WEEK 36

STORIES TO READ FROM FNArena

Friday, 3 September 2021

Fortescue Metals Fields The Green Narrative

Material Matters: Thermal Coal And Coking Coal

Rudi's View: It's The End Of The Trend

CONTENTS

AUSTRALIA

COMMODITIES

WEEKLY REPORTS

SMALL CAPS

RUDI'S VIEWS

FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journo's:
Greg Peel, Eva Brocklehurst & Sarah Mills

AUSTRALIA

Content Investment Key To Nine Entertainment

Despite strong advertising markets providing potential for earnings growth, the market reacted negatively to Nine Entertainment's higher investment in content

-Cost guidance up for FTA TV and Stan Sports
-Growth guidance in publishing largely reflecting Google/Facebook flows
-Further upside should be available as Stan Sports is appreciated

By Eva Brocklehurst

It's all about perspective when it comes to Nine Entertainment ((NEC)). Free-to-Air TV and publishing -- old media -- are providing some earnings growth while new digital ventures such as streamed video on demand (SVOD) are facing a stiffening of competition.

The company reported FTA TV market share of 40.3% -- marginally lower, and attributed to timing associated with the Australian Open. Meanwhile, Nine Entertainment's radio exposure is 85% in NSW and Victoria and the most heavily affected by lockdowns among its businesses.

UBS notes early trading in the first quarter has revealed solid growth across the business, given the pandemic impact on comparables. Macquarie agrees the media buyers are more resilient now and appear to be more positive compared with previous lockdowns.

Within the FY21 results the main focus was on the cost side, with management guiding to FTA TV costs up 3% in FY22. Yet Nine still expects further growth in FTA TV revenue in FY22 as the market strengthens overall.

Goldman Sachs notes the growth in operating expenditure has partly offset a stronger revenue outlook, specifically reflected in Stan Sports content, and the cost of showing Tennis as well as staffing costs.

Morgan Stanley found this a clean result with **strong advertising markets in the first quarter setting up the potential for high single-digit operating earnings (EBITDA) growth in FY22**.

Trends

Momentum has continued into the second quarter of FY22, despite the cycling of benefits from the NRL finals and State of Origin. BVOD (broadcast video on demand) service 9Now is also trending well, which Credit Suisse finds impressive given this is occurred while Seven West Media ((SWM)) has been showing the Olympics and capturing significant revenue share.

Ord Minnett believes Nine will experience further upside as the market comes to appreciate the investment in Stan Sports and entertainment. The BVOD platform and digital publishing business should also drive top-line growth, supported by the exposure to real estate advertising at Domain Group ((DHG)), in which the company has a 60% shareholding.

Macquarie remains concerned about the outlook for subscriber growth, particularly as competition in SVOD increases. There is also downside risk to publishing, the broker asserts, although Nine reaffirmed growth guidance for FY22 of $30-40m, implying EBITDA would be up 26-34%.

Yet the broker points out this will largely reflect the Google and Facebook cash flows, and digital platform cash flows are not unique to Nine Entertainment.

The company commented the industry may potentially reinvest these proceeds. Macquarie interprets this comment as flagging potentially higher costs while Nine invests in digital subscriptions in the near-medium term.

On the other hand, the share price, in the short term, does not capture the cyclical upswings, in the broker's view, and Nine, excluding Domain, is now trading near its record lows, so there should be plenty of valuation support.

Stan Sports

Credit Suisse note some "sticker shock" associated with higher cost guidance at Stan yet believes revenue trends will provide an offset and the share price reaction has been overdone.

Stan experienced modest subscriber growth with around 2.4m active subscribers at the end of FY21. Credit Suisse suspects guidance surrounding Stan disappointed the market as it was driven by investment in entertainment content and Stan Sport.

Still, the broker notes **Stan is a solid platform that has consistently delivered revenue and subscriber growth in a competitive environment**, and remains of the belief that Stan will deliver growth over time, although the profile has lengthened.

Ord Minnett also notes the share price reaction following the results removed the equivalent of $494.6m in market capitalisation from the value of Stan because of lower, although profitable, EBITDA guidance from the increased investment in Stan Sport.

Given sports subscribers are higher-value and more engaged, the broker is confident momentum can be obtained. Macquarie is not so convinced, having already factored in higher investment costs as the company faces increased entertainment costs from investment in Stan Originals and the NBC-Universal contract.

The pace of subscriber additions was also softer than the broker expected. The launch of Stan Sports added 250,000 subscribers. Of these, around 40% were new, which implies all subscriber additions were stemming from Stan Sports.

The -$40-50m start-up loss for Stan Sports flagged in the results, while strategically sensible, should not be capitalised into perpetuity, Morgan Stanley asserts, as a lift from 250,000 subscribers to 500-600,000 would accomplish break-even.

The main upside risks the broker envisages are a quicker recovery in the Australian economy, which supports Domain, along with TV market share continuing to rise compared with peer Seven West Media. Negative risks include a weaker advertising market for TV/print/radio and market share loss.

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, has a Buy rating and $3.30 target while the database has four Buy ratings and one Hold (Macquarie). The consensus target is

$3.31, signalling 23.5% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 4.1% and 4.6%, respectively.

See also, Nine Entertainment's Digital Deal Welcomed on June 2, 2021.

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

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

AUSTRALIA

Cloud Customers Amplify Outlook For NextDC

Balancing prospective demand with the large expenditure and long timeframe required to build out data centres has meant, after a restrained FY21, NextDC has renewed plans for FY22

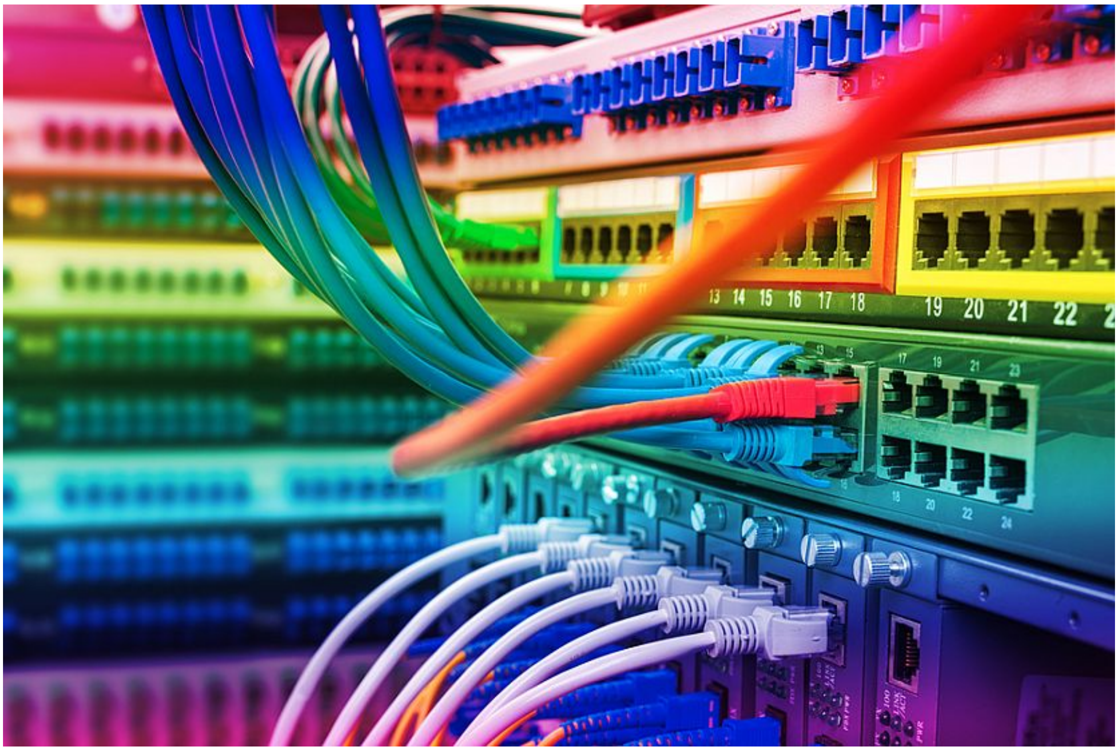
-Hyper-scale contracts to underpin the growth outlook
-Will demand in Sydney exceed supply?
-NextDC successfully certified data centres to highest standard

By Eva Brocklehurst

Having restrained expenditure over FY21, NextDC ((NXT)) is ramping up its expansion plans, continuing to finely tune the long timeframe and heightened expenditure required for data centres with an assessment of where demand is likely to emerge.

In FY22 data centre revenue is expected to be $285-295m and adjusted operating earnings (EBITDA) $160-165m. Revenue estimates are at the lower end of broker expectations, largely from fluctuations in energy prices, as energy costs are passed through to customers.

Ord Minnett reduces short-term forecasts to account for the slower ramping up of contracts but still emphasises the robust pipeline and the potential for positive news in the next 12 months. Historically, the broker points out, NextDC has been conservative with guidance and EBITDA could be readily achieved through the ramping up of existing contracts.



Credit Suisse takes into account the pulling forward of Melbourne's M3 completion, which will be slightly offset by lower FY23 billings across the remaining operation. Lower-than-expected revenue in FY21 combined with higher billing suggests some pricing pressure, yet the broker brushes this aside as the lower revenue outcome can be explained by lower power costs.

Goldman Sachs is "broadly comfortable" with forecasting 10-11% return on invested capital, while reducing underlying yield assumptions and anticipating a faster build out of hyper-scale.

Yet going forward, emerging contracts from cloud customers are likely to be higher yielding and support pricing, the broker adds. Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, retains a Buy rating with a $14.40 target.

Ord Minnett makes a marginal rating downgrade, to Accumulate from Buy, and expects more strong earnings growth and margin expansion as contracts are fulfilled. With Sydney's S3 (second half 22) and the M3 (FY23) nearing completion, the broker expects further hyper-scale contract gains in FY22 will underpin the medium-term growth outlook.

Planned capacity at M3 has increased to 150MW while land has been acquired for the long-term expansion of S4 to 300MW. Ord Minnett reduces short-term forecasts to account for the slower ramping up of contracts but still emphasises the robust pipeline and the potential for positive news in the next 12 months.

Historically, the broker points out, NextDC has been conservative with **guidance and EBITDA could be readily achieved through the ramping up of existing contracts**. Morgans also notes contracted megawatts that are yet to be billed could provide $200m in EBITDA in FY23 while cloud service provider (CSP) options could push this to $300m, assuming 100% is billed.

The broker also notes the company "flirted with the possibility" of a reported profit in the second half. As a result, **Morgans expects a small profit in FY22 although this could easily turn to a loss depending on how quickly facilities come on board and depreciation occurs**.

Capacity Demand

Capital expenditure was much lower than guided in FY21 at $301m and allowed the company to preserve cash flow, while higher capex guidance of $480-540m for FY22 suggests some catching up will occur.

While the capex delay can be viewed as a negative, as it implies slower development timelines, and the expectation that capital will be deployed again in FY22 suggests to Credit Suisse there is limited slippage. Nevertheless, the broker would not want further delays as this could affect billings forecasts.

Morgans attributes the delay simply to a timing issue but asserts that spending that much - $400m or more - in a single year is not an easy task. Moreover, as the broker warns, to help retain pricing power NextDC does not typically build large blocks of capacity on a speculative basis.

Typically, blocks of capacity are built only when customers have committed. Macquarie is concerned that, with S2 selling quickly and a large backlog in demand, amid delays to the ramping up of S3, a capacity shortage could eventuate.

The concern centres on Sydney, which is likely to be where demand exceeds supply over the longer term, and the broker acknowledges rapid advancements in technology mean the company does not want to build capacity too far ahead.

Digitisation requires significant infrastructure and NextDC is at the forefront of the trend. As a result, Morgans believes there is a high likelihood of CSP options being exercised which are, in aggregate, material at 54MW.

The exercise of some or all of these options underpin substantial potential in earnings. S4 is the new medium-term hyper-scale development opportunity and the broker believes the strength of customer demand and the funding structure present upside opportunities.

UBS remains focused on the medium-term outlook, estimating more than 90% of new billable megawatts in FY22 are already contracted. Hyper-scale demand is growing and should drive the new announcements over the next 12 months.

There is also potential for a joint venture project structure is similarly to the Equinix partnership with GIC, the broker suggests, and notes management has provided a list of potential partners.

Security Standard

The company has now successfully certified its suite of data centres with the highest standard "Certified Strategic". As Macquarie explains government agencies increasingly deal with cloud providers and the latter will not be able to buy capacity from data centres without security classification.

The broker also notes the company has made progress on ESG (environment, social, governance) in areas such as energy efficiency, renewable generation, carbon neutrality and waste minimisation.

FNArena's database has six Buy ratings and one Hold (Credit Suisse). The consensus target is $14.18, signalling

10% upside to the last share price.

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

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

AUSTRALIA

Fineos Positioned For Dominance

Existing customers have provided a glide path for insurance software platform Fineos Corp and strong earnings growth is anticipated in FY22

-Few new clients required to meet guidance, cross-selling opportunities abound
-Fineos Corp likely to spend above trend to secure dominant position
-Main concern is the trajectory of the recovery out of the pandemic

By Eva Brocklehurst

Existing customers now give insurance software platform provider Fineos Corp ((FCL)) a strong earnings trajectory into FY22, allowing the company to relax in terms of achieving its growth targets.

The company has set revenue guidance at EUR125-130m for FY22 which Macquarie calculates implies 17.17% growth in revenue at the mid point. This should allow the company to move faster in terms of its **ambition to make its business the leading life, accident & health (LA&H) platform for the insurance industry**.

FIineos Corp asserts the ramp-up of existing customers means that there are few new clients required to meet this guidance, while there are cross-selling and up-selling opportunities.

Ord Minnett suggests FY22 will benefit from a full contribution from acquired business Spraoi as well as strength in upgrade work and a return to growth in new customers as conditions normalise.

Subscription revenue was up 48.6% in FY21 and the company continues to invest materially in its R&D to reflect client demand and the Limelight Health acquisition. Cost of sales increased by 23.9% primarily because of additional contractors required to meet project timelines.

The top 10 clients signed in the past three years now represent 30% of revenue and the top five have now declined to 48% of revenue. Shaw and Partners points out stronger revenue also allows for faster investment in the platform.

Moelis notes challenging sales conditions in FY21 but believes the outlook is strong, given the company highlighted the depth of opportunities across its existing customer base.

FY21 sales of EUR108.3m were largely from higher services revenue and Ord Minnett considers the year was "forgettable", in terms of new customer additions, as the pandemic disrupted new IT projects across the insurance industry.

As a result, the broker was pleasantly surprised at the level of work the company achieved and the upgrades that existing customers undertook. Revenue growth beat expectations in FY21 which highlights the potential of the upgrade work in transitioning from legacy platforms to the cloud.

Ord Minnett expects Fineos Corp will continue to spend at above trend on developing the platform throughout FY22 in order to cement a dominant position as the insurance industry increasingly adopts cloud-based policy administration software.

Moelis assumes sales conditions gradually improve over the first half of FY22 before returning to pre-pandemic levels during 2022 as LA&H insurers resume spending trends.

Industry Leader

Moelis considers Fineos the industry leader, best placed to capture share in this US$6bn addressable market as LA&H insurers modernise legacy core software systems.

Shaw and Partners upgrades FY22-24 forecasts by 8-12% and now expects a "shallower" investment phase, assessing Fineos is one the most attractively priced long-duration software growth stocks on the ASX.

The broker highlights professional services have largely driven the upside in the business, particularly in North America. Strategically, moving customers to the cloud is important as a first step in cross-selling.

Issues?

What are the concerns? Shaw believes these include the trajectory of a recovery out of the pandemic while the cash balance, despite the improvement, does not leave much room for error.

Yet Moelis highlights the cash balance has increased in July upon receipt of EUR15m in delayed payments and a client approving an updated contract. Moreover Fineos believes the global insurance industry will recover more quickly from the pandemic that it did after the 2008 financial crisis.

While 2022 is likely to be a strong year, Shaw acknowledges **predicting opportunities will be the challenge given the lumpy nature of new deals**. The broker forecasts the cash burn will improve, down to EUR11m in FY22.

Citi expects the cloud-based Admin Suite will derive a benefit from the digital transformation efforts of the life insurers as well as Australian customers that are moving to the cloud. Yet the broker continues to anticipate a EUR25m equity raising in the second half of FY22.

Among those stockbrokers not monitored daily on the FNArena database Moelis and Shaw maintain Buy ratings with the former having a $5.34 target and the latter $5.30.

Ord Minnett has upgraded to Accumulate from Hold and the database now has four Buy ratings. The consensus target is $4.82, revealing 13.4% upside to the last share price.

See also, Quality Clientele To Underpin Fineos on February 3, 2021.

AUSTRALIA

Australian Finance Group Realigns For Growth Path

As Australian Finance Group negotiates the impact of lockdowns on mortgage activity, transactions are likely to be becalmed before bouncing back further into FY22

-Settlements should still grow moderately amid robust housing demand
-Margin outlook supported by low funding costs
-AFG Securities re-positioning to near-prime and SMSF loans

By Eva Brocklehurst

Mortgage settlements are likely to stall as Australian Finance Group ((AFG)) negotiates its way through another lockdown maze, this time primarily in NSW. Still, brokers expect modest growth will resume in FY22.

Settlements recorded in the second half of FY21 should drive revenue growth in FY22 as pricing competition is offset by lower funding costs, Citi asserts. The broker expects FY22 settlements to grow to $50bn and reflect the continuing strength of the property market.

The combination of low interest rates and changes to the dynamics of housing demand have meant resurgent housing markets over the last 12 months. Yet Victoria's experience with extended lockdowns late in 2020 points to a sideways shift in settlements rather than an actual decline and, amid the current restrictions in both NSW and to a lesser extent Victoria, seller hesitancy is expected.

Sellers and buyers are expected to take to the sidelines until more listings come onto the market. Macquarie notes the company's lodgement-to-settlement ratio of 52.6% was below the long-term average in FY21 and reflects an acceleration in lodgement activity in the fourth quarter. So a proportion of these lodgements are likely to settle in FY22.

Morgans remains positive, too, noting the company's comment that lodgement volumes in the second half were up 80% and supportive of strong settlement prospects in FY22. The broker agrees funding costs are also supporting the margin outlook.

AFG expects the current cost of funds will continue for at least six months. Morgans points out banks are continuing to experience strong growth in low-cost deposits and therefore are likely to remain relatively inactive in the term wholesale funding market.

Hence investor demand should remain strong for non-bank RMBS (residential mortgage-backed securities) over coming months. The broker believes **the marginal RMBS pricing is still below the cost of the company's warehouse funding facility and therefore a further reduction in these costs is possible**.

Risks

Citi believes it will be a protracted lockdown that presents a risk to volumes and the main risk is if wary lenders do not come to market. This is a trend visible currently in property clearance rates and the low number of properties being sold.

Once the lockdown ended in Victoria in the second half of 2020, commitments took two months to recover back to NSW levels. Hence, should restrictions in NSW persist past October this may pose a risk to FY22 volumes.

And, **unlike 2020, there will not be a refinancing boom and future growth will remain a function of new sales**. Citi assesses a resurgence of refinancing activity is unlikely, as with high levels of fixed loans the particular cohort is largely locked into pre-existing deals during the current lockdown.

Yet, the broker notes AFG was able to bounce back from the first half of FY21 when a slowdown in volumes was attributed to major banks obtaining further market share through aggressive fixed-rate offers.

That said, competition is still strong, particularly in the prime segment. New mortgages seemingly are being priced at around -50 basis points below the back-book although falling securitisation funding costs are expected to offset this pressure in FY22.

Macquarie was not impressed by the pricing competition in FY21, which appears to be creating pressure on net interest margins at around -1.5 basis points per month. Still, asset quality has been maintained, with loans in hardship on the back of the rise of the Delta variant still very low. As of June 30 2021 there were just 27 loans in arrears greater than 30 days out of 8829 loans on the book.

Change In Mix

Citi believes the group will be supported through investment in technology and a repositioning of AFG Securities to near-prime loans and SMSF (small-medium superannuation funds).

The company has indicated the move to emphasise near-prime and SMSF was designed to reduce an over reliance on the prime segment. As a result of reinvigorated higher-margin near-prime offerings as well as SMSF, Morgans expects interest margins will be supported by this shift in asset mix.

The broker notes the Connective acquisition does not look like going ahead at this point and expects AFG will explore other opportunities for acquiring distribution in its AFG Securities book.

Morgans is excited by the prospect, given AFG Securities is the company's highest margin business segment. FNArena's database has three Buy ratings for Australian Finance Group with a consensus target of $3.39 that signals 13.9% upside to the last share price.

AUSTRALIA

Fortescue Metals Fields The Green Narrative

Fortescue Metals has high hopes its greening credentials will attract a product premium yet, in the here and now, the focus remains on the iron ore price

-Iron ore still could rebound in the December quarter, China's steel production to grow
-Continues to target a 10% allocation of net profit to Fortescue Future Industries
-Decline in resources offset by maiden resource at Mindy South and update at Wonmunna

By Eva Brocklehurst

The path to a greener future is the conversation Fortescue Metals ((FMG)) is increasingly determined to have, intent on leading the way amongst iron ore miners. As Morgans observes, the company expects improving green credentials will attract a premium for its product.

In the meantime, iron ore is carrying the business and providing a significant net cash position and strong dividend yields. The numbers in FY21 were hard to fault, Shaw and Partners concludes, yet points out expectations have now built substantially.

The broker fears the peak in the iron ore price cycle has passed and will retreat over time. Consensus iron ore price forecasts are now below the spot price and earnings estimates for FY22 no longer have the upgrade trend that has been the case for the past year.

The company has acknowledged weaker steel markets and the re-emergence of coronavirus restrictions in some areas of China have caused the iron ore price to correct but still expects a rebound in the December quarter and Chinese steel production to grow.

Credit Suisse points to data that shows some mills in China are showing a preference for low-grade products, keeping their blast furnaces operational while limiting steel output and believes this could be an effective interim solution, helping to narrow the low-grade discount over the short term.

FY22 guidance is unchanged and assumes slightly higher iron ore shipments as well as a 10% increase in unit costs and -10% reduction in capital expenditure. FY21 was the third consecutive year of record earnings, underpinned by a resilient iron ore price, improved price realisation and cost control.

Guidance for FY22 is 180-185mt of iron ore shipments at a C1 cost in the range of US$15-15.50/wmt, implying C1 cost increases of 8-11%. Prices are likely to decline and cash costs increase, yet Bell Potter asserts operating cash flow and profitability remain supportive of robust dividends and models a prospective 12-month dividend of $3.31 for a forecast 15.5% yield.

Credit Suisse also notes the pullback in the stock now presents better value, and for those that believe iron ore prices may remain elevated for longer, assesses the stock should continue generating cash with a solid dividend yield.

Still, the broker is cautious, given the potential for a declining iron ore narrative and limited growth beyond the Iron Bridge project. Risks to the upside include ongoing iron ore price strength and increased demand for steel resulting in higher than expected free cash flow.

The spot iron ore remains volatile yet underpins earnings upgrade momentum and, at spot, Macquarie's estimates rise 14% and 77% for FY22 and FY23, respectively. Fortescue is trading on a 10-11% free cash flow yield on the broker's forecasts and that increases to around 20% at spot prices for FY23 and beyond.

<u>FFI</u>

Fortescue Future Industries is a key focus going forward in terms of financial commitments and strategic objectives and the company is confident its track record of innovation in iron ore should translate to success with this venture in time.

Nevertheless, Credit Suisse believes this is a "trust us" narrative and without a tangible business case at this stage the market is unlikely to ascribe any value. **Primarily the intention is to be carbon neutral by 2030 through the development of "green" mining and rail haulage while establishing generation via green hydrogen and green ammonia projects**.

Fortescue continues to target a 10% allocation of net profit to FFI for renewable energy projects, albeit only when the project is investment ready, and has reiterated around US$500m of total expenditure in FY22 mainly on project studies and technologies.

The company has a 15mtpa green hydrogen production target by 2030 and is aiming for net zero emissions by 2030. The construction of a hydrogen fuel cell haulage truck has already occurred but brokers believe it is too early to quantify the commercialisation.

The one exception may be the Bell Bay hydrogen project which has a closer proximity for a decent return. Yet Credit Suisse notes this is still unlikely to recoup the ongoing expenditure and there could be still at risk of delays as other projects catch up in the queue.

Expenditure intentions in FY22 for FFI do not include the potential investment in Bell Bay's 250MW project, which Goldman Sachs estimates may cost between US$500m-1bn.

Other possible renewable projects include solar and wind investment in the Pilbara to de-carbonise the mining fleet. Morgans agrees the planned investments are difficult to analyse and questions whether being an early adopter of green technology would be a more efficient approach compared with being an innovator.

The broker assesses the modelling of green hydrogen, or green ammonia projects, requires high capital intensity that "blunts valuations" and the long-dated investment profile is reliant on the transformation of future cost structures.

While reasonable to assume that customers will pay premium prices to get access to a zero carbon product, Morgans asserts it is impossible to quantify this. Moreover, this area is outside the company's established competencies and **global energy majors are expected to compete - with the advantage of knowledge, experience and deep pockets**.

In sum, Morgans believes the company is attacking the issue too aggressively and may have some regrets when and if iron ore prices fall back to more normal levels before the green potential can be realised.

Macquarie was unimpressed with the split in FFI guidance into capital and operating expenditure and emphasises the path to carbon neutrality will require investment across all parts of the iron ore operation.

Citi, too, finds it hard to value the expenditure, but does not doubt the company's determination. Fortescue has applied for over 215 patents and once the technology is fully integrated intends to share it.

In an adjacent ESG issue, in terms of offshore projects, Fortescue asserts participating governments will need to agree on conditions including legislation regarding modern slavery, outlawing forced child marriages and providing equal education outcomes for boys and girls.

International asset identification includes geographies such as Indonesia, Latin America, Africa PNG, Europe New Zealand, North America and the Democratic Republic of Congo.

Reserves & Resources

Meanwhile, back at the mines, resources declined by -465mt or -8% in FY21, largely because of a review of the in-situ bulk densities at Cloudbreak, Christmas Creek, Valley of Queens, Eliwana and Flying Fish. Macquarie, nonetheless, is encouraged by the largely unchanged impurity levels in the resources and operating mines.

Still, the decline in resources overall was largely offset by the delineation of a maiden resource for the Mindy South deposit of 279mt and an updated resource estimate at Wonmunna has added 75mt. That was not the case for reserves where impurity levels within the ore reserves increased 5% for silica and alumina and 4% for phosphorus.

Shaw, not one of the seven brokers monitored daily on the FNArena database, considers it time to consider seriously recycling some capital from Fortescue Metals into other value opportunities and retains a Hold rating with a $19.50 target.

Also among these seven, as a result of the recent depreciation in the share price Bell Potter upgrades to Buy from Hold with a target of $22.52, while Goldman Sachs is less convinced, retaining a $19.90 target and Sell rating.

The database has something for everyone, two Buy, three Hold and two Sell ratings. The consensus target is $21.61, suggesting 1.4% upside to the last share price. Targets range from $18 (UBS) to $29 (Ord Minnett).

AUSTRALIA

Will FY22 Be Different For Harvey Norman?

A year of strong earnings and profit growth provide challenging comparables, so will Harvey Norman perform differently in FY22?

-July/August sales not likely to be a good indicator of the unfolding year
-Does Harvey Norman's premium status limit online business?
-Offshore expansion and property investment differentiate the business

By Eva Brocklehurst

Harvey Norman ((HVN)) has had a good pandemic so far, with earnings from franchising operations up strongly in FY21, supported by margin expansion. Yet will the tough comparables provide obstacles to growth in FY22? Will the current financial year, which has started with major lockdowns in Australasia, be different?

The start of the first half of FY22 has been affected by rolling lockdowns, with Australian franchisee like-for-like sales down -19.1%, as 58% of the population went into lockdown.

Malaysia, the most negatively affected by lockdowns in the international business, commenced FY22 in lockdown and has only just started to re-open. New Zealand went into level 4 lockdown in August with no click & collect permitted, although contactless home delivery is allowed.

Yet Citi does not believe the July/August sales figures are reliable for forecasting the unfolding year as the fundamentals underpinning the business, such as housing demand, remain solid.

The broker believes **pent-up demand following the lifting of restrictions as well as more general mobility will mean sales rebound**. Hence, the June quarter exit sales are probably a better underlying indication of demand rather than the recent July/August period.

In that instance sales momentum remained steady. Hence, the broker considers the lockdown-induced declines a temporary "speed bump" for household goods retailers. That said, the broker points out costs are starting to rise and Harvey Norman could experience a reversal of the operating leverage enjoyed in FY21.

Harvey Norman is keeping more inventory in the light of persistent disruptions to the supply chain and ahead of what is expected to be a record Christmas. Credit Suisse notes the potential impact of this enlarged inventory on profitability, yet assesses the strength of underlying demand means the risk is quite small, unless lockdowns extend to the end of the year.

Yet Jarden suspects, as the business cycles strong results and competition re-accelerates, there is a risk for the Australasian business, although strength offshore should mitigate some of the risk.

There was a moderation in sales in the second half of FY21 with franchisee sales declining -0.5%, primarily because of the cycling of comparables in the second half of FY20. Moreover, when compared on a 2-year basis, Singapore and Malaysian sales are still significantly below pre-pandemic levels, Macquarie points out.

Yet pre-tax profit outside of property revaluation was up 66% in FY21 and Australian franchisee comparable sales were up 12.9%, supported by the homebuilder grants. Franchisee operating margins expanded to 9.04% and all geographies posted growth with the overseas retail segment pre-tax profit up 58.3%. Sales in New Zealand surpassed $1bn for the first time.

Macquarie suggests pent-up demand from limited ability to travel, complemented by strong property market, has supported sales growth in New Zealand.

At the category level, strength in home upgrades was broad-based amid strong demand for kitchen products, audiovisual, furniture and bedding and growth is expected to return in the second half of FY22 as consumers reinvest in their homes. As a result, UBS is confident housing strength will support sales growth in franchising operations and help cycle the pandemic-boosted sales period.

Online

Macquarie was disappointed there was no disclosure on online sales despite click & collect operating from 192 franchise complexes in Australia. It appears, Credit Suisse observes, delivery is 5% of customer orders and around 95% of customers still go to the nearest store for click & collect.

UBS makes the comparison with JB HiFi ((JBH)), which appears to have a much more successful online presence, particularly the company's The Good Guys brand, which has a closer product range to Harvey Norman.

The broker explains, as Harvey Norman has a premium focus, it requires store attendance and this reduces the extent to which sales can be transferred to online. One of the areas of strength of The Good Guys has been premiumisation and on this aspect, UBS notes, the business continues to trail Harvey Norman.

The broker also notes **the category mix for Harvey Norman requires impetus from housing construction and this activity has been significantly held back in several areas** recently, and a more permanent shift to working from home along with robust dwelling construction and renovations should support the category for the next 2-3 years.

Nevertheless, UBS is cautious about retailing and questions whether, post lockdowns, consumers will spend as aggressively as they did in 2020. Government support is more modest, the main reason for being cautious.

Citi agrees with this assessment, given the impact to housing completion and furniture demand from restrictions to construction activity and the fact premium furniture, which Harvey Norman targets, is not as conducive to online purchases.

Capital Management

Jarden suggests a key catalyst would be capital management, which could occur when economies re-open and working capital normalises although this is unlikely in the first half. The broker calculates at $300m off market buyback would be 4% accretive in the first full year.

Credit Suisse also notes some disappointment at the results because of the lack capital management but had always suspected cash would be used for expansion. The broker believes offshore expansion and the property segment differentiate Harvey Norman from its household goods peers in Australia.

This may create debate among investors. The freehold property portfolio remains significantly undervalued and, on a long-term view, that value is unlikely to be reflected in market valuations of Harvey Norman under the current strategy. Hence, the broker believes this aspect of the stock is likely to be a consideration for the true long-term investor.

International

The growth of international could mean this segment achieves 30% of operating earnings (EBITDA) by FY24 and there is significant long-term growth potential. There are plans to enter Hungary in 2023, which Macquarie considers is a natural fit given Harvey Norman's presence in bordering countries.

Up to six stores will be rolled out in FY22, three in Australia and three internationally (Malaysia, Croatia, Ireland), and up to 12 stores will be rolled out in FY23 with two in Australia and 10 overseas (four in New Zealand, three in Malaysia and one in Croatia).

Jarden, not one of the seven stockbrokers monitored daily on the FNArena database, has an Underweight rating with a $5.40 target. The database has four Buy ratings and two Hold. The consensus target is $6.18, suggesting 14.9% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 5.9% and 5.7%, respectively.

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

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

AUSTRALIA

Webjet Homes In On A Localised Travel Market

Webjet has ridden the pandemic wave well, shifting the focus of its WebBeds business to localised travel while also investing in online service

-WebBeds wins new customers as focus moves to domestic travel
-Webjet winning market share because of structural shift to online
-Plenty of capital to deploy the growth opportunities

By Eva Brocklehurst

Has the pandemic helped Webjet ((WEB))? There has been an acceleration the shift to online travel bookings and in this Webjet has achieved material share gains. Ord Minnett considers a good proportion of these gains should be permanent as they are structural in nature.

The company's AGM update is also a timely reminder that those travel stocks with exposure to Europe and the Americas will experience the quickest recovery in earnings. WebBeds, which was around 50% of operating earnings (EBITDA) pre-pandemic, is now profitable on a monthly basis.

Recovery has been supported by strong travel demand in North America and Europe where travel restrictions have already eased. The company has indicated WebBeds was profitable in July and August and is on track to be profitable in September.

Ord Minnett expects this trend will continue, although admittedly the June quarter is a peak period, with January to March the quietest months. WebBeds is very dependent on the northern hemisphere summer holiday season.

Recognising that domestic or internal travel would be the first segment to reopen, Webjet shifted the WebBeds strategy to domestic opportunities and these now represent 46% of total transaction value versus 10% before the pandemic.

That shift towards domestic travel may have meant a decline in average booking value yet this has been more than offset by the uplift in activity. Morgans considers the pivot to domestic travel has been critical in diversifying the business, and WebBeds has won new customers and increased its market share as a result.

Given border restrictions, the Webjet overseas travel agency experienced a decline in bookings in August, to 14.5% of pre-pandemic levels. Online Republic also went backwards, with August bookings at just 9.5% of pre-pandemic levels.

Both these two businesses are expected to return to profitability when Australia and New Zealand reopen. Moreover, UBS believes increased momentum around Australian vaccination will create a better medium-term outlook.

Webjet is expected to benefit from strong pent-up demand over the next 18-24 months and has the scope to take material share in both the business-to-business (B2B) and business-to-consumer (B2C) markets, in the broker's view.

Webjet estimates a $70bn transaction market value in B2B of which it currently has a 4% share. Its target is 14% share, which implies $10bn, yet Morgan Stanley is sceptical, assessing this would require Webjet to take leadership from the main player which is around five times its size, and also achieve record industry margins.

Online Shift

Webjet believes it is winning market share because of the structural shift to online and the material decline in the number of bricks & mortar travel agents. The company also attributes success to a broad range of payment options and superior technology.

Morgans anticipates a net loss in FY22 for Webjet while cost reductions should allow FY24 operating earnings to exceed 2019 levels. The broker expects Online Republic to post a modest loss in the first half of FY22 followed by break-even in the second half.

Yet Morgans acknowledges **forecasting accuracy is low and likely to be dictated by the success of global vaccine programs and government decisions on re-opening borders**.

Capital

Morgans considers current valuation fair, given the protracted recovery in travel markets. Importantly, there is plenty of liquidity following the recent $250m convertible note offering.

Macquarie flags the capability of the balance sheet with cash reserves of $406m as of March 2021, which makes Webjet a good candidate for consolidation. On the broker's estimates, Webjet could deploy $270m in capital by FY25 on growth opportunities.

Importantly, Ord Minnett believes Webjet has used the pandemic downtime and the proceeds of capital raisings to invest for the future and the decision to integrate and enhance IT systems into a single platform will be critical.

This should allow the company to achieve the planned reduction in operating costs of -20%, once scale returns. The savings will be achieved from using blockchain, data analytics and simplifying processes. By the end of FY22 the platforms should be fully streamlined.

Webjet will also invest additional resources in growing share of the US B2B market at a time when the bulk of its competitors are probably doing it tough. While this should be positive in terms of operating cash flow in the first half of FY22, the exclusion of capital expenditure guidance makes Morgan Stanley suspicious this investment could be marginal.

The broker also raises concerns about the stewardship of capital, which has led to a share count that has increased by three times over the last four years. In any case, Morgan Stanley considers a rebound in working capital and operating leverage will be the main positive as the stock has suffered severe dilution during the pandemic.

FNArena's database has four Buy and three Hold ratings. The consensus target is $5.84, suggesting 3.0% upside to the last share price. Targets range from $4.30 (Morgan Stanley) to $7.12 (Ord Minnett).

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

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

AUSTRALIA

More Sober Prospects For United Malt

Despite the benefit from alcohol consumption that comes with having nothing better to do, United Malt still has to negotiate customer failures and freight disruptions. Then there is the severe North American drought

-Significant items, expenses dent United Malt's earnings guidance
-Lower quality result likely yet little amiss with underlying business
-Increasingly tight global barley supply may mean North America imports grain

By Eva Brocklehurst

The way out of the pandemic is not straightforward even for United Malt ((UMG)), which has benefited from increased alcohol consumption as swathes of the world's population at various stages over the past year have been limited in what they can do and where they can go.

Importantly, in the company's latest update there appears to be no structural changes in the market and business. Guidance for FY21 (year-end September) is for underlying operating earnings (EBITDA) of $123-128m and underlying net profit of $36-41m.

North America, which accounts for 61% of revenue, and the UK are performing well as these regions benefit from high vaccination rates and the re-opening of venues during the northern hemisphere summer.

Demand for craft beer is gaining momentum, hence, the sales mix has improved. This has produced better margins in the warehouse & distribution business.

Wilsons finds, despite ongoing lockdowns in some regions, re-opening trends in key markets are encouraging, providing both volume growth and a more favourable product mix. Yet, consumption is still being affected in Asia and Australia, being 14% and 7% of revenue, respectively.

There have also been disruptions to ocean freight and cost increases for shipping. The company does not expect a recovery in export sales until freight disruptions ease and restrictions related to the pandemic are lifted.

Macquarie reduces its estimates by -22% to reflect guidance and a slower recovery from the pandemic in Asia and Australia. Wilsons attributes the weaker than expected guidance to higher costs, primarily in relation to the supply chain.

The most important part of the update, as far as Credit Suisse is concerned, is the fact there is no change to the dividend policy for a pay-out of 60% of underlying net profit. As a result, the broker concludes the pressure on cash is not severe.

Significant Items

Significant items have been announced, including -$20-22m in provisions resulting from a UK grain storage contractor going into administration and a bad debt from an Asian customer affected by the pandemic.

The former's situation has also led to a shortfall in inventory for United Malt and the company expects malt volumes to remain at around 95% of pre-pandemic levels to the end of the year.

In addition, software expenses, in line with a recent accounting policy change, will have a negative -$6m impact on operating earnings in FY21, -$10m in FY22 and -$4m in FY23. Macquarie assesses this has partially offset the transformation benefits. United Malt has a target of $30m in transformation benefits by FY24.

On balance, while the level of significant items point to a lower quality result for FY21, UBS finds little amiss with the underlying performance of the business. The opening of the Inverness site has been set back by two months because of delays to construction and should open in July 2022.

Grain Supply

Yet other risks loom as crop conditions in North America have deteriorated because of severe drought, and will affect of the size of the barley crop. This has meant higher barley prices globally.

Wilsons is mindful of an increasingly tight supply position for global barley, which may necessitate North America importing grain, and expects current demand and low inventory will provide a favourable environment for price increases.

United Malt sources barley from multiple regions while its production facilities are located near transport infrastructure, enabling it to spread the risk.

Credit Suisse suggests **the extent to which higher logistics costs have been priced into the malt contracts for 2021-22 remains the main variable**. Other risks Macquarie points to include any changes to beer consumption, competitive market pressures as well as the procurement of barley.

Wilsons, not one of the seven stockbrokers monitored daily on the FNArena database, has an Overweight rating with a $4.75 target. The database has two Buy ratings and two Hold for United Malt with a consensus target of $4.75 that suggests 7.8% upside to the last share price.

See also, More Beer, Better Outlook For United Malt on May 20, 2021.

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

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

AUSTRALIA

Metcash Holds Share As Lockdowns Return

Regardless of a confusing set of numbers in the early FY22 trading update, Metcash is holding market share in food and benefitting from liquor and home hardware purchases

-Re-emergence of lockdowns once again favours localised shopping
-Metcash screens favourably relative to peers for valuation and dividend yield
-Strong market share gains for the Independent Hardware Group

By Eva Brocklehurst

With lockdowns returning in NSW, ACT and Victoria, Metcash ((MTS)) has provided a confusing set of numbers at its update regarding the first 16 weeks of FY22, and interpretation of the trends largely depends on where the emphasis is placed.

As Citi explains, the trading period included eight weeks of normal trading in the greater Sydney region followed by eight weeks of lockdown, as well as various lockdowns in Melbourne.

The first eight weeks captured an unwinding of localised shopping that benefits the Metcash-supplied Independent Grocer (IGA) chain, and the subsequent eight weeks reflected a re-emergence of the tendency as lockdowns came into effect.

One enduring positive, Citi flags, is that pandemic-related costs have been well managed and remain immaterial at this stage. UBS believes, given the significant variance in sales growth rates, analysis of performance is best done on a two-year "stack" basis.

In this instance, all divisions improved over the first 16 weeks of FY22, with the exception of liquor that was hampered by hotel closures. In looking over the two-year period, wholesale food sales increased 12.9% for Metcash, which Credit Suisse asserts is greater than for Coles Group ((COL)) over the same period.

Conditions are less likely to be favourable for Metcash once lockdowns are lifted, the broker adds, and some market share is likely to be regained by the major supermarkets, although Metcash appears to have retained most of the gains made in market share in FY20.

Jarden also notes supermarket sales were negative for the final eight weeks of the 16-week period compared with both Woolworths ((WOW)) and Coles which had stronger sales, suspecting this reflects some normalisation of market share, as well as the cycling of more challenging comparables for the IGA supermarkets.

Macquarie asserts one quirky outcome of the lockdowns is that Coles and Woolworths appear to have regained share, as consumers appreciate the larger floor space, as opposed to small format IGA stores, particularly in NSW where cases of coronavirus have grown quickly.

While **some normalisation of market share was always likely**, Jarden argues the market continues to “overprice” this feature. UBS, too, expects some normalisation of industry drivers yet remains confident that some consumers have changed their habits permanently, while the independent retailers are investing profits from strong sales back into their stores.

Driving the improvement from an industry level is a shift to neighbourhood shopping, consumption of food and liquor at home, home renovations and lack of overseas travel.

The company's efforts have included investment in the store network which should further support volume retention. Yet Metcash has a more limited online offering compared with its larger competitors which indicates its growth is more store-based.

Meanwhile, **Metcash has raised its off-market buyback to $200m from the "up to $175m" originally set out in June**. Macquarie assesses, coupled with the FY21 total dividend of 17.5c, the pay-out ratio has increased to 80% from 70% and roughly $380m in capital will be returned to shareholders.

This, in turn, reflects record operating cash flows for FY21 and increased confidence in future cash generation. Credit Suisse also considers the stock screens favourably relative to peers in terms of valuation and dividend yield.

Liquor

In liquor retailing Metcash is also growing faster than competitors, indicative of ongoing local demand and, UBS points out, a positive aspect considering hotel closures. Current trading in liquor shows sales growth for Metcash of 1%. In comparison Endeavour Group ((EDV)) has flagged liquor sales declining -1.7% over July/August while Coles has had no growth over the period.

Off premises sales rebounded as lockdowns hit the liquor market and Jarden believes the market is continuing to value Metcash as a structurally-challenged food wholesaler but its business has changed materially and, therefore, it should re-rate.

Hardware

One thing brokers agree on, hardware was a highlight of the update. With accelerating trading over the last eight weeks and year-to-date sales up 16.3% this is a strong result relative to Bunnings ((WES)), Jarden points out, which recorded a moderation of sales.

Citi argues the Bunnings trading update would have entirely captured the greater Sydney lockdown so the divergent outcome is not surprising. The Metcash Independent Hardware Group has benefited from a skew to trade and with more stores remaining open.

Credit Suisse notes little negative impact from the pandemic despite disruptions to the construction sector. Again, looking at a two-year comparison hardware has shown strong market share gains for IHG, excluding Total Tools, 22.7% above the corresponding period in FY20.

Jarden, not one of the seven stockbrokers monitored daily on the FNArena database, has an Overweight rating and $3.90 target. The database has four Buy ratings and one Hold (Macquarie). The consensus target is $4.26, suggesting 6.8% upside to the last share price. The dividend yield on FY22 and FY23 forecasts is 4.4% and 4.5%, respectively.

See also, Does Metcash Deserve A Re-Rating? On June 29, 2021.

AUSTRALIA

Does Altium Represent Value?

While Altium's strategic importance was underlined by the recent Autodesk bid, earnings visibility has been questioned after FY21 results missed recent guidance.

-Altium released weaker than expected FY21 earnings
-While brokers reduce margin estimates, FY22 appears to have started well
-Potential to monetise the non-paying user base
-Discounted term-based licence offer to drag on ARPU
-Forecast margin estimates have been lowered

By Mark Woodruff

Having rejected a takeover offer by US technology giant Autodesk in June, valued at $5bn, Altium ((ALU)) produced FY21 results which saw its market capitalisation fall below $4bn.

Market confidence was dashed by a lack of near-term visibility after company guidance was missed, having been reiterated as recently as mid-June. Optics weren't improved by an audit delay and a potential tax liability. However, some brokers note the underlying business is intact and see any share price weakness after the result as a buying opportunity.

The company is one of the largest providers globally of printed circuit board (PCB) design software and has an estimated market share of around 26%.

Altium develops software used for designing electronic products and has three key products including Altium Designer for the design of PCBs, which accounts for around 75% of group revenue. Then there is Nexus, a collaborative, cloud-enabled PCB design solution, while Octopart is an electronic parts search engine.

FY21 underlying earnings of $62m were weaker than expected as investment increased in Cloud and Product development, and FY22 earnings margin guidance was lowered to 34%-36% from 36%-39%.

There was also weaker top-line growth from the transition to term-based licenses. The shift from perpetual licences negatively impacted full year revenue by -3%.

Management targets for US$500m in revenues and 100,000 subscribers are unchanged though have been pushed-out to 2026 from 2025, as they may be impacted by covid.

More positively, subscriptions rose 7% year-on-year and China rebounded strongly with 47% growth in the second half bringing full year growth to 11%. Nexus returned to growth in the second half and Octopart's revenue accelerated 63%, up from 19% in the first half.

Addressable market

While Altium has a long track record of profitability, Jarden sees limits to its long-term growth compared with peers.

The broker assesses the company's core PCB market size is $1.5bn and adoption is near full penetration. It's thought strong share can be captured in the middle-market segment though the adoption of its high-end product, Nexus, will be challenged by strong competitors in Cadence and Mentor Graphics.

The broker reiterates its Underweight rating and awaits further evidence of take-up of Nexus and a return to an improvement in the margin expansion profile.

Targets

To achieve the company's 2026 aspirational revenue target of $500m and 100,000 subscribers, it needs to achieve record net subscriptions. Jarden believes acquisitions are required to achieve this, which may lead to a risk of overpaying to hit such targets.

Speaking of targets, the broker, not one of the seven stockbrokers monitored daily on the FNArena database, increases its 12 month target price to $27.00 from $23.00. This is partly driven by a lower forecast Australian dollar rate and a lower assumption for weighted average cost of capital.

While pushing back targets is never positive, management did highlight that it was **the only PCB vendor to grow market share through covid**. Essentially covid has "cost" the company a year in its ambition towards "industry transformation". This is not considered detrimental by Shaw and Partners and the rejected Autodesk offer has built further confidence.

The broker, also not one of the seven, reiterates its Buy rating and reduces its price target to $37.90 from $38.50.

Macquarie forecasts Altium's revenues will reach the lower-end of the company's previously provided aspiration range in FY26, and to reach the US$500m revenue target only by FY27.

The outlook

According to management, FY22 appears to have started well, with "July and August really strong, with business coming back to a normal state".

The revenue guidance for FY22 was slightly higher than Bell Potter's forecast while the earnings guidance was in-line implying a lower earnings margin than was expected. As a result, the analyst estimates there has been a negative impact from the shift to term-based licenses.

The broker modestly downgrades earnings and profit forecasts by around -3% in both FY22 and FY23, driven by reductions in margin estimates which have more than offset increases in forecast revenue. The broker, not one of the seven stockbrokers monitored daily on the FNArena database, maintains its Hold rating and reduces its price target to $32.50 from $35.00.

Shaw notes a second half recovery in the core PCB business and points out FY22 has started well, with Altium 365 adoption continuing and record growth for Octopart.

It's believed the company is benefiting from a cyclical recovery as evidenced by increased Designer seats sold in the second half and increasing Designer software license revenue. Management noted this was driven by the US and Europe, Middle East and Africa (EMEA), and much less discounting.

Octopart was a standout in the broker's view, with growth buoyed by shortages in the semiconductor industry increasing search demand. Management expects this to continue in FY22.

The company withdrew its revenue and earnings guidance beyond FY22, when historically forecasts have been provided out to FY25. Macquarie dislikes this approach, decreases its rating to Underperform from Neutral and reduces its target price to $27.10 from $30.00. It's felt market confidence will be reduced around the company's lack of visibility on the longer-term outlook.

While conceding revenues generated by term-based licenses should be stickier than perpetual licenses, the analyst points out the company accelerated the transition by offering -50% discounts (for up to three years) on the term-based licences during the period from late April to 18 June 2021.

As a result, **the breakeven point where term-based licenses start generating more cumulative income versus perpetual has increased from an average four years up to 8-11 years.** The broker estimates **this will put a drag on average revenue per user (ARPU) over the coming three years**. It's thought this will make it even more difficult to achieve the 2026 aspirational targets mentioned above.

Strategy

Citi feels the underlying business is unbroken and recommends buying into any share price weakness after the FY21 result. **The monetisation of the electronics supply chain via the Altium 365 and Nexar platform are a key source of upside** over the medium to long-term, suggests Citi.

However, partnerships with industry stakeholders, which could potentially include direct competitors, are the key to the successful monetisation of the platform strategy, in the analyst's view.

The broker upgrades its rating to Buy from Neutral and believes FY22 revenue guidance of 16% to 20% is solid when considering the headwind from the transition away from Perpetual licenses.

The analyst forecasts 19% growth in FY22, underpinned by strong growth in China, the semiconductor shortage boosting Octopart and price increases.

In addition, as management is potentially moving to a 'named user' model, there's **potential to monetise the non-paying user base, which Citi sees as five times the current subscription pool.**

The broker lowers its target price to $35.40 from $37.60 on higher-than-expected costs in FY21 and investment in Enterprise sales staff as the company looks to increase penetration of the high-end PCB market.

Meanwhile, Credit Suisse lowers its rating to Neutral from Outperform and reduces its target price to $32.00 from $42.00, after reducing underlying earnings estimates.

However, as the only high quality standalone PCB design software business, the company's strategic importance has been further reinforced by the Autodesk bid, suggests the broker.

FNArena's database has three broker ratings with one Buy, one Hold and one Sell rating and a consensus target price of $31.50, which signals 2.4% upside to the last share price.

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

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

COMMODITIES

Material Matters: Thermal Coal And Coking Coal

A glance through the latest expert views and predictions about commodities: thermal coal and coking coal.

-Despite the market being closed, China was the key customer for Australian lower CV thermal coal
-Credit Suisse predicts a highly cash generative year ahead for some coal stocks
-Market should not fear iron ore-style of correction in coal prices

By Mark Story

Thermal coal: Perfect storm for pricing

Citi attributes a material uplift in China coal prices to mine suspensions in Inner Mongolia, covid-related border closures within Mongolia, plus the ban on Australian imports at a time when China coal consumption is up, having jumped 4% in July.

Given that other Asian customers have a requirement for lower ash/higher calorific value (CV) coals, China was the key customer for Australian lower CV thermal coal (5500kcal). But with this market now closed, Citi notes Australian producers of 5500kcal coal have been buying high-CV coals (NEWC6000 and above) for blending to produce a mid-CV product for sale to Korea/Taiwan (typically 5800kcal).

While Japan has been the traditional market for NEWC6000 coals, Citi believes d**emand for benchmark coal for blending has created a new demand stream and intensified market tightness for NEWC6000.** The broker concludes that as China remains shut, demand for high-CV coal for blending will likely persist.

Based on the prices so far this quarter, Citi has tweaked the bull case for NEWC6000 for the September quarter to $165/t.

Citi's commodity team has assigned a 20% probability to its bull case for thermal coal. Driven by a major deficit in the seaborne thermal coal market and with risks skewed towards further price spikes in case of another round of heatwaves in East Asia or a cold 2021/22 winter in the Northern Hemisphere, the broker forecasts three-digit NEWC6000 prices for the rest of 2021.

With Citi's bull case now the base case for second half 2021, the broker has revised up both Whitehaven Coal's ((WHC)) and New Hope Corp's ((NHC)) near-term estimates.

The broker has revised up Whitehaven's FY22 earnings and net profit by 9% and 13% to $1.03bn and $502m, respectively, with FY22 net debt reducing to $192m. As a result, Citi increases its target price to $2.70 and removes its High-Risk designation from its Neutral rating on much stronger balance sheet projections.

Adjusting for July quarter actuals and Citi's revised second half 2021 price assumptions, the broker revises down New Hope's FY21 earning per share (EPS) -5%, with FY22 earnings and net profit revised up 21% and 27% respectively. As a result, the broker has lowered New Hope's target price to $2.20 from $2.10 and retains a Buy rating.

Credit Suisse believes the strong free cash flow (FCF) posted by Whitehaven in FY21 is a solid indication that the coal names (under its coverage) are out of their trough and should embrace a highly cash generative year ahead.

Underpinning Whitehaven's result, notes Credit Suisse, was the $178m debt repayment post-June 30, which implies to the broker $90m FCF per month.

Based on spot prices, Credit Suisse suspects Whitehaven could be net cash of $300m by the end of FY22. Similarly, under the spot pricing scenario, the broker suspects New Hope and Coronado Global Resources ((CRN)) may generate over 50% and 47% FCF yield in FY22 respectively.

The broker reiterates Outperform ratings on Whitehaven (target $2.85), New Hope (target $2.40), and Coronado (target $1.60) in the anticipation that coal may become the FCF captain over the next 12-plus months.

At New Hope's FY21 result in September, the broker expects the dividend quantum and M&A to be the primary focus.

Meantime, the broker believes the balance sheet deleveraging remains the priority for Coronado and expects the company to exit 2021 with US$20m of net debt. A dividend reinstatement is possible, yet the broker notes management appears to be more interested in growth.

While upside remains in US domestic contract prices, the broker believes there's a lingering risk that US coal traders may be realising the benefits of elevated prices that China has been paying, in turn hampering Coronado profitability.

<u>Coking coal: No iron-ore style sell-off expected</u>

Morgan Stanley does not expect an iron ore-style sell-off for coking (metallurgical) coal, as China's supply shortfall is likely to provide price support through second half 2021. The broker notes while iron ore now trades -30% below its mid-July peak, **hard coking coal (HCC) prices appear impervious to China's slowing steel output and continue their sharp uptick.**

To put the rally in context, the broker notes while Australia's free on board (FOB) price stands at a 3-year high of $248/t, the landed China price continues to set new all-time highs, currently at $421/t, up to $112/t (36%) since mid-July.

Given that met coal is less exposed to speculative activity than iron ore, the broker suspects the continued price strength has left investors wondering if iron ore hasn't been materially oversold. However, Morgan Stanley notes the met coal to iron ore price ratio is mean-reversing, now at 1.6x, which is closer to the 10-year average of 1.8x than the 0.9x it averaged over the last year.

What this highlights, notes the broker, is the return to more normalised relative prices. As a result, the broker believes the iron ore price correction is a fair representation of the current China steel demand situation, and that the met coal strength is being kicked along by China's severe supply shortfall.

Morgan Stanley reminds investors that China’s domestic coal challenges have been heightened by the ongoing import ban of Australian coal, while the currently suspended overland imports from Mongolia have kept China's coking coal imports suppressed in July.

Unsurprisingly, because of this supply tightness, recent surveys suggest that coke inventories at Chinese steel mills are almost at a 4-year low. But despite the marked slowdown in China's steel output, Morgan Stanley notes mills are still looking to restock their coke supplies to return them to a safe level.

However, China's record coke price of $520/t doesn’t appear to be a showstopper for steel mills, with the increased cost of coke since mid-July being less than half the cost savings on iron ore since then.

Against a backdrop of relatively steady domestic steel prices, the broker notes steelmaker's margins have recently expanded.

While resilient ex-China steel production helps push the Australian HCC price up, Morgan Stanley believes the strength in this benchmark is mostly driven by China, even though no Australian coal is shipped to China anymore.

Under the current price differentials, the broker argues that **it makes sense for non-Australian producers to redirect as much to China as they possibly can, and for ex-China mills to purchase more Australian cargoes.**

Given where China delivered prices are currently at, the broker can still see the Australian benchmark rise further, narrowing the current $173/t arbitrage.

As long as China retains its import ban, Morgan Stanley thinks **$140-160/t is the appropriate price range for the Australian HCC price.** However, the broker suspects the price might not fall back to such a level until 2022 and sees some potential upside risk to the broker’s $190/t second half 2021 bull case.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 27-08-21

Weekly update on stockbroker recommendation, target price, and earnings forecast changes.

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday August 23 to Friday August 27, 2021
Total Upgrades: 24
Total Downgrades: 26
Net Ratings Breakdown: Buy 53.08%; Hold 39.19%; Sell 7.73%

For the week ending Friday 27 August, there were twenty four upgrades and twenty six downgrades to ASX-listed companies by brokers in the FNArena database.

Several companies received ratings changes from two separate brokers. Iluka resources, Qube Holdings and Scentre Group had twin ratings upgrades while nib Holdings, experienced dual downgrades. The reasoning behind these changes is available at the FNArena Corporate Results Monitor. (https://www.fnarena.com/index.php/reporting_season/)

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

WiseTech Global had the largest percentage increase in forecast price target after a FY21 result beat, which set-off a spectacular rise in its shares on results day. This failed to inspire two of the four brokers that have so far maintained prior target prices. Citi noted a decline in both profit margin and acquired customer revenue, while R&D capitalisation increased. Despite lowering its rating to Neutral from Outperform, Credit Suisse can see the broader business strategy coming together and expects continued revenue growth.

Next was Charter Hall Group with FY21 operating earnings 7% ahead of guidance, driven by development income. Macquarie sees around 10% upside to FY22 guidance, while Credit Suisse cautions that a degree of faith in management is required as funds under management and all-in management fee expectations for the year ahead are not disclosed.

Cooper Energy was first on the table for the most material percentage fall in forecast price target last week, after its FY21 result and FY22 guidance missed consensus forecasts. Morgan Stanley downgraded its rating to Underweight from Equal-weight, which was partly attributable to rising uncertainty around the Sole project. More hopefully, Macquarie points to Phase 2B works at the Orbost gas plant as having potential to improve production rates and enable normal operations.

Coming second on the table was Monadelphous Group after a failure to fully recover costs has led to a substantial reduction in operating margins, explains UBS. The company has guided to lower FY22 revenue and Morgan Stanley expects input inflation and labour shortages will continue to plague the stock.

The recipient of the largest percentage rise in forecast earnings from brokers in the FNArena database was Pilbara Minerals. FY22 guidance surprised Ord Minnett to the upside, with improving spodumene shipments expected, while capital expenditure guidance was also lower than anticipated. However, the stock has already run hard and the broker downgrades to Hold from Buy.

Next up was Whitehaven Coal with FY21 operating earnings better than Macquarie expected. Also, Citi strategists raised second half 2021 coal price forecasts, with FY22 thermal coal estimates also rising by 11%. Meanwhile, Morgans forecasts net cash by the end of FY22, supporting dividend upside.

Last week, Star Entertainment Group was in receipt of the largest percentage downgrade to earnings forecasts from brokers in the FNArena database. Despite this, Morgans assessed it was a good performance by management to keep earnings flat in the midst of a complete disappearance of earnings from the International VIP business. The broker feels it's important to look past the next few months to the potential of the business coming out of lockdown.

Finally, oOh!media's first half revenue and earnings beat Ord Minnett's forecasts though lockdowns are expected to impact for an indeterminate length. Macquarie agrees and lowers EPS forecasts for FY21-23 by -88%, -39% and -37%, respectively. It's thought Fly and Locate (offices) may also remain structurally impacted post-covid. Though, with fixed costs now captured, any recovery will result in material positive operating leverage, points out the analyst.

Total Buy recommendations take up 53.08% of the total, versus 39.19% on Neutral/Hold, while Sell ratings account for the remaining 7.73%.

Upgrade

A2 MILK COMPANY LIMITED ((A2M)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/2

Cit came away from FY21 results encouraged by the resolution of the excess and dated inventory position, restructured distributor agreements, as well as improved inventory tracking and traceability systems. The rating increases to Buy from Neutral.

Most importantly for the analyst, the China brand health metrics remain positive, a sign that the brand is stronger and more resilient than previously thought.

The target price rises to $7.20 from $6.05 due to higher net cash, lower capex and a roll-forward of valuations to FY23. Citi highlights the company is working on innovations to improve its formulation and reduce reliance on a single product.

ADBRI LIMITED ((ABC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/5/1

First half results beat Macquarie's expectations. Adbri is progressing with increasing its infrastructure exposure, the broker ascertains.

Macquarie believes market conditions have bottomed and most of the structural headwinds such as lime and NSW cement are now more evident in terms of the impact.

Valuation is also more supportive and the broker upgrades to Outperform from Neutral. Target is raised to $3.80 from $3.20.

ADAIRS LIMITED ((ADH)) Upgrade to Add from Hold by Morgans .B/H/S: 2/1/0

Despite lowering EPS forecasts for FY22 after FY21 results, Morgans views Adairs as one of the cheapest retailers in the sector and upgrades its rating to Add from Hold. The price target eases to $4.20 from $4.46.

Mocka was the only disappointment for the analyst, with second half margins falling materially half-on-half due to a lower gross margin (supply chain challenges) and investment in talent and marketing.

Overall, FY21 produced a very strong period of growth in FY21, with heightened demand for product, material gross margin expansion and opex leverage, points out Morgans.

ARDENT LEISURE GROUP LIMITED ((ALG)) Upgrade to Buy from Sell by Ord Minnett .B/H/S: 2/0/0

Ardent Leisure reported a net loss of -$95.9m in FY21, an improvement on FY20 and better than Ord Minnett estimated. The broker believes the results have eased a number of its key concerns regarding the stock.

Strong trading has continued into early FY22, signalling demand is less led by stimulus than previously thought. Earnings are now returning to record levels, which reduces the concern that the private equity partner will be able to exercise the option over 51% of Main Event and reap the majority of upside from the recovery.

Moreover, a sale of Main Event would mean Ardent Leisure moves to a significant net cash position after some significant financial hurdles. All up, this is enough for Ord Minnett to multiple upgrade to Buy from Sell. Target is raised to $1.75 from $0.75.

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

Top-line metrics for FY21 were known following the trading update in July while UBS was mostly surprised by the 159% increase in second half sales and marketing costs.

Although the higher costs would have originally disappointed the market, the focus is now on the proposed acquisition by Square. The broker has now assumed the acquisition as a base case valuation and upgrades to Neutral from Sell, raising the target to $140 from $42.

UBS believes the ambitions for both companies are complementary and overlapping and this may attract regulatory scrutiny that is not priced in by the market.

APOLLO TOURISM & LEISURE LIMITED ((ATL)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

The FY21 earnings (EBIT) loss was in line with expectations and Morgans believes the liquidity position looks set to see the company through to other side of covid. The rating rises to Add from Hold and the target increases to $0.539 from $0.351.

Assuming key markets open up with increasing vaccination rates, the analyst can increasingly see the path to vastly improved earnings. The company has $48m in available liquidity currently.

Morgans highlights even just a freely operating domestic environment would lift earnings materially versus FY21.

BLACKMORES LIMITED ((BKL)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 1/4/1

Blackmores missed consensus FY21 earnings expectations, with A&NZ earnings down -31% on the previous period due to lower volumes from retail shuts and fewer international students and daigou shoppers.

China achieved significant underlying growth aided by the company building a new e-commerce capability, and international earnings grew 89% in the second half FY21 versus second half FY20, with covid introducing many new consumers to the vitamin/supplement category through immunity aids.

Credit Suisse notes with Blackmores staking out bold 2024 revenue targets in its FY21 result presentation, the broker recognises the company has advanced to the master class of projecting company value.

Credit Suisse notes Blackmores has laid out a stretch, but achievable, 2024 revenue target that was $100m (15%) above the broker's previous modelling.

Credit Suisse upgrades Blackmores to Outperform from Neutral rating and the target price increases to $100 from $77.

BORAL LIMITED ((BLD)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/3/1

According to Macquarie, Boral has reported a soft FY21 result in Australia, with the broker expecting covid to continue to impact on FY22 results.

Group earnings were at the upper end of the guidance range, but Australia was impacted by volume falls and soft pricing. The broker expects a slow, gradual recovery, and notes markets are unlikely to get worse although covid impacts could linger.

The broker has updated earnings per share forecasts by -34.3%, -12.7% and -5.6% through to FY24.

The rating is upgraded to Outperform from Neutral and the target price decreases to $7.30 from $7.80.

CLEANAWAY WASTE MANAGEMENT LIMITED ((CWY)) Upgrade to Neutral from Underperform by Credit Suisse.B/H/S: 3/4/0

Cleanaway Waste reported FY21 underlying earnings of $535m, in line with Credit Suisse forecast and consensus, while underlying attributable net profit of $151m was below expectations, due to higher D&A than the broker had forecast.

Mainly driven by increased landfill amortisation at Erskine Park, and full-year contribution from acquisitions and new contract wins, management expects D&A to step up further to -$290m (excl. Suez Sydney) in FY22.

While Cleanaway faces a period of severe headwinds, the broker suspects earnings growth momentum could return from second half FY22.

Credit Suisse has raised FY22 net revenue forecasts by 2%, to $2,330m on higher contribution from Solid Waste Services.

Credit Suisse has upgraded Cleanaway to Neutral from Underperform and increased the target to $2.60 from $2.40.

FINEOS CORPORATION HOLDINGS PLC ((FCL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/0/0

Fineos Corportion's FY21 result outpaced Ord Minnett's forecasts by 4% triggering upgrades, thanks to strong organic growth, topped up by acquisitions.

Covid hampered new customer additions but the company compensated with work from existing customers, highlighting the potential of the upgrade business.

The company guides to a stronger FY22, which should include a contribution from the newly acquired Spraoi as well as new customers. The broker notes the strong cross-sell and up-sell pipeline and spies looming growth expenses.

Ord Minnett upgrades to Accumulate from Hold. Target price rises to $4.54 from $4.01.

HUB24 LIMITED ((HUB)) Upgrade to Add from Hold by Morgans .B/H/S: 4/1/0

Morgans assesses an in-line overall FY21 result, with the Platform revenue margin a slight miss on the back of revenue margin compression. Management stated the Administration fee pricing environment is stable and operating margin expansion is expected.

In moving back to a long-term view, the analyst upgrades the rating to Add from Hold. It's felt scale benefits will deliver a step-change in earnings over the next three years, with long-term growth supported by the entrenched nature of the platform within the adviser base.

Morgans lifts its target price to $31.65 from $28.05.

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Buy from Neutral by Citi and Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/3/0

Iluka Resources' first half underlying earnings were in-line with consensus expectations, although an -8% miss on Citi's forecast. Net profit was -20% below expectations, but the broker notes results were impacted by non-cash inventory moves that were difficult to forecast.

Looking forward, Citi notes the SR1 kiln restart is now committed. Both the Narngulu MSP and SR2 Kiln are at full capacity, and Citi notes production will likely constrain second half sales.

Citi increases underlying earnings forecast for FY23 by 14%.

The rating is upgraded to Buy from Neutral and the target price increases to $10.00 from $9.10.

Principally driven by $17m non-cash inventory, Iluka Resoures first half FY21 underlying net profit ($135m) was -15% lower than consensus ($159m), and a 12cps interim dividend was also softer than consensus expectation (13.8cps).

Iluka announced a restart of the second synthetic rutile kiln.

While Credit Suisse believes the company is rich in catalysts, the broker believes the key catalyst is the feasibility study for a rare earths refinery due early 2022, for which the broker believes the Street has high hopes.

Credit Suisse upgrades Iluka Resources to Neutral from Underperform and the target increases to $8.80 from $7.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/1/0

Further to yesterday's response to the FY21 results, Ord Minnett observes FY22 guidance for a flat EBIT outcome seems difficult to achieve.

There is valuation appeal in the stock, nevertheless, and recent corporate interest and the $150m share buyback could help it recover some ground.

Hence, the broker upgrades to Accumulate from Hold, while reducing the target to $5.00 from $5.75.

See also LNK downgrade.

MONADELPHOUS GROUP LIMITED ((MND)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 2/3/0

For Ord Minnett's initial response, see yesterday's report. Monadelphous Group's FY21 result fell shy of the broker and consensus by -4% and -5% and the company guided to lower FY22 revenue.

On closer inspection, the broker upgrades to Buy from Hold. Target price eases to $11.50 from $12.

Ord Minnett expects headwinds to continue this year (noting the unprecedented shortfall of skilled labour) but appreciates the company's operational history, its strong market position in WA and healthy net cash balance.

As conditions normalise, the broker expects the company will expand margins and profit, so given the recent sell-off, it favours buying now, spying 14% upside to its revised target price despite steady margins and a -16% fall in construction revenue.

QUBE HOLDINGS LIMITED ((QUB)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Hold from Reduce by Morgans .B/H/S: 3/3/0

On the back of a strong FY21 result, upbeat outlook, and expected buyback from Moorebank proceeds, Credit Suisse has upgraded Qube Holdings to Outperform from Neutral, and the target price increases to $3.30 from $3.

Qube is due to complete the sale of Moorebank warehousing to the Logos consortium in December with $1.36bn of proceeds on
completion and $312m deferred.

The broker makes minimal changes to FY22 net profit forecast of $197m (23% growth) but trims FY23 -4% and FY24 -9% on lower margin assumptions.

Credit Suisse forecasts $600m of share buyback to be announced at first half FY22 results.

Morgans upgrades its rating to Hold from Reduce and raises its target price to $2.90 from $2.80. This comes after the FY21 result delivered growth in cashflows that were stronger than expected though earnings were weaker than forecast.

Management is confident of solid earnings growth in FY22, while the Moorebank Property sale will allow for growth and capital management opportunities. The broker feels the earnings growth and balance sheet stories may support the stock.

SOUTH32 LIMITED ((S32)) Upgrade to Add from Hold by Morgans .B/H/S: 7/0/0

The FY21 result was ahead of Morgans estimates, and the broker upgrades its rating to Add from Hold given recent share price weakness. FY22 guidance was considered mixed, leading to higher production assumptions across some operations along with higher costs.

While cost pressures across the alumina smelters look like a key challenge heading into FY22, they look well covered by strength in metal prices, explains the broker. The target price rises to $3.30 from $3.15.

SCENTRE GROUP ((SCG)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Buy from Hold by Ord Minnett.B/H/S: 2/2/2

Scentre Group's first-half FY21 result was in line with Credit Suisse, with funds from operations (FFO) up 28% over the previous period to $463.4m, aided by lower credit loss provisions, partially offset by higher net interest costs, with no reversal of FY20 provisions boosting the result.

With restrictions impacting the portfolio, as well as mandated rent relief in NSW and Victoria, Credit Suisse expects second-half FY21 to be weaker.

The Group has not disclosed its expectations for likely rent relief.

The broker has revised FY21-FY23 FFOps estimates by -12.8% and 1.1% respectively but sees scope for earnings recovery over the medium term, albeit not to pre-covid levels.

Credit Suisse upgrades the group to Outperform from Neutral. Target is raised to $3.01 from $2.97.

Scentre Group's first half FY21 funds from operations were up 28% from a year ago but shy of Ord Minnett's forecast. The result was nevertheless of better than expected quality, with property net operating income stabilising at a higher level than assumed.

Retail conditions broadly improved within the portfolio in the period, although new lockdowns cloud the second-half outlook, the broker notes. But sales and visitation data show that the centres rebound quickly once restrictions are eased.

Current valuation implies a further drop in asset values, with no value for funds management and development. Hence the broker upgrades to Buy from Hold. Target rises to $3.20 from $3.00.

STOCKLAND ((SGP)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 3/3/0

FY21 results were in line with the top end of guidance and slightly below Ord Minnett's forecast. The broker highlights the strong residential sales in the fourth quarter and the growing commercial development pipeline.

FY22 guidance is in line with expectations. As the stock is trading in line with the target, raised to $4.60 from $4.20, Ord Minnett upgrades to Hold from Lighten.

SMARTGROUP CORPORATION LIMITED ((SIQ)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0

Smartgroup Corp's first half profit (NPATA) was in-line with Morgans estimate. Novated lease orders were around 3% above pre-covid levels though settlements lagged by circa -11% below pre-covid, given vehicle supply constraints, explains the broker.

Current debt level allows for another special dividend or acquisitions, in the analyst's view, with a 14.5c special dividend in the second half seen as likely. Major contract risk has largely passed, and add-on insurance earnings risk is now considered manageable.

While expecting relatively low growth, Morgans thinks the current free cashflow yield and balance sheet strength are fairly attractive. The broker raises its rating to Add from Hold and lifts its target price to $8.35 from $7.88.

VIVA ENERGY GROUP LIMITED ((VEA)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 6/0/0

Capital allocation has strongly differentiated Viva Energy from Ampol ((ALD)) currently, with the company electing to undertake an $100m capital return and $40m buyback.

Credit Suisse believes a new dividend policy also aims to increase certainty and has upgraded Viva Energy to Outperform from Neutral due to the solid underlying performance and capital management.

Target rises to $2.25 from $2.14.

WESTERN AREAS LIMITED ((WSA)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 1/5/0

Western Areas' FY21 result was broadly as expected, and Credit Suisse has upgraded the company to Neutral from Underperform having taken the view that existing shareholders have limited reason to sell while a takeover is being considered.

The broker's upgrade also acknowledges that an offer is not guaranteed and that a 19% premium is already built into the valuation.

Credit Suisse notes while the key downside risk to the company is if an offer doesn’t materialise, the risk beyond this is if nickel prices decline as per the broker's forecast. Upside is predominantly on 30%-plus premium offers.

Price target increases to $3.25 from $2.

See also WSA downgrade.

<u>Downgrade</u>

AUSTRALIAN UNITY OFFICE FUND ((AOF)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/1/0

Australian Unity Office Fund reported FY21 funds from operations in line with Ord Minnett. FY22 guidance nevertheless disappointed, given the potential plan to divest of an asset in Paramatta in the third quarter, albeit marketing is still ongoing.

The REIT remains in discussions with Telstra with regard a block in Adelaide, but covid is slowing the process. There was no new news on the progress of the proposed merger with the unlisted Diversified Property Fund.

The REIT trades at an attractive discount to asset value but given uncertainty regarding both lease expiries and the merger, the broker downgrades to Hold from Accumulate. Target falls to $2.41 from $2.43.

AUSTAL LIMITED ((ASB)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 2/2/0

Austal's FY21 result was in line with expectations, with margin improvement in the US offset by margin deterioration in Australasia, mainly due to low margin emergent support work in second half FY21.

While management guided to $1.5bn, tracking lower on FY21, Credit Suisse views this as conservative, with near-term opportunities that the broker thinks could be crystallised in second half FY22: Notably, the Offshore Patrol Cutter (OPC) program that Austal is bidding for which is expected to be awarded in fourth quarter FY22.

The broker has cut FY22 earnings estimates -16%, on lower US revenue contribution and lower margin in Australasia due to reduced throughput and low margin emergent work.

Credit Suisse downgrades Austal to Neutral from outperform and the target price is lowered to $2.25 from $2.75.

ALUMINA LIMITED ((AWC)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/2/1

Citi assesses a modest first half beat though second half dividends will likely be lower on higher capex and downgrades its rating to Neutral from Buy. The target price falls to $1.80 from $1.90 on higher assumed costs.

The analyst feels the recent resource sector correction sees improved relative valuation elsewhere in the sector. Management expects ex-China aluminium production to increase in the second half 2021 and this will be positive for alumina prices, notes the broker.

CHARTER HALL GROUP ((CHC)) Downgrade to Neutral from Buy by UBS .B/H/S: 4/2/0

FY21 results were ahead of UBS estimates. Earnings forecasts for FY22 are upgraded by 16% and the broker is impressed by guidance for more than 23% growth in FY22. UBS now forecasts $144m in performance fees in FY22.

The broker notes the market has quickly moved to price in upgrades to guidance as the company has a strong track record.

Rating is downgraded to Neutral from Buy on valuation grounds as the market adjusts to a new lower growth profile from elevated earnings. Target is raised to $19.30 from $17.00.

COOPER ENERGY LIMITED ((COE)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/2/1

Cooper Energy's FY21 result and FY22 guidance missed consensus forecasts.

Morgan Stanley downgrades the company to Underweight from Equal-weight to reflect rising risks and uncertainty around Project Sole and the costs associated with the Basker Manta Gummy abandonment.

Low production and Cooper's requirement to purchase gas on market to meet contract obligation, thanks to the underperforming Project Sole, is expected to continue to dog the company.

The broker expects some improvement in the share price, although less than peers. Morgan Stanley prefers Senex Energy ((SXY))

Target price is 23c. Industry view: Attractive.

DELOREAN CORPORATION LIMITED ((DEL)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Delorean Corp released a draft result for FY21 with an expected -$3.4m loss after tax, notes Morgans. While some timing issues were considered to impact, -$1.2m of additional costs (pre-tax) were incurred in energy retailing, covid impacts on projects and overheads.

As a result, the broker downgrades the rating to Hold from Speculative Buy and lowers its target price to $0.20 from $0.25. The result highlights to Morgans the inherent risks in the businesses. Volatile electricity markets can disrupt energy retailing margins.

Additionally, the analyst highlights the energy saving performance contract (EPC) businesses can also face unexpected cost blowouts, which are difficult to mitigate.

FLIGHT CENTRE TRAVEL GROUP LIMITED ((FLT)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/5/1

Further to the initial response to the FY21 results, Ord Minnett assesses Flight Centre faces its greatest challenge over coming years not just recovery from the pandemic but structural change in the travel agency revenue model in Australasia.

The broker's analysis suggests a combined impact of downward pressure on commissions, overriders and GDS income will have a material impact on margins. The main task is reducing costs at a sufficient rate in order to protect earnings.

Ord Minnett downgrades to Lighten from Hold on valuation grounds and reduces the target to $13.72 from $15.06.

HANSEN TECHNOLOGIES LIMITED ((HSN)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

FY21 results were in line with guidance and forecasts. No earnings guidance was issued for FY22. The revenue performance in FY21 was boosted by the contract with Telefonica.

The exclusive due diligence period for the proposed takeover by BGH Capital has been extended and Ord Minnett considers the prospect of a competing bid now unlikely. Hence, the rating is downgraded to Hold from Buy. Target is reduced to $6.50 from $7.50.

INGHAMS GROUP LIMITED ((ING)) Downgrade to Hold from Add by Morgans .B/H/S: 2/3/0

Despite an impressive FY21 result which beat expectations on a number of fronts, Morgans moderates forecasts given lockdowns in both Australia and New Zealand and uncertainty over 2H22 grain input costs. The rating slips to Hold from Add after a strong share rally.

The broker still forecasts modest growth in FY22 given management's expectations for volume growth and further operational benefits. Morgans would be buyers of the stock on any material weakness and increases its target price to $4.35 from $4.27.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/1/0

For Citi's initial response to FY21 results, see yesterday's Report.

The analyst notes earnings (EBITDA) were a miss, driven by lower revenues, particularly in corporate markets, while guidance for operating earnings (EBIT) to be “broadly in line with FY21“ is thought soft compared to the analyst's forecast for 16% growth.

Citi lowers lower EPS forecasts considerably, despite factoring in the announced $150m buyback. Although the stock looks relatively inexpensive if Pexa Group ((PXA)) is valued at market, it's seen as a likely value trap for now.

The broker lowers its rating to Neutral from Buy and its target price to $4.75 from $5.70.

See also LNK upgrade.

NANOSONICS LIMITED ((NAN)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/1

Morgans sees a significant improvement in the second half and expects momentum to continue after the release of FY21 results. As a result of a strong share price the broker lowers its rating to Hold from Add while increasing its target price to $7.26 from $6.57.

Unit sales were up 3,030 units with the second half up 20% on the first, which reflects business opening up and likely to continue in FY22, thinks the analyst. Management updated on its next major product a “flexible endoscope”, potentially due for commercial launch in 2023.

The company also highlighted an increase in the total addressable market for Trophon2 to 60,000 units from 40,000 in the US. Other regions of Europe and ROW remain at 40,000 units each. The latter is likely understated, according to the broker.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 5/2/0

Macquarie reports while Newcrest Mining's full-year result was strong, with underlying earnings and free cash flow beating forecasts by 11% and 41% respectively, FY22 guidance on costs and capital expenditure were both higher than expected.

The broker notes the capital cost for the Cadia 1-2 panel cave was 12% higher than forecast. Given higher cost guidance, Macquarie has reduced free cash flow generation to US$0.5bn over the next four years.

Macquarie updates earnings per share forecasts by -15% in FY22, and -2%, 9%, -7% and -2% through to FY26.

The rating is downgraded to Neutral from Outperform and the target price decreases to $27.00 from $30.00.

NIB HOLDINGS LIMITED ((NHF)) Downgrade to Hold from Accumulate by Ord Minnett and Downgrade to Sell from Neutral by Citi.B/H/S: 0/6/1 nib Holdings' reported profit came in below Ord Minnett's forecast. The result was strong in the Australian Residents Health Insurance division but disappointing in the International Inbound Health Insurance business, due to a sharp claims increase.

FY22 suggests International will again be very weak and loss-making but nib appears set to keep a material portion of the large covid benefits expected in FY22 for shareholders to boost Residents margins and offset International pressures.

On a net basis, this may make for a tougher premium setting. The broker pulls back to Hold from Accumulate, target falls to $7.00 from $7.08.

International business was the big disappointment in nib Holdings' FY21 results, according to Citi. The broker notes the international sector not only reported a loss, despite the company reiterating profitability earlier in the year, but nib Holdings is also pointing to the return of international travel as the inflection point for profit.

Inbound international health insurance (iihi) appeared to be profitable in early May, but several high cost claims led to a -$5.9m loss in the fourth quarter according to Citi. Given the outlook on international, the broker has updated earnings per share forecasts by -4% for FY22 and -4% for FY23.

Citi notes while the arhi business is likely to continue to benefit from some covid-related claims, these are likely temporary.

The rating is downgraded to Sell from Neutral and the target price decreases to $6.30 from $6.40.

NATIONAL STORAGE REIT ((NSR)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/3/1

FY21 earnings were slightly below Ord Minnett's forecast. FY22 guidance is for at least 10% growth in underlying earnings per share.

Ord Minnett likes the consolidation (National Storage completed 25 acquisitions in FY21) and significant improvement in operating metrics and believes storage remains undervalued in Australia.

Following a strong run up the share price, the rating is downgraded to Hold from Accumulate. Target is raised to $2.30 from $2.20.

1300 SMILES LIMITED ((ONT)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

1300 Smiles has received a takeover offer from Abano Healthcare. Under the offer non-founding shareholders will receive $8.00 per share and founder shares will be offered $6.33.

The offer is currently subject to Foreign Investment Review Board approval, which Morgans expects to be likely, as well as a number of clauses, including that founders retain 26.2% of their shares.

Morgans considers the offer to be fairly valued and has upgraded the target price accordingly.

The rating is downgraded to Hold from Add and the target price increases to $8.00 from $7.82.

PILBARA MINERALS LIMITED ((PLS)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 1/3/0

FY21 underlying operating earnings (EBITDA) were in line with Ord Minnett's forecasts. FY22 guidance has surprised to the upside, with spodumene shipments expected to be 440-490,000t.

Capital expenditure guidance is also lower than anticipated but has led to the broker pushing out of the next expansion at Pilgangoora.

Despite the strong outlook for lithium markets and the company's positioning, the stock has run hard and Ord Minnett downgrades to Hold from Buy. Moreover, the broker sees no significant stock-specific catalysts on the horizon. Target is reduced to $2.40 from $2.50.

PSC INSURANCE GROUP LIMITED ((PSI)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

PSC Insurance Group's FY21 result was a 3% beat over Macquarie's underlying profit (NPATA) forecast, largely due to lower costs and interest expenses. On valuation and lower upside risk from acquisitions, the broker lowers its rating to Neutral from Outperform.

The broker estimates the group has around $36m of acquisition capacity left compared to the mid-point of the gearing target range. FY22 guidance is for earnings (EBITDA) of $84m-$89m and profit of between $54m-$58m. Target rises to $4.10 from $3.85.

REECE LIMITED ((REH)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/0/4

For a summary of Ord Minnett's response to the Reece result see yesterday's Report.

Subsequent to the beat on earnings, the broker increases its target to $18.00 from $16.00. But on 12-month share price outperformance, downgrades to Lighten from Hold.

RELIANCE WORLDWIDE CORP. LIMITED ((RWC)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/3/0

UBS notes, following a strong FY21 result, top line growth has started to moderate. Several factors suggest to the broker that Reliance Worldwide is unlikely to experience above-normal volume growth going forward.

Combined with declining margins this results in the broker's forecast for net profit to decline -9% in FY22. After a strong share price performance UBS downgrades to Neutral from Buy. Target is reduced to $5.90 from $6.16.

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

Further to the first half results, Ord Minnett notes the company is confident regarding the market conditions, largely relying on the 5G roll-out in mobile and fixed wireless to drive revenue growth.

As the stock has performed strongly and is nearing valuation the broker downgrades to Hold from Buy while raising the target to $6.85 from $6.50.

UNITI GROUP LIMITED ((UWL)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/2/0

FY21 results were ahead of Macquarie's expectations. The broker notes cash flow is supporting de-gearing and capital flexibility. Margin improvements were driven by the core network platform.

Despite material upgrades to the broker's forecasts, the share price currently appears to reflect growth and the rating is downgraded to Neutral from Outperform. Target is raised to $4.13 from $3.36.

VIVA LEISURE LIMITED ((VVA)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/1/0

FY21 results revealed the adverse impact of the lockdowns on earnings. Citi expects this will overshadow the network expansion opportunities over the longer term.

With 85% of the locations temporarily closed and the company concentrating on cash preservation, the broker downgrades to Neutral from Buy. Target is reduced to $1.75 from $2.50.

WAGNERS HOLDING CO. LIMITED ((WGN)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/1/0

FY21 results marginally missed Macquarie's forecasts. Yet the CMS performance was strong and management remains confident about volume growth. On the other hand, market capacity issues in south-east Queensland continue to put pressure on concrete prices.

The company remains hopeful that the easing impact of the pandemic will support a gradual recovery in infrastructure expenditure. Macquarie downgrades to Neutral from Outperform. Target is reduced to $2.05 from $2.25.

WESTERN AREAS LIMITED ((WSA)) Downgrade to Hold from Add by Morgans .B/H/S: 1/5/0

Morgans downgrades its rating to Hold from Add with moves in the share price now expected to be driven by any takeover process and the potential emergence of other suitors. FY21 results were considered in-line with expectations. No dividend was declared for FY21.

Refreshed production forecasts and an updated resource multiple valuation leads the analyst to lift the target price to $3 from $2.69.

See also WSA upgrade.

WISETECH GLOBAL LIMITED ((WTC)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 1/3/0

Revenue momentum, partly masked by forex headwinds, and the benefits of the broader business strategy coming together were both clearly evident at WiseTech Global's FY21 result, comments Credit Suisse.

Credit Suisse expects continued revenue growth and margin expansion but notes the rate of margin expansion has likely peaked, and, particularly after the FY22 cost-out program, cost growth is likely to return to higher levels.

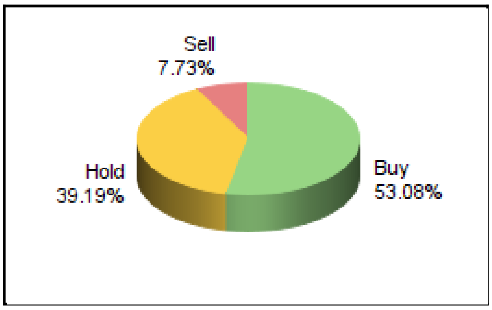
Credit Suisse notes FY22 guidance of $600-635m requires 18% to 25% reported revenue growth and 21% to 28% forex neutral growth.

The broker raises FY22, FY23, and FY24 underlying earnings per share (EPS) by 10%, 8%, and 7% respectively.

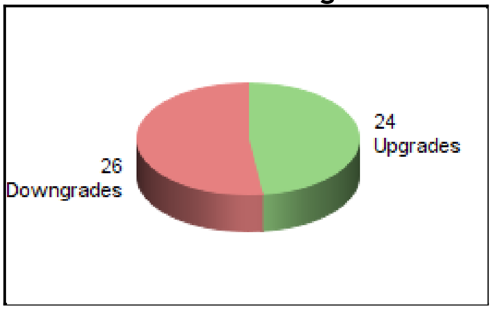
Revised FY22
revenue and earnings forecasts of $620m and $273m are roughly at guidance midpoints.

Credit Suisse downgrades to Neutral from Outperform and the target increases to $45 from $34.

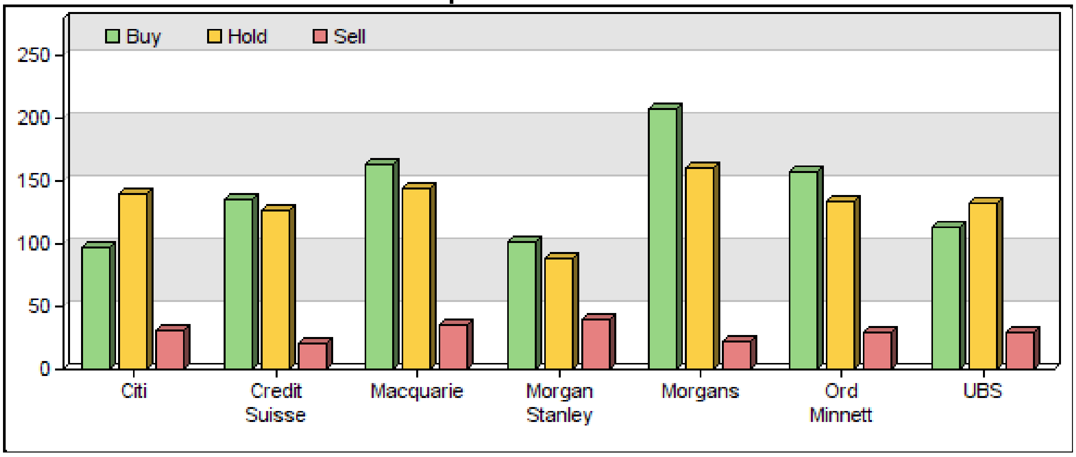
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	A2 MILK COMPANY LIMITED	Buy	Neutral	Citi
2	ADAIRS LIMITED	Buy	Neutral	Morgans
3	ADBRI LIMITED	Buy	Neutral	Macquarie
4	AFTERPAY LIMITED	Neutral	Sell	UBS
5	APOLLO TOURISM & LEISURE LIMITED	Buy	Neutral	Morgans
6	ARDENT LEISURE GROUP LIMITED	Buy	Sell	Ord Minnett
7	BLACKMORES LIMITED	Buy	Neutral	Credit Suisse
8	BORAL LIMITED	Buy	Neutral	Macquarie
9	CLEANAWAY WASTE MANAGEMENT LIMITED	Neutral	Sell	Credit Suisse
10	FINEOS CORPORATION HOLDINGS PLC	Buy	Neutral	Ord Minnett
11	HUB24 LIMITED	Buy	Neutral	Morgans
12	ILUKA RESOURCES LIMITED	Neutral	Sell	Credit Suisse
13	ILUKA RESOURCES LIMITED	Buy	Neutral	Citi
14	LINK ADMINISTRATION HOLDINGS LIMITED	Buy	Neutral	Ord Minnett
15	MONADELPHOUS GROUP LIMITED	Buy	Neutral	Ord Minnett
16	QUBE HOLDINGS LIMITED	Neutral	Sell	Morgans
17	QUBE HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
18	SCENTRE GROUP	Buy	Neutral	Ord Minnett
19	SCENTRE GROUP	Buy	Neutral	Credit Suisse
20	SMARTGROUP CORPORATION LIMITED	Buy	Neutral	Morgans
21	SOUTH32 LIMITED	Buy	Neutral	Morgans
22	STOCKLAND	Neutral	Sell	Ord Minnett
23	VIVA ENERGY GROUP LIMITED	Buy	Neutral	Credit Suisse
24	WESTERN AREAS LIMITED	Neutral	Sell	Credit Suisse
Downgrade				
25	1300 SMILES LIMITED	Neutral	Buy	Morgans

26	ALUMINA LIMITED	Neutral	Buy	Citi
27	AUSTAL LIMITED	Neutral	Buy	Credit Suisse
28	AUSTRALIAN UNITY OFFICE FUND	Neutral	Buy	Ord Minnett
29	CHARTER HALL GROUP	Neutral	Buy	UBS
30	COOPER ENERGY LIMITED	Sell	Neutral	Morgan Stanley
31	DELOREAN CORPORATION LIMITED	Neutral	Buy	Morgans
32	FLIGHT CENTRE TRAVEL GROUP LIMITED	Sell	Neutral	Ord Minnett
33	HANSEN TECHNOLOGIES LIMITED	Neutral	Buy	Ord Minnett
34	INGHAMS GROUP LIMITED	Neutral	Buy	Morgans
35	LINK ADMINISTRATION HOLDINGS LIMITED	Neutral	Buy	Citi
36	NANOSONICS LIMITED	Neutral	Buy	Morgans
37	NATIONAL STORAGE REIT	Neutral	Buy	Ord Minnett
38	NEWCREST MINING LIMITED	Neutral	Buy	Macquarie
39	NIB HOLDINGS LIMITED	Sell	Neutral	Citi
40	NIB HOLDINGS LIMITED	Neutral	Buy	Ord Minnett
41	PILBARA MINERALS LIMITED	Neutral	Buy	Ord Minnett
42	PSC INSURANCE GROUP LIMITED	Neutral	Buy	Macquarie
43	REECE LIMITED	Sell	Neutral	Ord Minnett
44	RELIANCE WORLDWIDE CORP. LIMITED	Neutral	Buy	UBS
45	TPG TELECOM LIMITED	Neutral	Buy	Ord Minnett
46	UNITI GROUP LIMITED	Neutral	Buy	Macquarie
47	VIVA LEISURE LIMITED	Neutral	Buy	Citi
48	WAGNERS HOLDING CO. LIMITED	Neutral	Buy	Macquarie
49	WESTERN AREAS LIMITED	Neutral	Buy	Morgans
50	WISETECH GLOBAL LIMITED	Neutral	Buy	Credit Suisse

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	ADH	ADAIRS LIMITED	67.0%	33.0%	34.0%	3
2	QUB	QUBE HOLDINGS LIMITED	42.0%	8.0%	34.0%	6
3	SGP	STOCKLAND	50.0%	25.0%	25.0%	6
4	BLD	BORAL LIMITED	-8.0%	-30.0%	22.0%	6
5	MND	MONADELPHOUS GROUP LIMITED	40.0%	20.0%	20.0%	5
6	SIQ	SMARTGROUP CORPORATION LIMITED	60.0%	40.0%	20.0%	5
7	HUB	HUB24 LIMITED	70.0%	50.0%	20.0%	5
8	APT	AFTERPAY LIMITED	50.0%	33.0%	17.0%	6
9	VEA	VIVA ENERGY GROUP LIMITED	92.0%	75.0%	17.0%	6
10	OZL	OZ MINERALS LIMITED	36.0%	21.0%	15.0%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	PRU	PERSEUS MINING LIMITED	67.0%	100.0%	-33.0%	3
2	WGN	WAGNERS HOLDING CO. LIMITED	67.0%	100.0%	-33.0%	3
3	NCM	NEWCREST MINING LIMITED	71.0%	100.0%	-29.0%	7
4	WTC	WISETECH GLOBAL LIMITED	25.0%	50.0%	-25.0%	4
5	PLS	PILBARA MINERALS LIMITED	25.0%	50.0%	-25.0%	4
6	ASB	AUSTAL LIMITED	50.0%	75.0%	-25.0%	4
7	NHF	NIB HOLDINGS LIMITED	-14.0%	7.0%	-21.0%	7
8	COE	COOPER ENERGY LIMITED	20.0%	40.0%	-20.0%	5
9	ING	INGHAMS GROUP LIMITED	40.0%	60.0%	-20.0%	5
10	APA	APA GROUP	42.0%	60.0%	-18.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WTC	WISETECH GLOBAL LIMITED	39.125	33.225	17.76%	4
2	CHC	CHARTER HALL GROUP	19.845	16.883	17.54%	6

3	APT	AFTERPAY LIMITED	141.683	122.233	15.91%	6
4	WSA	WESTERN AREAS LIMITED	2.908	2.627	10.70%	6
5	RWC	RELIANCE WORLDWIDE CORP. LIMITED	6.250	5.660	10.42%	6
6	PLS	PILBARA MINERALS LIMITED	1.945	1.795	8.36%	4
7	REH	REECE LIMITED	17.020	15.760	7.99%	5
8	WHC	WHITEHAVEN COAL LIMITED	2.736	2.586	5.80%	7
9	FCL	FINEOS CORPORATION HOLDINGS PLC	4.655	4.418	5.36%	4
10	HUB	HUB24 LIMITED	29.790	28.320	5.19%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	COE	COOPER ENERGY LIMITED	0.272	0.342	-20.47%	5
2	MND	MONADELPHOUS GROUP LIMITED	10.968	12.398	-11.53%	5
3	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	5.208	5.633	-7.54%	5
4	ASB	AUSTAL LIMITED	2.600	2.800	-7.14%	4
5	NCM	NEWCREST MINING LIMITED	30.283	32.019	-5.42%	7
6	ADH	ADAIRS LIMITED	4.233	4.437	-4.60%	3
7	APA	APA GROUP	10.105	10.548	-4.20%	6
8	WGN	WAGNERS HOLDING CO. LIMITED	2.283	2.383	-4.20%	3
9	IGO	IGO LIMITED	7.490	7.725	-3.04%	5
10	PRU	PERSEUS MINING LIMITED	1.700	1.750	-2.86%	3

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	PLS	PILBARA MINERALS LIMITED	8.120	-0.690	1276.81%	4
2	WHC	WHITEHAVEN COAL LIMITED	29.496	-6.651	543.48%	7
3	EHE	ESTIA HEALTH LIMITED	7.900	1.350	485.19%	4
4	ORE	OROCOBRE LIMITED	9.757	-6.263	255.79%	7
5	WSA	WESTERN AREAS LIMITED	3.336	-2.793	219.44%	6
6	PRU	PERSEUS MINING LIMITED	17.377	7.287	138.47%	3
7	S32	SOUTH32 LIMITED	30.288	14.367	110.82%	7
8	HDN	HOMECO DAILY NEEDS REIT	8.250	3.975	107.55%	4
9	IEL	IDP EDUCATION LIMITED	38.780	18.860	105.62%	5
10	APT	AFTERPAY LIMITED	1.116	-22.674	104.92%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SGR	STAR ENTERTAINMENT GROUP LIMITED	4.958	12.338	-59.82%	6
2	OML	OOH!MEDIA LIMITED	3.017	6.267	-51.86%	3
3	SYD	SYDNEY AIRPORT	-10.425	-7.299	-42.83%	5
4	RMS	RAMELIUS RESOURCES LIMITED	9.733	16.033	-39.29%	3
5	NCM	NEWCREST MINING LIMITED	141.127	192.396	-26.65%	7
6	HUM	HUMM GROUP LIMITED	10.967	14.600	-24.88%	3
7	EML	EML PAYMENTS LIMITED	5.833	7.650	-23.75%	3
8	EVN	EVOLUTION MINING LIMITED	16.767	21.984	-23.73%	7
9	APX	APPEN LIMITED	37.868	49.185	-23.01%	5
10	GEM	G8 EDUCATION LIMITED	4.233	5.467	-22.57%	3

Technical limitations

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

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

WEEKLY REPORTS

Uranium Week: Kazatomprom Weighs Up Inventory Purchases

As the uranium spot price reaches another year high for 2021, Kazatomprom releases half year results and jockeying continues around Exelon Corp's at-risk reactors.

-Kazatomprom may require second half spot purchases
-Emergency powers sought for Exelon Corp's reactors
-Uranium spot price rises over 2% for the week

By Mark Woodruff

At half year results last week, Kazakhstan uranium producer **Kazatomprom stated it may buy additional material in the spot market during the second half of this year to keep its inventories within its targeted range and to meet sales commitments** for the rest of 2021.

CEO Galymzhan Pirmatov also noted that due to the covid-19 pandemic and uncertain market sentiment, the company is extending the -20% reduction of its production against subsoil use agreements for another year, through 2023.

While first half production volumes were similar to the first half of 2020, revenue increased 54% year-on-year, driving a more than a 30% increase in adjusted net profit.

The company noted its inventory totaled 23.4mlbs on June 30, which was -20% below total inventory a year ago. The target is for an ongoing inventory level of approximately six to seven months of annual attributable production or between 58.5-59.3mlbs in 2021. Hence, the company will likely be purchasing material on the uranium spot market in an effort to meet these inventory targets.

At-risk Exelon reactors

Illinois congressman Adam Kinzinger has called on President Joe Biden to consider the use of emergency powers to keep the Exelon Corp-owned Byron and Dresden nuclear power plants in operation.

The request was made for a period until at least the enactment of new state or federal laws to ensure a "level playing field" for such plants.

Separately, Exelon said its Illinois nuclear fleet, including Byron and Dresden, operated at full power levels during the hottest July on record.

Company news

ASX-listed **Okapi Resources** ((OKR)) last week finalised the acquisition of Tallahassee Resources and its portfolio of large, high-grade uranium projects in the US.

Tallahassee holds a 100% interest in mineral rights that cover around 7,500 acres in the Tallahassee Creek Uranium District of Colorado. It also has an option to acquire 100% of the Rattler Uranium Project, in north-eastern Utah.

Okapi executive director David Nour said "This acquisition is truly transformational for Okapi and underpins our new strategy to become one of the most prominent uranium developers in North America."

A JORC 2004 Mineral Resource estimate indicates the Tallahassee Uranium Project contains 26mlbs of uranium, with significant exploration upside.

Uranium pricing

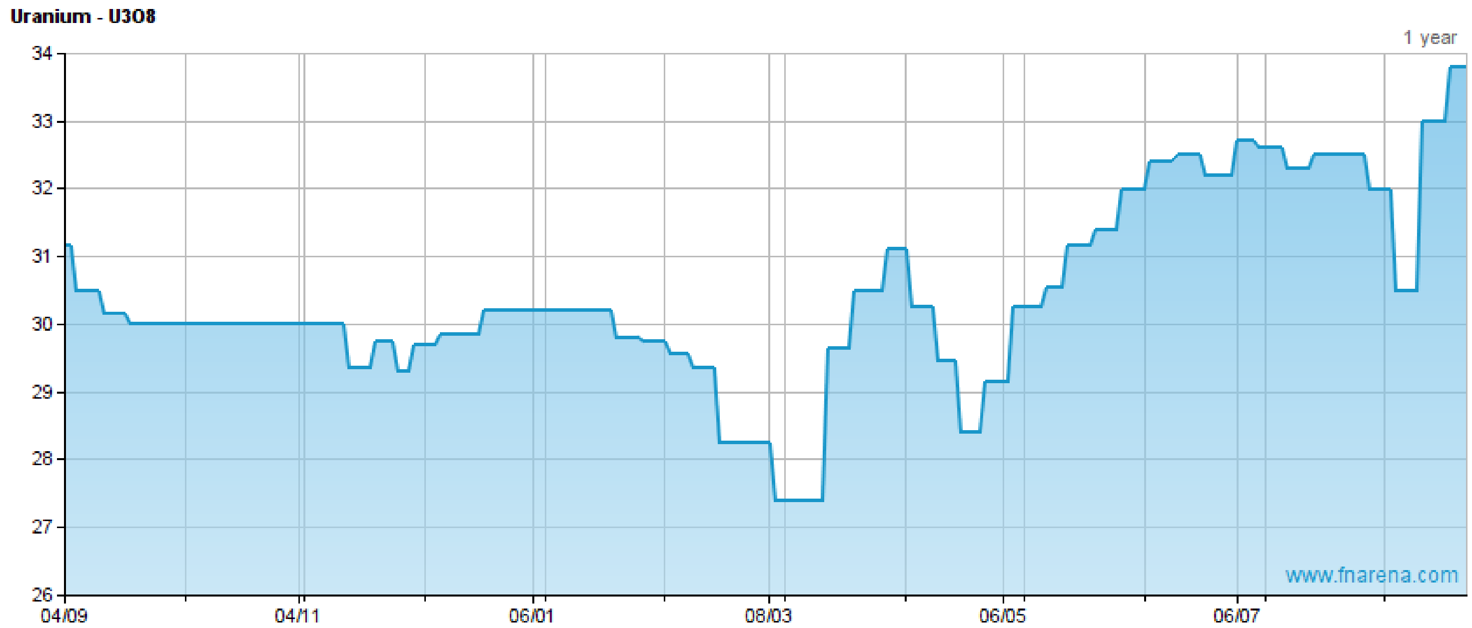
TradeTech's Weekly **Spot Price** Indicator is US$33.80/lb, up US$0.80 from the prior week. The Indicator has risen nearly 11% in the last two weeks and sits 10% above the value from one year ago.

The average Weekly Spot Price Indicator in 2021 is US$30.66/lb, US$0.95 above the 2020 average.

TradeTech's **term price** indicators are US$33.50/lb (mid) and US$35/lb (long).

At a time when the spot price is on the rise and term competition remains intense, term producers face a conundrum, highlights TradeTech. At the same time as desiring to rebuild their portfolios, current term prices are less than required to cover production costs.

As utility demand is extremely limited to date, sellers continue to submit offers with lower prices and smaller quantities now, in an effort to help underpin their portfolios until term prices adjust to a level more commensurate with production costs.



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

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

WEEKLY REPORTS

The Short Report - 02 Sep 2021

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

Summary:

Week Ending August 26, 2021.

The week prior had seen the ASX200 drop -2.5% on concerns over delta, Chinese slowing and Fed tapering. Last week the index tried to graft back, in choppy fashion.

It was also the busiest week of earnings reports by a significant margin.

I noted in last week's Report that the travel agent stocks had all soared on a plan to have everyone home for Christmas, i.e. interstate. While some short covering was evident in those sharp rallies, it was not material.

Webjet ((WEB)) shorts fell to 9.9% from 11.6%, and Flight Centre ((FLT)) shorts fell to 10.2% from 11.6%.

Kogan ((KGN)) reported early last week and posted a shocker, falling heavily on the day. Last week Kogan shorts rose to 9.6% from 8.5%.

The biggest mover last week was Piedmont Lithium ((PLL)), shorts in which rose to 8.2% from 6.0%. Lithium stocks in general were on a tear last week, which might explain the scepticism, although Piedmont jumped 8% this week (Monday) on news of a completed acquisition.

The most interesting move last week was that of BHP Group ((BHP)), which popped into the bottom of the table at 5.2% shorted, up from 3.9% the week before. As I write, the stock is down -6.7% this morning having gone ex-dividend. A win for shorters?

Well, the issue here is if you borrow stock to go short ahead of an ex-dividend date, you are obliged to pay the beneficial owner of that stock, from whom you borrowed, the dividend. So you cannot short to gain from an ex-div adjustment.

The rise in short position may reflect action in the options market, with market makers needing to hedge via shorts, but options don't get the dividend either – you must exercise to be eligible for a dividend and that is only possible with European options, which can be exercised at any time, and not American options, which can only be exercised on expiry.

Yes, all very complicated, but we'll see what happened to BHP shorts next week. It may simply be a common or garden short position, understandable given the big plunge in the iron ore price.

Weekly short positions as a percentage of market cap:

10%+
FLT 10.2

Out: WEB

9.0-9.9

WEB, KGN, Z1P

In: WEB, KGN

8.0-8.9%

EOS, PLL, ING

In: PLL Out: KGN

7.0-7.9%

TGR, RSG

In: RSG Out: PNV

6.0-6.9%

RBL, COE, AMA, IVC, MTS, TPW, PNV, MSB

In: PNV Out: PLL, RSG

5.0-5.9%

A2M, BGL, BHP

In: BHP

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	MQG	0.1	0.1
ANZ	0.5	0.6	NAB	0.6	0.6
APT	1.2	1.4	NCM	0.2	0.2
BHP	5.1	3.9	RIO	0.4	0.5
BXB	0.3	0.3	TCL	0.5	0.5
CBA	0.5	0.4	TLS	0.2	0.2
COL	0.5	0.5	WBC	0.6	0.6
CSL	0.2	0.2	WES	0.2	0.2
FMG	1.0	0.8	WOW	0.2	0.2
GMG	0.3	0.2	WPL	1.5	1.1

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: REITs, Asset Allocation, Oz Banks

Weekly Broker Wrap: Market conditions favour alternative REITs, time to reallocate to value-based assets, banking sector revenue under pressure

-Delta variant is not a showstopper for alternative REITs' solid rental growth
-Re-emergence of value investing to mirror recovery upswing
-Banks to execute $26bn in rolling buybacks over next two years

By Mark Story

REITs: Alternatives shine

Due to key defensive characteristics including long lease terms to essential services with minimal near-term lease expiries, strong rental escalations, and government support to operators, alternative REITs (real estate invetment trusts) saw minimal impact from covid, and Goldman Sachs expects similar results into the end of 2021.

Despite the current economic backdrop, Goldman Sachs doesn't expect the impact from an uptick in the delta variant to derail what has been solid rental growth. There are three drivers of the broker's upbeat outlook for a handful of alternative REITs.

Firstly, they have strong balance sheets with capital to be deployed, which may make it easier to source acquisition opportunities, especially in light of strong market pricing for assets.

Secondly, the broker believes that positive asset valuations highlight the underlying resilience, and cites recent asset valuations in childcare, healthcare, hotels, and residential land lease community (RLLC) assets, that have been underpinned by strong investor demand and continued cap rate compression.

Then there's RLLC housing which the broker notes is currently benefitting from strong structural and economic growth dynamics, including an aging population and relatively low interest rates. Also lending support, adds Goldman, are supportive property market conditions, and further contraction in cap rates underpinned by low risk, annuity rental income.

Based on these dynamics, Goldman Sachs' key Buy recommendations remain Charter Hall Social Infrastructure ((CQE)), Lifestyle Communities ((LIC)), and Waypoint REIT ((WPR). The broker remains Sell rated on National Storage REIT ((NSR)) due to risks around first half FY22 settlements and sales with ongoing restrictions in Melbourne.

Goldman expects Charter Hall Social Infrastructure to put capital into social infrastructure assets based on its broad mandate and debt capacity: $207m at FY21. The broker notes while childcare assets remain the REIT's top preference, the fund is executing on its strategy to broaden its investments in social infrastructure, with management planning to target from 30-50% of exposure outside of childcare.

Goldman estimates an additional $150m of acquisitions will leave the REIT's gearing below the middle of its target 30-40% gearing range. The REIT is currently trading at a 14% premium to its net tangible asset (NTA) value versus its historical average premium of 13% (since 2014), and the broker's target of $3.81 implies an 8% total return.

Turning its attention to Lifestyle Communities (target price $21.60), Goldman Sachs believes strong 3-year guidance for FY22-FY24 new home settlements and deferred management fees (DMF) resales, should drive materially higher annuity rental and DMF earnings over the long term - both of which are high-multiple earnings streams.

The broker also expects the upsizing of the debt facility by $100m to $375m to allow for further property acquisitions, accelerate the pace of new home settlements, and hence result in larger rental and DMF annuity.

The upgrade to debt facilities, coupled with the recent acquisition of a site at Cowes (Phillip Island), gives the broker greater certainty in the ability of the REIT to increase its development velocity. While Goldman sees some risk around first half FY22 settlements and sales with ongoing restrictions in Melbourne, the broker expects a strong rebound post-lockdown, as witnessed previously.

Meanwhile, Goldman believes Waypoint's (target price $2.95) first-half FY21 result reaffirms the broker's positive view on the REIT and the service station sector, with its visible and steady income streams.

Having divested numerous non-core assets during the period, Goldman Sachs believes the REIT has sufficient means to undertake future initiatives, and/or fund potential acquisitions.

While guidance allows for no acquisitions in FY21, management has indicated a proposed $150m of capital management initiatives, including a $75m initiated buy-back. Management also hinted at the possibility of a potential capital return in fourth quarter FY21.

The broker notes minimal near-term lease expiries contribute to the REIT reiterating its FY21 guidance of 3.75% growth in distributable earnings per share.

Asset allocation: Don't write value investing off just yet

While the dramatic comeback staged by value-style investing last November gave way to a resurgence in growth style six months later, courtesy of the tech sector reasserting its performance leadership, Wilsons believes it's a mistake to write the former off just yet.

Aiding the swing back to growth was the renewed fall in bond yields, plus fears over the return of economic normalisation being stalled as the delta variant led the re-emergence of covid case numbers globally.

But assuming there's a continuation of the above-trend growth witnessed over the past 12 months, as economic re-opening continues and pent-up household demand is released, the broker expects value's recent performance slip to be reasonably brief.

Overall, Wilsons expects the path to recovery over the next 18 months, while unlikely to be perfectly smooth, to support another decent stint of outperformance for value investors. With vaccines proving to be the primary driver of a return to economic normalisation, the broker expects Australia to be back on the recovery path before year-end, with a strong growth year in store for 2022.

Wilsons also believes slow-moving demographic trends, notably the continued aging of the global population, and the slowing growth of the working-age population, create headwinds for growth. In the absence of an unexpectedly strong productivity wave, the broker believes it's difficult to become overly optimistic on the outlook for global growth over the next 5-10 years.

Assuming there aren't as many growth winners as the market is currently pricing in, Wilsons believes stock selection and valuation discipline will most likely become more critical for growth investors.

Meanwhile on the inflation front, Wilsons envisages higher levels over the next few years but doubts it will truly break to the upside 1970's style. But assuming inflation does prove more problematic over the next few years, the broker thinks value exposure is likely to be a better hedge than growth.

The broker reminds investors that value doesn't hold appeal purely because of the prospect of an extended cyclical revival in the global economy. What's also important is how much the rubbery valuation nexus between growth stocks and value stocks has been stretched in recent years.

In short, Wilsons concludes that while they are by no means a magic pudding, value stocks have a lot less to live up to over the next few years than the growth high-flyers of recent times.

Relatively cheap valuations and the likelihood of an extended "recovery upswing" in the global economy suggests a preference for value over the next 12 months.

However, Wilsons also sees some longer-term "value themes" in stocks linked to what are likely to be structurally strong growth cycles and cites selected stocks related to the emerging markets consumer and numerous global industrials linked to infrastructure spending.

Oz Banks: Sustained weakness ahead

Despite positive margin outcomes in the first half and improvement in housing loan growth, FY21 is shaping up to be another year of weak revenue trends at the major banks. During the August 2021 reporting season, Credit Suisse made earnings changes of -1% to 2% across the sector, with lower bad debts being offset by lower revenue and higher expenses.

Morgan Stanley's forecasts indicate that revenue ex-notable items will be down -1% year-on-year. The broker believes margins will be the key swing factor for revenue in second half FY21, with cost control remaining important given revenue growth remains relatively modest. While Morgan Stanley forecasts major bank revenue to grow by an average of 3% in FY22, the broker sees upside risk to loan growth forecasts, but the potential for this to be offset by any additional margin pressure.

Overall, Morgan Stanley thinks National Australia Bank ((NAB)) offers the best near-term combination of improved operating momentum and confidence in earnings estimates.

Looking forward, Credit Suisse expects balance sheet momentum to slowly improve from here and expects margin pressure to be affected more by competition and mix rather than low rates per se.

While Credit Suisse is witnessing benefits from the funding mix, notably deposits and term funding facility (TFF) benefits, the broker notes competition continues to drive front/back book pressure on net interest margins (NIM).

The broker foresees rolling buybacks over the next 24 months and forecasts a total of $26bn across the majors and a material contributor to earnings per share (EPS) growth.

For the second consecutive reporting season, Credit Suisse has downgraded a major bank recommendation. It's stock-specific factor rather than macroeconomic themes that the broker suspects will dictate relative share price performance and has Outperform ratings on Westpac ((WBC)) and NAB; and Neutral and Underperform ratings on ANZ Bank ((ANZ)) and Commonwealth Bank ((CBA)) respectively.

Following bank reporting season, Credit Suisse's fundamental outlook for the major banks includes average earnings per share (EPS) growth of 8% for FY22 and FY23, revenue growth of 1-3%, and underlying profit growth of 6-10%, with productivity benefits coming through and a reduction in investment spend.

With key factors that sustained a period of outperformance now fading, Wilsons has pulled back an overweight outlook on banks. With 'part one' of ANZ's capital management program having now played out, the broker has reduced its weighting in ANZ which has not grown its balance sheet since first-half FY21.

This suggests to Wilsons that the prospects of above sector earnings growth in FY22 and FY23 now look more challenging.

Looking further across the sector, Wilsons notes bank earnings continued to be supported by lower bad debts and impairment charges, while capital management featured prominently, with all major banks announcing share buy-backs.

For the sector overall, the broker notes consensus pre-provision earnings led to single-digit downgrades over the past month. Wilsons thinks there is some upside risk to cash earnings due to further capital management initiatives, which the broker doubts are fully reflected in market estimates.

While consensus expects return on equity (ROE) to hover around the 12-13% level over the next three years, the broker believes any relief in net interest margin would see bank earnings and ROE materially higher.

While there remains some upside to dividends with an allowance for further buy-backs, the broker notes the outlook for dividend growth also moderates in FY22, with payout ratios across ANZ, NAB, Westpac reaching 70%, with Commbank at 80%.

While bank share prices outperformed the market by around 20% over the past 12 months, Wilsons reminds investors that the significant 'head room' in consensus earnings estimates observed in late 2020 does not exist today.

But assuming the banks continue along their capital management journey, Wilsons estimates that over FY22 and FY23 cash EPS could be upgraded 1.5-3.0% in each year, and over 4.0% for Westpac – given it is yet to commence a capital return program.

SMALL CAPS

Autosports Cruising Comfortably

The market for luxury cars appears untainted by the pandemic as Autosports Group posts robust net profit and margins in FY21

-Strong margins expected to continue into FY22 before normalising in FY23
-Shift to servicing vehicles purchased in FY21 should provide an offset
-Autosports targeting acquisitions, property consolidation

By Eva Brocklehurst

Prestige car dealership Autosports Group ((ASG)) has benefited from a demand-led recovery in FY21 amid contributions from acquisitions. Margin improvement occurred in all business lines and pre-tax profit was up 225% to $75.2m.

Going forward there is a strong book of confirmed sales which have countered the lockdowns in NSW and Victoria, and gross profit per vehicle is still growing. The current lockdowns have meant 27 showrooms are closed to customers, and 75% of revenue comes from these two states.

Vehicle sales, service parts and panel repairs are open on a contactless basis to mitigate the impact. As a result of the current lockdowns, no FY22 guidance was provided.

Previous experience tells Macquarie to expect a strong retail bounce post the lockdowns in NSW and Victoria and there are some mitigating factors, with the August order book larger than May and deliveries being completed at elevated margins.

The company expects strong margins as supply remains tight throughout FY22, believing 17.5% (gross profit margin in H2) is sustainable. The order intake for super luxury vehicles is healthy yet other segments have likely slowed in Sydney and Melbourne, Moelis points out, although when restrictions ease the order book should be replenished quickly.

The company concedes margins on new car sales will normalise during FY22-23 yet believes the shift in mix will be towards the back end (service), which will provide an offset.

Higher margins are being driven by favourable vehicle supply/demand dynamics, Wilsons concurs, anticipating these conditions will remain in place throughout FY22. The broker understands recent enquiries suggest even stronger underlying demand.

Portfolio optimisation will benefit earnings through FY22-23, and FY23 is unlikely to be affected by lockdowns. Management believes the environment is conducive to further industry consolidation and is also buying back strategic property, the latest being the Bundoora BMW site, set to save $1.6m per annum in rent for a consideration of $18.4m, funded through debt and cash reserves.

Service income is down -20-25% in affected regions and a large portion of this is offset by staff reductions via rostering. The company has consolidated three properties in Brisbane and Melbourne which will save on lease expenses and intends to acquire other properties in strategic locations.

Risks

Jarden notes the supply chain constraints are mirroring listed peers and consequently gross profit margins remain high going into 2022. Deliveries appear to be delayed so September is likely to be a subdued month.

The main risk the broker envisages reflects the cyclical nature of the industry. Autosports is therefore exposed to changes in consumer sentiment as well as macro factors that constrain discretionary expenditure. Changes in OEM (original equipment manufacturer) relationships can also lead to a reduction in earnings.

UBS welcomes the turnaround in FY21, noting revenue growth of 25% was driven by new vehicles, up 34.7% in the second half. OEM rebates amounted to $56.4m, up 5.2%.

Autosports is targeting a return to a gross profit margin split of 55:45 for the front book (vehicle sales, finance, aftermarket) versus the back book (service and parts). Macquarie explains demand for services will increase as the new vehicles that were sold in FY21 return to the workshop for warranty service work in FY22. This will occur along with service that was delayed during the lockdowns.

Macquarie upgrades to Outperform with a $2.70 target, believing the recent de-rating of the stock has increased the valuation appeal. All other brokers mentioned have Overweight or Buy ratings with targets ranging from $3.00 (Moelis, UBS) to $3.33 (Wilsons).

RUDI'S VIEWS

Rudi's View: It's The End Of The Trend

It's The End Of The Trend

By Rudi Filapek-Vandyck, Editor FNArena

Investing revolves around numbers. Investors like to focus on numbers, though sometimes, dare I say it, with too much emphasis. Successful investing goes beyond the temporary, static analysis of data, but we'll leave this topic for further discussion another time.

As per always, the August corporate reporting season in Australia has generated series of fresh statistics and numbers. Now the end of the month is beckoning, we might as well start off with the numbers that provide us with fresh new trends and updated, deeper insights.

Observation number one is that corporate Australia remains a bifurcated, multi-speed organism and many of the generalised statistics hide the fact that, underlying, the gap between Winners and Laggards remains large. Whether this swings the pendulum in favour of the positives or the not-so-positives -your typical glass-half-full or half-empty proposition- is very much dependent on the angle one starts off from.

The overall positive impetus from corporate results mostly meeting or slightly beating expectations, showing sharp recoveries and a clear bias towards rewarding shareholders, has ostensibly faded as the month matured.

On the FNArena Results Monitor assessment, as the number of corporate reports increased significantly throughout week 4 of the season, the percentage of 'beats' gradually moved away from the 39.1% it had risen to over the three weeks prior (128 companies in total).

On Monday, with the total number of companies having accumulated to 293, the percentage of 'beats' has fallen below 35%. This still indicates a positive reporting season, still above the pre-2020 average of 33%, though no longer as exceptional as the reports that had been delivered over the 11 months post August last year.

Of course, we must also take into account that analysts' forecasts had been rising for 11 months uninterrupted and so it was always a bigger challenge to keep beating those forecasts, in particular when growth in China, momentum in the US and lockdowns in Australia have started presenting fresh headwinds and challenges.

Irrespectively, the negative news that is hiding underneath the numbers from August is that **earnings momentum in Australia is now probably past its peak**. When all modeling and forecasts have been freshly updated over the coming days, it is likely that August will mark the first month of net negative earnings revisions, in aggregate, ending the strongest and longest positive trend the ASX has experienced over multiple decades.

Investors will be on the look-out for further signs that a new trend might be in the making; one that can have negative implications for the next six or twelve months ahead.

****

According to CommSec, whose data analysis runs until last Friday, 84% of Australian companies are back in profit, which marks a significant improvement from last year, but the long term average is higher, at 88%. Moreover, and best not forgotten, for many ASX-listed companies government support and central bank stimulus have been key contributors to the sharp recovery in profits and cash flows.

This fact remains somewhat masked by the never dissipating desire among Australian boards to pamper and reward shareholders, and August witnessed a fierce recovery in dividends, accompanied by share buybacks and special/bonus payouts. Nevertheless, CommSec reports 18% of all reporters in August are not paying out anything to shareholders. This compares with a long-term average of 15%.

A year ago 31% did not pay out a dividend; by February that percentage had dropped to 21%. So, 82% of companies are now paying a dividend pushing up the aggregate cash pay out by 70%. Almost 60% of companies increased their dividend, only 13% had to cut it.

Capital returns through special payouts and share buybacks have become one of the stand-outs this month, and both banks and bulk commodity producers in particular featured prominently. When it comes to lifting dividends in general, all of financial institutions, food retailers, mining companies and telcos have contributed.

The total in dividends paid out to shareholders from this August reporting season might end up nearly double the total amount of last year (up 98% thus far).

Aggregate revenues lifted by 5% over the year to June, with 77% of companies on average increasing their top line by 18.1%. The aggregate net profit rose by 32% on the year prior. Cash holdings improved by $154bn to a record $210.7bn, but only 58% of companies are responsible for that increase.

On FNArena's assessment, thus far only 21.5% of companies delivered a 'miss' on market expectations, which is at the lower end of historical statistics, but the percentage has been climbing throughout the week past.

Rising costs, if not because of difficulties in finding skilled labour, have been held responsible for most disappointing performances, but covid and renewed lockdowns had a significant impact too, in particular when companies were asked to quantify guidance for the year ahead.

Unsurprisingly, those companies that came out with a quantified FY22 guidance, in particular if that guidance carried a positive undertone, have been rewarded this season, including the likes of WiseTech Global ((WTC)), James Hardie ((JHX)), Charter Hall ((CHC)), Goodman Group ((GMG)), Amcor ((AMC)), Mirvac Group ((MGR)), Telstra ((TLS)), and Stockland ((SGP)).

Forward guidances that were not so well received, at least not initially, included CSL ((CSL)), AGL Energy ((AGL)), Seek ((SEK)), Ansell ((ANN)), Origin Energy ((ORG)), Aurizon Holdings ((AZJ)), and Link Administration ((LNK)).

On Macquarie's analysis, some 16% of all companies to date did not issue guidance because of covid.

It is Macquarie's view that when it comes to highlighting some of the best corporate results that have been released thus far, investors should direct their attention towards WiseTech Global, Reliance Worldwide ((RWC)) and Medibank Private ((MPL)), but also Perenti Global ((PRN)), City Chic Collective ((CCX)), ReadyTech ((RDY)), Uniti Group ((UWL)), Macmahon Group ((MAH)), Eagers Automotive ((APE)), and AdBri ((ABC)).

As far as prominent sissers and missers are concerned, a2 Milk ((A2M)), AGL Energy, Appen ((APX)), Boral ((BLD)), Bravura Solutions ((BVS)), Kogan ((KGN)), Lendlease ((LLC)), Link Administration, Monadelphous ((MND)), nib Holdings ((NHF)), oOh!media ((OML)), Origin Energy ((ORG)) and Platinum Asset Management ((PTM)) spring to mind, as well a number of smaller cap miners and energy producers, with special mentioning of Afterpay ((APT)) and Woodside Petroleum ((WPL)) whose share prices proved immune but only because of pending deals in the making.

Remarkable, also, is that the numbers of 'beats' versus 'misses' for the ASX50 look decidedly different. FNArena's Monitor currently stands at 35.7% in beats against 31% in misses. Clearly, smaller cap companies are still outperforming their large cap peers on the ASX. At least that trend of the past couple of years has remained unchanged.

This observation is backed up by Macquarie, whose analysis shows more negative revisions to forecasts have gone to Top100 companies with ex-100 smaller caps faring better. Financials have been outperforming all other sectors on this aspect in August.

All up, and before all reports are in the open with subsequent re-modeling and updates by stockbrokers' analysts, it looks like FY21 will place average growth in earnings per share for ASX200 companies on circa 26.5%. This compares to a -20% decline a year ago and circa 10% growth expected for the year ahead. But as said: the latter number is now under downward pressure, thanks to delta.

****

To showcase the market's ability to look beyond the immediate and over the hill on the horizon, look no further than travel agent Flight Centre ((FLT)). The release of its FY21 financials has been highlighted as a particularly weak set of results, though strictly taken it proved in-line with market forecasts, probably illustrating how low those forecasts had been set.

Flight Centre has been in existential crisis for most of the past 18 months, and the business is still struggling under the duration of renewed lockdowns in NSW and Victoria, but the share price is refusing to lay down. On current forecasts, the consensus price target sits at $16.66 and that's exactly where the shares are trading at as we approach the end of August.

The apparent resilience in Flight Centre shares matches a similar resilience for other covid-victims and shows investors are prepared to sit and wait in anticipation of a change in fortune which should arrive as soon as lockdowns are being lifted and the prospect of borders re-opening becomes a realistic point of focus.

Of course, when it comes to picking Winners from winning the war against covid, companies immediately on investors' mind would be the airports, travel agents, airlines, hotels, cinemas and leisure activities, but today's share market contains many more companies that stand to benefit from the prospect of successfully morphing into more 'normalised' societies yet again, including the likes of CSL, Ramsay Health Care ((RHC)), IDP Education ((IEL)), Audinate Group ((AD8)), and others.

In contrast, investors have become more cautious towards those companies that benefit from lockdowns and closed borders. Here it is good to realise by now today's covid-beneficiaries also include BlueScope Steel ((BSL)) and Sims ((SGM)), point out analysts at Macquarie. They believe current elevated US steel prices are not sustainable with a direct warning to investors: rapid falls in prices of lumber and iron ore show that when market dynamics change, the trend reversal downwards can come quickly and without proper warning beforehand.

Having said so, indications are coal producers might be the next commodity segment temporarily swimming in cash in the year(s) ahead.

****

Allowing people to again move around and opening up borders will no doubt inspire a rally in stocks that are part of the so-called 'Value' trade on equity markets, but will it lead to a repeat of what happened between October and March when news about vaccines triggered a seldom seen sharp turn in market momentum in favour of financials, resources and other cyclicals, with Quality and Growth temporarily in the sin bin?

For that to happen, and to be sustained, the Value trade must be backed up by government bonds selling off, I believe, with sharply rising bond yields providing the necessary motivation to move money out of highly valued Quality/Growth and into lower valued cyclicals.

The problem with that scenario is that global growth is currently decelerating while market participants seem content with the general sentiment that this year's spike in price inflation is but a temporary phenomenon. Yet, many a forecaster is still projecting 10-year US treasuries at 1.80% or higher by year-end.

The enigma of the coming months does not stop with central banks or bonds. So far, equity indices haven't had a decent correction because underlying market momentum has simply flip-flopped between Value and Quality & Growth, and back and forth again. Will this remain the scenario for the months ahead?

****

Analysts at CommSec are cautious for the year ahead, though still positive. They expect the ASX200 to move inside a range of 7500-7700 by mid-2022.

In the background, however, sits Macquarie's observation the latest OECD leading indicator suggests the US cycle is slowing faster than after the GFC. And the Federal Reserve is preparing for less monetary stimulus ("tapering").

It's probably a fair assumption to make that things are likely to become less straightforward, more volatile now that earnings forecasts are no longer rising, effectively removing one solid piece of support that has kept share market indices in a firm uptrend since last year.

I would as yet not be too worried about it all, but a bit of cash on the sideline might come in handy before the year is over.

****

More on the August results season:

-BHP, Dividends, And Breville Group:

https://www.fnarena.com/index.php/2021/08/26/rudis-view-bhp-dividends-and-breville-group/

-August: It's A Joke

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

-Early Days, But Plenty Of Signs

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

-August Bonanza, But What's Next?

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

-August Results: Anticipation & Trepidation:

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

Here is the link to the **FNArena Corporate Results Monitor**:

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

(This story was written on Monday 30th August, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

****

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with FNArena Ltd with respect to your use of its FNArena website, its weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on its website, or anywhere else, from time to time.

Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

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

1. Reference to “FN Arena” and “FNArena” means reference to FNArena Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

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

3. Reference to “we” or “us” is reference to FNArena.

4. Reference to “this website” or the “FNArena website” means reference to www.fnarena.com, and includes reference to FNArena’s weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on this website, or anywhere else, from time to time.

5. Reference to “news periodicals” means reference to FNArena’s weekday periodical, Australian Broker Call, as well as any other periodicals FNArena may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to “publications” in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes FNArena’s weekday periodical, Australian Broker Call, and any other periodicals FNArena may publish from time to time.

7. Reference to a “visitor” means, you, a visitor to this website, and includes a subscriber to Australian Broker Call as well as any other publications or periodicals FNArena may, from time to time, publish through its website.

8. FNArena is a media company which employs financial journalists to report financial news. FNArena’s journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in FNArena’s news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations FNArena reports on this website are not the opinions of FNArena or any of its journalist or other employees. FNArena is ONLY and specifically a

matter-of-fact reporter of industry signals suggesting price direction probability of some shares. FNArena simply delivers the information – it does not create it.

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

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

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

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

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

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

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

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

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

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

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

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

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

take responsibility for their quality, content or suitability.

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

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

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

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

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

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

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

29. All original content is the copyrighted property of FNArena.


fn arena
PASSIONATE ABOUT FINANCIAL NEWS
Financial News for the Bright and the Uneducated. And for everybody else in between.
FN Arena News
Building the Future of Financial Journalism
www.fnarena.com
Trials are free and without any obligation