds to my conviction these companies will take good care of your precious money. As you will observe when you conduct your own research, many of these share prices have not weakened as much as many others during the recent rout.

There is an incredibly important message in this observation. For investors, as opposed to short term traders and speculators, the best value opportunities are most likely not among the shares that have fallen the most. This remains a time to de-risk. In many ways, the crowd out there has already done this for us. It has shown which stocks are riskier and more vulnerable than others.

I won't make this message too long. There will be more to read and to consider in Monday's Weekly Insights. But I will highlight two more points:

CSL ((CSL)) is a fan-ta-bu-lous company, and it is listed right here on the ASX. It is also one of the few that even at the depth of selling pressure on Friday was still UP for the calendar year. It was one of the first to rally on Friday, and it ended up 11.88% on the day. If this stock still isn't in your portfolio, then I am sorry, I no longer understand what you are trying to achieve.

Secondly, I have not been a fan of Australian banks, and I still am not. I do know many among you own banks because you want yield/income. What is not well understood, I think, is that zero interest rates and all kinds of central bank controls and market interventions lay ahead, plus bad debts are almost certainly to rise from here.

Businesses will go bankrupt, both listed and unlisted.

The combination of these exogenous forces make it probable that Australian banks will need to further announce dividend cuts in the year(s) ahead. The most important message that comes out of Bear Markets is that a lower share price does not remove any of the operational risks. Quite to the contrary. Be mindful of this.

If you must own a bank in Australia, pick CommBank ((CBA)). Its share price has fallen significantly less than its peers. There is that message again. Don't ignore it. Macquarie Group ((MQG)) is an even better choice.

In terms of yield/income stocks, I very much prefer less risky propositions such as APA Group ((APA)), Dexus Property ((DXS)), Transurban ((TCL)), Atlas Arteria ((ALX)) and Viva Energy REIT ((VVR)), to name a few alternatives.

Let there be no misunderstanding: all companies and business models are now at risk of lower earnings this year and next. There are no exceptions. But some companies are more at risk than others, that's what should be everybody's focus from here onwards.

Like: do you really want to be in oil and gas when Russia and Saudi Arabia have declared war on US frackers? Hint: oil and gas equities were the worst performer prior to the massive sell-off. Again: don't ignore the message.

For those who want more ideas than my lists under All-Weather Performers, I suggest you re-read the stories I wrote in recent weeks. Each of "**Lose The Losers, Back The Winners**" and "**Bear Market Lessons And Observations**" contains additional lists and suggestions.

I assume you are all aware there is a dedicated section on the website, **Rudi's Views**, where my stories from the past are grouped together.

As per always, stay sane. Don't lose your nerve. Do not feel pressured. Do lots of reading and thinking. That's exactly what I am about to do for the remainder of this weekend.

To be continued on Monday, see Weekly Insights, and beyond.

All the best,

Your Editor

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

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RUDI'S VIEWS

Rudi's View: The Bear Market That Changes The World

Late on Monday, FNArena Editor Rudi Filapek-Vandyck sent out his Weekly Insights email to FNArena subscribers. In it, he describes the 2020 financial markets' meltdown as the "Bear Market That Changes The World".

Given extraordinary circumstances the world around, FNArena has decided to open up the Editor's assessment to the broad investment community while also pulling forward the publication of this story by three days.

The Bear Market That Changes The World

By Rudi Filapek-Vandyck, Editor FNArena

Take a step back from the day-to-day share price movements and news flow, and what we are experiencing is truly a watershed moment. Eleven-twelve years ago, I sat down one afternoon and wrote we are all experiencing a seminal moment in modern history.

As things unfolded, that was certainly an accurate description. We've seen studies and books since, and a few Hollywood movies and documentaries. Everybody now knows the "GFC".

What I did not foresee at that time, is that Bear Stearns, Centro Properties, Lehman Brothers, Allco Finance and CFDs would merely turn into the warm up act of a much bigger event twelve years later.

Yet here we are, it's 2020. We've had three mini-Bear Markets every 2-4 years, but also steadily growing debt (just about everywhere), record low interest rates, government bonds in negative yield territory, businesses that borrow money to buy in their own stock, a sharply widening gap between Haves and Not Haves in society, and a prolonged era of fragile and slow global growth. Not to mention the demographic changes, the technological disruption and the significant growth in easily accessible passive investment instruments.

The bottom line is that if we combine all these factors together, we end up with an increasingly fragile system. One that continuously runs the risk of falling apart. Which is why central banks have intervened so many times over the decade past.

We cannot genuinely blame them. There seemed no other option available back in 2008. And neither was there a reasonable way out in the twelve years since as the situation required more and more liquidity and ever lower cash rates and bond yields.

One of the inescapable observations is that **central bank interventions are requiring more extreme actions** at every point of the system threatening to break down.

This week the US Federal Reserve pretty much went all-in. Interest rates are at unimaginably low level; the cuts have been massive, fast, and unprecedented. And other central banks will be following the Fed's example. Won't be long before the RBA is buying bonds and mortgage-backed securities, and controlling the yield curve in a similar manner as has been happening in Japan for years now.

And yet, it won't be sufficient. We know this, because that's what financial markets are telling us. Of course, central bankers will continue to put in their best to prevent the world from melting down, but this year's problem is not one of credit and liquidity. That's just the sideshow.

This coronavirus pandemic is creating problems both on the demand side of economies -as consumers are hoarding and staying inside- as well as on the supply side where businesses have stopped operating or cannot get anything across the border.

A significant intervention from elected governments (i.e. fiscal stimulus) is thus required. So far they are getting the message, slowly, and coming to the table, though it's not yet with that same urgency as we have witnessed from central bankers. Let's hope this is about to change, and soon too.

Repeating the voice of many other experts: this is not an opportune time to act cautiously and with hesitation.

This emergency requires bold and significant action. Governments need to be prepared to go all-in too. Financial markets are not simply a reflection of what is happening in economies around the world; they equally have an impact on these economies and on the businesses and consumers within.

Won't be long, I reckon, before we read about **government bailouts** for badly hurt, too big to fail, crucial businesses. Lower rates and increased liquidity don't create demand for, say, airplanes. That's up to airlines, and they are in deep trouble. No customers, no demand, no cash flow. Many might go out of business. How many will still be making payments to Boeing?

Visions of 2007 and 2008 are starting to re-appear. This time it won't be just banks. But equally so, governments won't be able to save everyone.

And yet, ultimately the global recession that is causing this Bear Market cannot be fixed without containing the virus pandemic. Here, I believe, the biggest problem is potentially the US, the world's largest economy. There still is a lot of confusion about covid-19, but we do know it can quickly spread exponentially.

What has become crystal clear already is that in countries where governments and citizens are quick on their feet to take precautions (other than hoarding toilet paper) the spread of the virus remains limited and hospitals are not at risk of overcrowding.

Both Singapore and Hong Kong had experience with SARS, so no coincidence they have both managed to avoid extreme lock down and overcrowding-situations with deadly casualties as is the case in Italy, Spain and, increasingly, in other countries throughout Europe.

We yet have to find out how effective the approach to date in Australia will turn out, but thus far indications are we are nowhere near the same limited growth curve of covid-19 spreading as has happened in Singapore and Hong Kong.

The real worry is the situation looks a lot less promising for the US.

The simple truth is **authorities in the world's largest economy are unprepared** for what is happening around the world. Do note I said unprepared. Not ill prepared.

The US is unprepared. Which should hardly come as a surprise. I don't care about anyone's political colour or preferences, but if you haven't figured out yet this President is incompetent, all bluster and no substance, then there is seriously something wrong with you.

He cannot even read properly from the autocue when speaking to the nation. Last Friday, the US President was mailing out price charts of the US stock market with his signature on it. The latest scandal is Trump offered to buy "exclusive" access to a covid-19 vaccine developed by German biotech CureVac.

The heart shudders to think of the many devastating consequences of what will happen to the US population and its economy if the spreading pandemic leads to similar crises as we are witnessing in Italy, and before that in China. Once upon a time the US had experts in charge of infrastructure to deal with pandemic outbreaks. Not any more.

Revered writer of financial and contemporary chronicles, **Michael Lewis, wrote The Fifth Risk** in 2018. It reveals how the Trump administration has consistently undermined, emptied and underfunded essential government services since taking over from Obama in early 2017. That is going to show up big time when the proverbial hits the fan.

They say in politics every population gets the leaders it deserves. That's definitely one thing the world can throw back at America: hey, you voted for the guy, now you're going to have to deal with the consequences.

The problem here is that the rest of the world did not vote for the guy, but there won't be any escaping the consequences if, as I suspect, the spreading coronavirus is yet to fully take off inside the world's largest economy.

Recessions are no fun. Neither are Bear Markets. Which is why Market Rule Number Ten by Wall Street legend Bob Farrell reads "**Bull markets are more fun than bear markets**".

Incidentally, Bob Farrell's Ten Timeless Rules For Investors also identified three stages for the typical Bear Market. First there is the savage sell-down, then comes the Sucker's Rally, the final stage is the tortuous grind to ever lower levels.

Central bankers around the world are trying really hard to pull this Bear Market into phase two. But they will need governments to cooperate and coordinate.

Gosh, the thought that global wealth and health now lies in the hands of this administration in Washington makes me genuinely depressed. Let's hope I am just being silly.

But let there be no mistake: the answer to the question of how do we ever get out of this mess is still the same: with more money. **Loads of more money.** This time governments around the world will join in with central banks. This is why this Bear Market is changing the world in front of our eyes.

All of us ain't seen nothing yet.

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

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RUDI'S VIEWS

Rudi's View: All-Weather Stocks & Cash

Dear time-poor reader: this Bear Market is changing the world, literally, in front of our eyes

In This Week's Weekly Insights:

-All-Weather Stocks & Cash
-The Bear Market That Changes The World
-Watch Balance Sheets, Re-Financing Risks
-The Cancellation We Had To Have

All-Weather Stocks & Cash

By Rudi Filapek-Vandyck, Editor FNArena

Bear markets are brutal. They take no prisoners. Shoot first, then shoot again, and maybe, just maybe, that's when they might start asking questions. Bear markets punish mistakes instantly and irrevocably.

Bear markets are also excellent teachers, at least for those investors and analysts who are ready to learn invaluable lessons. For years now we have all been reading analysts and funds managers predicting the next economic recession annex global bear market for risk assets would herald the end of growth and the money moment for largely ignored value stocks.

Guess what just happened in the past few weeks? Value stocks have been ab-so-lu-te-ly trashed to smithereens. Sure, many of them will come good and present excellent buying opportunities, but probably not just yet, except for that special kind of investor with an iron stomach who can confidently focus on the future, and ignore wild share market gyrations in the meantime.

Instead, many of the stocks that have relatively held up well throughout this global share market meltdown (let's call a spade a spade) are the ones most hated by your typical professional fund manager; "expensively" priced stalwarts such as CSL ((CSL)), Xero ((XRO)), and Woolworths ((WOW)).

There is no secret ingredient waiting to be unveiled here: these stocks represent less risk than your average bank, oil & gas producer or mining services provider. To be fair, many of the previously popular High PE names have not been spared either post January. While, understandably, if you really want to check up on true share market carnage, try travel agents, airlines and tourism operators.

Or simply look up Ardent Leisure ((ALG)). Clearly, investors have taken the view this badly managed owner of Dreamworld on the Gold Coast and Main Event in the US, originally born as Macquarie Leisure Trust, is not going to survive in its present constitution.

Want more horror stories? Check out Seven West Media ((SWM)), or Regis Healthcare ((REG)). Or simply look up Bitcoin in USD.

Having said so, owning quality sustainable growers with less operational risks only gets you so far when the Big Bad Bear is gripping its claws around global risk assets. Some days everything goes out with the bathwater. Other days the market might just target those relative outperformers because that's the only place where there are still some trading profits left.

The one Major change in a Bear Market is that cash instantaneously becomes an invaluable asset. It does not earn anything tangible in terms of an actual return, but cash helps keeping both short-term losses and the nerves in check.

The **FNArena-Vested Equities All-Weather Model Portfolio** did not sell out of the market at the very first sign of trouble in February, but we've gradually increased the level of cash as it dawned upon us that what is happening in global financial markets this year is far more serious than what we have experienced at any other time post the Global Financial Crisis.

As at Friday, the 13th of March 2020, total performance ex-fees for the running financial year (from 1st July 2019 onwards) stood at a negative -3% against the ASX200 at -13.56%.

Granted, the All-Weather Portfolio carried an extra cushion of circa 4% leading into this share market rout, as that's how much the portfolio returned in excess of the ASX200 in the second half of last year, but it still indicates significant outperformance over the past six weeks of extreme volatility, mostly to the downside.

I think we can all agree there are at least two lessons to draw from this experience thus far: if you are holding the right kind of shares you have a lot less to worry about, but reducing risk through shedding riskier stocks and disappointing investments, while keeping a healthy portion of the portfolio in cash simply cannot be beaten during times like these.

The second segment below was separately published as a story on the FNArena website, and elsewhere, on Tuesday morning this week. Weekly Insights continues further below with the two remaining segments.

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And yet, ultimately the global recession that is causing this Bear Market cannot be fixed without containing the virus pandemic. Here, I believe, the biggest problem is potentially the US, the world's largest economy. There still is a lot of confusion about covid-19, but we do know it can quickly spread exponentially.

What has become crystal clear already is that in countries where governments and citizens are quick on their feet to take precautions (other than hoarding toilet paper) the spread of the virus remains limited and hospitals are not at risk of overcrowding.

Both Singapore and Hong Kong had experience with SARS, so no coincidence they have both managed to avoid extreme lock down and overcrowding-situations with deadly casualties as is the case in Italy, Spain and, increasingly, in other countries throughout Europe.

We yet have to find out how effective the approach to date in Australia will turn out, but thus far indications are we are nowhere near the same limited growth curve of covid-19 spreading as has happened in Singapore and Hong Kong.

The real worry is the situation looks a lot less promising for the US.

The simple truth is **authorities in the world's largest economy are unprepared** for what is happening around the world. Do note I said unprepared. Not ill prepared.

The US is unprepared. Which should hardly come as a surprise. I don't care about anyone's political colour or preferences, but if you haven't figured out yet this President is incompetent, all bluster and no substance, then there is seriously something wrong with you.

He cannot even read properly from the autocue when speaking to the nation. Last Friday, the US President was mailing out price charts of the US stock market with his signature on it. The latest scandal is Trump offered to buy "exclusive" access to a covid-19 vaccine developed by German biotech CureVac.

The heart shudders to think of the many devastating consequences of what will happen to the US population and its economy if the spreading pandemic leads to similar crises as we are witnessing in Italy, and before that in China. Once upon a time the US had experts in charge of infrastructure to deal with pandemic outbreaks. Not any more.

Revered writer of financial and contemporary chronicles, **Michael Lewis, wrote The Fifth Risk** in 2018. It reveals how the Trump administration has consistently undermined, emptied and underfunded essential government services since taking over from Obama in early 2017. That is going to show up big time when the proverbial hits the fan.

They say in politics every population gets the leaders it deserves. That's definitely one thing the world can throw back at America: hey, you voted for the guy, now you're going to have to deal with the consequences.

The problem here is that the rest of the world did not vote for the guy, but there won't be any escaping the consequences if, as I suspect, the spreading coronavirus is yet to fully take off inside the world's largest economy.

Recessions are no fun. Neither are Bear Markets. Which is why Market Rule Number Ten by Wall Street legend Bob Farrell reads "**Bull markets are more fun than bear markets**".

Incidentally, Bob Farrell's Ten Timeless Rules For Investors also identified three stages for the typical Bear Market. First there is the savage sell-down, then comes the Sucker's Rally, the final stage is the tortuous grind to ever lower levels.

Central bankers around the world are trying really hard to pull this Bear Market into phase two. But they will need governments to cooperate and coordinate.

Gosh, the thought that global wealth and health now lies in the hands of this administration in Washington makes me genuinely depressed. Let's hope I am just being silly.

But let there be no mistake: the answer to the question of how do we ever get out of this mess is still the same: with more money. **Loads of more money.** This time governments around the world will join in with central banks. This is why this Bear Market is changing the world in front of our eyes.

All of us ain't seen nothing yet.

Watch Balance Sheets, Re-Financing Risks

One of the wisest observations I came across this week is that many a share price is starting to look like a bargain on a 12 to 18 months horizon, but investors better make sure that companies are able to bridge that gap.

It's simply another way of saying: when hit with a crisis of this magnitude, you don't want to own shares in companies with weak balance sheets, not enough cash and too much debt that needs to be paid off or refinanced soon.

Analysts at Macquarie have identified four industrial companies listed on the ASX whose refinancing comes up within the coming twelve months and which represents more than 15% of their market capitalisation. It should be no surprise, the shares in these companies have fallen more than many others.

The four companies identified are Wagners Holding Company ((WGN)), ALE Property Group ((LEP)), Worley ((WOR)) and Downer EDI ((DOW)).

It gets worse. Outside of the ASX100 Macquarie has identified three companies whose refinancing over the coming three years exceeds their total market capitalisation. These are Seven West Media, oOh!media ((OML)), and Southern Cross Media Group ((SXL)).

Other stocks to highlight are Unibail-Rodamco-Westfield ((URW)), Link Administration ((LNK)), LendLease ((LLC)), Incitec Pivot ((IPL)), and Qantas ((QAN)) as these companies all have substantial three-year refinancing awaiting in the next three years (each in excess of 35% of their market cap).

The Cancellation We Had To Have

In light of developments, I have decided to cancel this month's **Special Event at the Royal Exchange in Sydney**. We'll resume at a more appropriate time.

(This story was written on Monday 16th March, 2020. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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