WEEK 20

STORIES TO READ FROM FNArena

Friday, 13 May 2022

GrainCorp Makes Hay As The Rain Falls

ESG Focus: APA Group Pushes Gas Prospects

Rudy’s View: Trend Is Turning For Corporate Profits

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AUSTRALIA

The Dark Web: Australia's Cyber Threat

Aside from various handouts, the May budget included beefed up spending on cyber security. Which listed companies are focused in this area?

-Australian government spending $10bn on cybersecurity
-Cybercrime costing an estimated $42bn per annum in Australia
-ASX-listed exposures limited to small cap companies

By Nikhil Gangaram

Earlier this year, the Australian Federal Government released its annual budget packed with sugar, spice and all things nice.

Given that it is an election year, newspaper headlines were filled with the prospects of higher wages, hopes of inflation vanishing and a slashing of the fuel excise.

Despite these sweet promises, a glossy fact seems to have been overlooked by many pundits.

In addition to these particulars, the budget also revealed Australia's largest ever cybersecurity spend, with the government pledging approximately $10bn to bolster Australia's cybersecurity and intelligence capabilities.

<u>Cyberwarfare getting SPICY</u>

The federal government's plan to splurge heavily on the cybersecurity sector was no overnight decision.

As part of a 10-year plan, the government initially established its Cyber Security Strategy in 2020, with the ultimate goal of ensuring online security for individuals, businesses and essential services.

The initial strategy involved investing $1.67bn over ten years, however the additional spending laid out in this year's budget will see the Government implement Project REDSPICE.

REDSPICE is an acronym for Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers. The ambitious project aims to build new national cyber and intelligence resources and drastically improve the Australian Defence Force's (ASF's) current cybersecurity capabilities.

In its Cyber Security Strategy prospectus, the Australian government highlighted several reasons for the heavy investment in the sector.

The document cited the ever-increasing scale and sophistication of cyber security threats as Australians become increasingly reliant on the internet and the internet-connected devices. The increased capacity and speed of 5G networks also presents an opening for these trends to proliferate.

This ever-changing environment has been enhanced by the covid-19 pandemic. More Australians are now working from home, using the internet for healthcare, education, entertainment and online shopping.

As organisations adapt to these hybrid work models by migrating to the cloud, third party software-as-a-service providers will become larger targets. As a result, many business leaders in Australia have identified cyber hazards as a key threat to business growth.

A survey of 600 global executives by consulting behemoth Deloitte reported that almost 75% of Australian businesses experienced as many as 10 cyber incidents or breaches over the last year.

According to the UNSW Institute for Cyber Security, cybercrime alone was estimated to cost Australia up to $42bn last financial year. In addition, a survey from PWC's Digital Trust Insights 40% of Australian businesses plan to increase their cybersecurity headcount this year.

Never before have we witnessed such high demand for cybersecurity resources, with the cyber industry in Australia expected to grow to a $7.6bn market by 2024. As a result, the prudent investor will be curious on how they can hack the cybersecurity boom.

Cyberboomers

Australia boasts a relatively broad, be it nascent, cybersecurity sector. In 2020 there were approximately 350 providers with more than 40% of these companies founded within the past five years.

In terms of market share, Data#3 ((DTL)) is one of the largest in Australia, with the company providing a variety of IT services and solutions.

Despite a lacklustre performance in the tech sector, Data#3 has been a strong performer this year capitalising on large-scale digital transformation projects.

This was reflected in the company's impressive first-half results for FY22, with Data#3 delivering a 16% bump in revenue of $999.3m and a 32% increase in net profit after tax.

Despite its diminutive market capitalisation, Tesserent ((TNT)) has been on the forefront of cyber defence.

The company provides a range of internet security services for the education, manufacturing, insurance, legal, finance, logistics and government markets.

Tesserent's flagship Cyber 360 strategy specialises in identifying and assessing threats, risks and taking corrective action.

Another local player is ArchTIS ((AR9)), a data focused security company that aims to prevent malicious and accidental loss of information for its clients.

The company's platforms NCProtect and Kojensi have been approved by multiple government bodies in providing secure access and sharing sensitive and classified information.

Demand for these services were reflected in the company's last quarterly report, with licencing revenue surging over 1,100% from the previous corresponding quarter.

Whitehawk ((WHK)) is another ASX listed player boasting a global cybersecurity presence.

Although the company's market capitalisation is relatively nascent, Whitehawk's online products are tailored for small and medium size businesses to fight cybercrime, fraud, and disruption.

According to its latest quarterly report, Whitehawk invoiced US$1.2m in the September quarter, collecting US$880K receipts from customers. In its preliminary final report, the company has also flagged a 180% lift in annual revenues to US$3.4m.

For investors looking for exposure to leaders in the global cybersecurity sector, BetaShares Global Cybersecurity ETF ((HACK)) provides an attractive option. The ETF boasts global cybersecurity giants such as Okta, Crowdstrike, and Palo Alto Networks.

The new age

For years the US has been painting worst-case scenarios akin to a 'cyber-Pearl Harbour'.

The recent conflict between Russia and the Ukraine has shed new light on the potential of global cyber warfare. As a result, many Australians will be welcoming the government's recent investment into intelligence and cybersecurity.

With the Internet of Things, the sector has many tailwinds in its favour as users and their devices become ever more interconnected.

Cyber security itself is a constant game of cat and mouse, as one side builds a better, more sophisticated weapon, the other is forced to adapt or perish. As a result, the sector represents an ongoing narrative of new innovations in technology, presenting great potential in growth.

However, although it may be easy to be wooed by high growth rates, investors should also note several headwinds faced by the sector.

Regulation and legislation represent key roadblocks as the government and companies try to marry new innovations with user privacy. In addition, the high rate of new entrants in an ever changing industry could make it harder for investors to pick a clear winner.

It is also important to note that the pockets of potential cyber adversaries run very deep, and the quest to remain ahead of cyber threats can make many companies obsolete.

AUSTRALIA

Eclipx Group Earnings Driving In The Fast Lane

Ongoing strength in the used car market has seen Eclipx Group deliver a strong first half result, with the company utilising the current benefit to guarantee its longer-term earnings profile.

-Used car pricing trend should support Eclipx Group's near-term earnings
-Market guiding to used car prices remaining stronger for longer
-New business and inorganic growth to soften an eventual transition to normalised pricing

By Danielle Austin

While the market is largely in agreement that used car prices will return to a more normal level at some point, Eclipx Group ((ECX)) continues to take advantage of elevated prices in the interim with some market analysts anticipating pricing will remain stronger for longer than initially expected.

The company delivered record half year earnings, with first half net profit of $60.4m reflecting a 58% increase year on year, and a notable beat to consensus forecasts of $46.2m. The result supported 110% cash conversion, and left the company in a $6.8m net cash position at the end of the half having eliminated $61m in debt.

Although used car pricing was the feature of Eclipx Group's interim results, a solid performance in end-of-lease income provided a great supporting act, up 60% to $51.4m. Constraints in the used car market appear to be elevating end-of-lease income growth, with average unit profitability up 48% in the half to $8,813. Despite the current inflationary environment, the company also managed to reduce operating expenditure -2% in the half.

Eclipx is making the most of its current benefit by deploying surplus, announcing a $40m buyback that should allow the company to secure an improved permanent earnings position. The buyback represents 65% of first half net profit, and the top end of the company's capital distribution guidance range. With cash flow also strong in the last period, the company should be able to maintain a net cash positive and invest in future growth alongside ongoing buybacks, with $96m in buybacks announced in the last year.

Building buffer ahead of transition to normalised used car pricing

Continued strong results from Eclipx will suffer with a normalisation of used car pricing likely ahead, but the company's new business and growth outperformance should soften the transition.

Despite vehicle supply constraining new business writings, the company reported $368m total new business written in the first half, up 19% year on year, while a sizeable order backlog, reportedly now 2.7 times pre-covid levels, should further soften volatility ahead. Combined with a number of new and existing client wins recently, the company has suggested it expects asset growth to return as new vehicle supply stabilises in coming periods.

With three FNArena database brokers covering the release of Eclipx Group's interim results, we note all are Buy-rated or equivalent and between them have an average target price of $2.99.

Credit Suisse has an Outperform, and following the release of the company's first half results lifted its target price 15 cents to $3.10, making it the highest target within FNArena's coverage. On the back of a strong half the broker lifted its earnings per share forecast for the current financial year 34.5%, with Credit Suisse analysts expecting current elevated prices for used cars to persist at least for the remainder of the financial year.

The broker also lifted earnings per share forecasts 17.2% and 14.6% for FY23 and FY24 respectively, given a higher starting base for car prices and assuming prices will still be above average in FY23 if pricing begins to normalise in early FY23 at the earliest. Credit Suisse continues to assume a return to income levels similar to FY19 by FY24, but now predicts normalisation to occur on a slower trajectory, and notes higher end-of-lease income predictions are the biggest driver of the increases to earning per share estimates.

Similarly, with elevated used car pricing supporting strong end-of-lease income returns, Macquarie has upgraded earnings per share forecasts 39.4%, 23.0% and 8.7%. The broker holds an Outperform rating and a target price of $2.98, noting that moderation in used car pricing ahead of the normalisation of supply constraints would place its outlook at risk.

Macquarie analysts noted that while both supply constraints and elevated end-of-lease income will normalise, the company's underlying performance supports the rating. The broker also highlighted the announced buyback is Eclipx Group's most efficient method to deliver capital distributions given the company is not in a tax-paying situation in Australia.

With an Overweight rating and a target price of $2.90, Morgan Stanley noted that even in the case of prices tapering in the coming half, the strong performance in the first half materially de-risks full year expectations, with the broker forecasting Eclipx Group can achieve full year profit of $80.6m.

AUSTRALIA

Dividend Bonanza for Coronado Global Resources

Following first quarter results for Coronado Global Resources, brokers highlight an increased focus on shareholder returns and potential for further special dividends.

-Coronado Global Resources announces a special dividend
-More special dividends in prospect
-Stronger realised pricing expected in the second quarter
-Russian coal ban to support prices for years

By Mark Woodruff

Shares of Coronado Global Resources ((CRN)) were trading under 60 cents just 12 months ago and have since climbed to around $2.20, after reaching a $2.49 high earlier this month.

Apart from share price appreciation, shareholders are set to benefit from strong free cash flows in the form of dividends, as management has no intention of holding funds for acquisition opportunities.

The company produces and exports metallurgical (met) and thermal coal from a portfolio of mines in Queensland and in the US states of Virginia and West Virginia.

Following the release of first quarter financial and production results, Macquarie increases its dividend payout ratio assumption to 60% from 40% for future periods.

A special dividend of US$11.9cps was announced for the quarter, consisting of US$5.9cps from an unsubscribed senior notes offering in February, and US$6cps which represented 78% of free cash flow. Dividends are expected to remain unfranked in the near term as franking credits are being accumulated.

The company has again offered to purchase its senior secured notes though Bell Potter believes a material uptake is unlikely, given the notes are trading at around 108% of face value. According to Credit Suisse, this creates **another opportunity to distribute the unsubscribed amount as a special dividend at June half results.**

Management maintained 2022 coal sales guidance of 18.0-19.0mt and expects production and sales to be weighted to the second half of the year. Cost guidance was also maintained though Macquarie points to rising cost pressures, as experienced across the mining industry.

While the company's reported average realised coal prices were materially higher than for the first quarter 2021, group realised prices were -45% lower than the hard coking coal benchmark for the quarter, due to the lag of around three months in price realisation. Given this lag and the ongoing rally in coal prices, the**broker expects stronger realised pricing in the second quarter.**

Outlook

Management points out there has been little impact on coal prices from soft Chinese steel production amidst lockdowns, and **prices should be supported for the next few years by the ban on Russian coal into the EU and Japan.**

Goldman Sachs, not one of the seven brokers updated daily in the FNArena database, remains positive on the met coal market in 2022 with a price forecast of US$372/t, and clear upside risk with the spot price currently around US$520/t.

The analyst sees growth in production emanating from management's target for the Curragh coal mine to reach 13.5Mt by 2025 and 6.9Mt from US operations by 2025. Meanwhile, the company has also restarted study and permitting work on the Mon Valley coking coal deposit. The broker maintains its 12-month $3.00 target price and Buy rating.

Bell Potter, also not one of the seven, expects current record high prices will support the capital works required to improve Curragh's through the cycle performance. The broker maintains its Buy rating on near-term dividend yield and commodity price support, while lowering its target price to $2.50 from $2.55.

There are three brokers in the FNArena database with a Buy or equivalent rating and an average 12-month target price of $3.11, which suggests 42.7% upside to the latest share price.

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AUSTRALIA

GrainCorp Makes Hay As The Rain Falls

After a succession of upgrades, GrainCorp has provided an earnings beat amidst near perfect conditions.

-Despite a flow of guidance upgrades, GrainCorp still beats
-FY23 looking just as promising
-Conditions must eventually normalise
-Dividends aplenty in the meantime

By Greg Peel

A quick glance at the chart of grains-and-oils handler and processor GrainCorp ((GNC)) since the company's privatisation and listing in 1998, and it is clear the stock cycles within a share price range, each cycle representing favourable or unfavourable agricultural conditions.

Those cycles do not only represent the vagaries of Australian weather, but conditions for competing agricultural exporters across the globe.

Listing at an opening price of $7.60, GrainCorp hit $12.82 in 2013, briefly, before settling into a tight range around $8 up until the beginning of 2020. It was then, after three years of devastating drought, Australia burned.

Three months later the share price was $3. Then it rained. And as those in various parts of the country can appreciate by looking out the window, it hasn't stopped since.

From March 2020, the share price has traced a parabolic path back to more than $10. Acceleration followed Russia's invasion of Ukraine and subsequent sanctions against Russia. Together, the two supply about 70% of the world's agricultural products, including wheat, corn, sunflower oil and fertiliser.

Having spent all of 2022 continuously upgrading its earnings guidance, GrainCorp reported its half-year result on Wednesday.

Despite the upgrades, the result still managed to beat most forecasts, thanks to the ongoing demand for Australian grain and oilseeds and strong supply chain margins for grain exports. Management reiterated full-year guidance, but given ongoing momentum this might be in danger of being exceeded.

Given FY23 crop conditions have improved further, brokers suggest FY22 guidance has been de-risked and analysts feels FY23 should exceed consensus expectations. Note that FY22 ends in September for GrainCorp, but winter planting is underway for harvest in what by then will be FY23.

Right now, conditions are seen as near perfect, but will it last?

Ask Dorothea

Of course not, as history dictates agricultural conditions move in cycles. But brokers agree the signs remain positive heading into FY23 as long as La Nina is determined to hang around.

Conditions will at some point normalise, it's just a matter of when, and may even return to deterioration mode. Given such cycles, one might be forgiven for thinking a grain handler would be inspired to "silo" excess profits during the good times, to be drawn upon in the bad, allowing a utility-style flow of steady if not spectacular dividends. But that's not how listed companies work.

It is incumbent upon listed companies not to be sitting on "lazy" balance sheets, for fear of a market de-rating. Assuming no M&A opportunities (note GrainCorp bought United Malt Group ((UMG)) in 2009 and spun it back out again in 2020), excess profits must be returned to shareholders.

Broker consensus had forecast a 20c dividend with this result, but instead GrainCorp delivered a 12c ordinary and 12c special. More solid dividends and specials are anticipated ahead.

So for now, things don't get much better, and likely won't in the foreseeable future, and the market has already spoken with share price gains. Hence three of the five FNArena database brokers covering the stock retain Hold (or equivalent) ratings. Two remain on Buy for now.

The consensus target price has risen to $10.23, suggesting no upside. But based on FY22 forecasts, GrainCorp will yield 7.7% (fully-franked), and a further 4.4% on FY23 forecasts to date.

AUSTRALIA

Pendal Navigates Volatility With Cost Control

Evidence of cost control in Pendal Group's latest market update should benefit the fund manager as volatile market conditions continue.

-Positive underlying trends, but a weaker top line result from Pendal Group in the first half
-Underlying profits largely beat market expectations, driven by cost control and management revenue
-A continuation of these trends should set up the company well in a volatile environment

By Danielle Austin

Lower than anticipated costs and higher investment income supported investment management company Pendal Group's ((PDL)) strong first half result, delivering underlying profits of $131.4m, up 49% year on year, while operating profits of $153m were 17% ahead of consensus expectations despite operating expenses increasing 20% year on year to $209.6m on a full contribution from the Thompson, Siegel & Walmsley (TSW) acquisition.

While strong cost control was a sizeable contributor to the result, with lower costs attributed to 25% of the beat, a further 20% of the beat was driven by a higher management fee margin of 48 basis points, allowing for fees of $317.7m in the half, up 35.2% year on year. With 10% of the beat attributed to a lower tax rate, the remaining 40% was attributed to one-off higher non-operating income. A reported 42% contribution to the profit margin from the TSW acquisition in the first half, up from 37% year on year, spurred the improved profit margin.

While the company's operating performance was a result highlight, outflows remained a feature with negative market movements and international equities outflows contributing $5.6bn and $3.3bn respectively. Total net outflows over the half totalled $7.5bn, although this moderated substantially from $6.8bn in the first quarter to $0.7bn in the second quarter.

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Looking forward for Pendal Group

Looking forward, cost control continues to be a feature of Pendal's near-term outlook. Suggesting a normalisation of costs in the coming half and a second half cost skew, the company reduced its full year fixed-cost growth guidance to 3-5% from a previous 6-8%, excluding costs relating to the TSW acquisition.

Given the current volatility of market conditions, Pendal expects to maintain a flexible approach to investment, diversifying product range, leveraging global footprints and attracting best in class talent to support sustainable, long-term growth. The company has also suggested it will consider small, bolt on, accretive acquisitions, with its net cash position suggesting sizeable room for acquisitive growth, but it does not intend to seek major acquisition opportunities while it focuses on the integration of TSW.

After updating on Pendal's result, the six covering brokers in the FNArena database are split at two Buy (or equivalent) ratings and three Hold, while Macquarie remains on restriction.

While brokers are largely positive on Pendal’s outlook, some, including both Credit Suisse and Morgan Stanley, fail to see headroom for the company’s shares to improve further, limiting upside risk.

Retaining a Buy rating and increasing the target price to $6.00, Ord Minnett finds the stock to be trading cheaply at its current valuation, noting while first quarter outflows were disappointing medium- to long-term investment performance remains strong. The analysts noted three- and five-year investments outperformed 86% and 77% respectively, while one-year performance was weak with only 36% outperforming, and that the latest update did appear to reflect steadier flows than previous results.

Macquarie pointed to the tight cost control that drove the first half result, noting full year guidance suggests some normalisation in the coming half. The broker increased its earnings per share estimates 9.1% for the current financial year, but has cut -5.9% in FY23 and between -2% to -4% in the years following as market movements offset lower expenses.

For UBS, cost control will remain imperative to delivering operating improvements ahead with volatile market conditions likely to continue to drive challenging flows in the near-term, while a medium-term turn in flows could encourage a stock re-rating. The broker, Buy rated with a $6.45 target price, noting Pendal aspires to margins nearing 40%, does not expect significant margin improvement in the current inflationary environment. Further, UBS analysts noted the company can now execute its planned $100m buyback.

While not a database broker, Jarden noted the company’s cautious approach to costs appears sensible in the face of volatile markets. The broker liked company commentary that a more measured approach to investment would increasingly be adopted given current trading conditions, although not at the cost of revenue growth. Jarden, who is also Buy rated with a $6.50 target price, adjusts its forecasted cost price growth in line with Pendal Group’s, declining to 5.0% from 8.0% in the current year and lifting to 7.0% and from 5.0% in FY23.

ESG FOCUS

ESG Focus: APA Group Pushes Gas Prospects

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

APA Group highlights sustainability

APA Group ((APA)) is heavily exposed to brown infrastructure but the company used its investor day to highlight the role of gas as a transition fuel, its green ambitions and ESG credentials in a bid to reassure investors.

-Social and governance metrics highlighted during APA Group's investor day
-Brokers examine decarbonisation prospects
-The race between renewables investment and stranded assets

By Sarah Mills

APA Group's ((APA)) annual investor day focused on the company's sustainability initiatives – a fear point for investors - and Morgan Stanley and Ord Minnett took the opportunity to examine APA's ESG exposures and reporting progress.

In particular, the company highlighted the important role it believes gas will play in the green transition.

Management Unveils ESG Metrics

Starting with announcements, the company has implemented board-level accountability for climate change, health, safety, environment and heritage issues (including First Nation's engagement); and has undertaken to provide interim decarbonisation targets at it FY22 result.

Management revealed several ESG metrics – particularly social and governance metrics,

The company reports:

-40% female board and senior management representation;
-50% female graduate/intern/apprentice intake;
-an increase in parenting leave;
-a 65% rise in employee engagement; and
-the company has built in First Nations KPIs into employment and supply chain KPIs in
recent construction contracts.

Morgan Stanley notes the company does not yet report on its waste recycling, water usage or net contribution to biodiversity.

It says the company is in the third tertile for gender diversity compared with sector and regional peers, but fails to specify whether that is upper third, or the lower third.

Brokers Examine Decarbonisation Prospects

The company owns and operates Australia's largest natural gas infrastructure, and other energy infrastructure assets such as gas storage and wind farms.

Morgan Stanley notes that while APA Group derives 95% of earnings (EBITDA) from fossil fuel infrastructure (methane in particular), the company's future investment is being directed towards the transition (sustainable products currently generate about 4% of earnings).

The company is building stakes in hydrogen, renewables and onshore and offshore electricity transmission and is "highly leveraged to the **orderliness** (a euphemism of the use of gas as transition fuel) of the energy transition", notes Morgan Stanley.

So investors no doubt will be pinning their hopes on the manifestation of said orderliness.

Much will depend on the pace of the transition as well. While gas has been included in the European taxonomy, it was a reluctant admission and, should the investment in renewables accelerate sharply, gas will be one of the first ugly ducklings to be turfed from the nest.

Ord Minnett says management highlighted the important role gas will play in the transition and the company's ability to leverage these opportunities.

The broker says the company pointed to the UK as an example of a "disorderly" transition where poor gas availability combined with low renewables generation had sharply boosted energy prices for consumers.

APA believes its brown assets (gas pipeline) are well positioned to meet transition demands and to ensure an orderly transmission; and expects its growing suite of renewable power and transmission assets will also serve it well.

Management also aims to link re-contracting and growth opportunities to the transition.

Race Between New Investment And Stranded Assets

This suggests APA Group is embarking on a delicate balancing act, one in which analysts appear to believe it will succeed.

The company is eyeing new energy infrastructure developments in Australia and possibly North America.

Ord Minnett says no information was provided on a potential US acquisition (which the company has been working on for three years) but the company remains confident of finding a suitable prospect and considers valuations to be reasonably attractive compared to Australia.

Morgan Stanley believes the company enjoys a considerable competitive advantage in procurement and approvals.

Add to that, APA Group's strong free cash flow, solid balance sheet and the large market for energy transition investment, not to mention the willingness of capital to be directed to green investment, and the broker is modestly confident the transition strategy will be sufficient to mitigate the risk of stranded assets and to ensure APA Group can continue to access capital, which is increasingly ESG oriented.

The analyst also considers the commercial benefits of APA Group's ESG performance are underappreciated.

Brokers Have Their Say

Meanwhile, Morgan Stanley notes the share prices has rallied 13% this year, which compares with a flat performance for toll roads and airports – the closest peers – and retains an Equal-weight rating (Industry View: Cautious) and $10.00 target price.

The broker appreciates the company's defensive and diversified earnings base and balance sheet.

The company's risk-reward profile falls in the middle of the broker's utilities and infrastructure stock coverage.

Rising global interest rates remain a risk, as does ESG sentiment, valuation, regulatory changes, shipping recontracting and large corporate activity.

Ord Minnett notes APA management reiterated that 80% to 90% of revenue is linked to the consumer price index, lending strong defensive characteristics in the current market, believing the company's finances could benefit from rising inflation.

The broker retains a Hold recommendation and $10.50 target price.

All up, in the FNArena database, APA Group is enjoying four Hold ratings with an average target price of $9.925. On forward looking consensus estimates, the shares are currently offering a dividend yield of 4.8% (running year) and 5.1% for FY23.

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 06-05-22

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 May 2 to Friday May 6, 2022
Total Upgrades: 8
Total Downgrades: 12
Net Ratings Breakdown: Buy 59.57%; Hold 34.22%; Sell 6.21%

For the week ending Friday May 6 there were eight upgrades and twelve downgrades to ASX-listed companies covered by brokers in the FNArena database.

Reliance Worldwide received two ratings upgrades from separate brokers following a third quarter trading update. Macquarie noted strong organic revenue in the Americas has now accelerated and upgraded its rating to Outperform from Neutral, given the recent share price retreat.

Morgan Stanley suggested the share price has been unfairly marked down by association with its sector peers and upgraded its rating to Overweight from Equal-weight. The business carries the lowest weighting within the broker's coverage of the sector to new housing construction and the main repair and renovation exposure should prove more resilient.

Following first half results, Eclipx Group topped the table for the largest percentage increase in forecast earnings last week. According to Morgan Stanley, a 32% year-on-year profit increase materially de-risks its FY22 forecast.

Elevated used car prices drove record half year earnings and strong cash generation, and Credit Suisse noted that while prices will inevitably normalise at some point, they should remain stronger for longer. Also, when the pricing normalisation occurs, it’s thought the company will experience a smoother transition due to organic growth and a strong performance for new business.

Coming second on the table was Home Consortium after UBS upgraded its rating to Neutral from Sell after management advised the market it will raise and deploy the $1.2bn from its capital raising over three years to generate an internal rate of return of 17%.

While UBS considers the strategy is plausible, given the company's recent strong execution, the broker would like to see a better cost of capital among listed REITs before upgrading from its Neutral rating.

Next up was Coronado Global Resources, after Credit Suisse’s commodities team raised its coking coal price forecasts by 11-75% through to 2026. Coal prices are expected to remain elevated in the mid-term as geopolitical conflict and trade flow constraints continue to impact on supply. As Europe and other coal consumers look to move away from Russian supply, a scarcity for high grade thermal coal should support healthy premiums on Australian exports.

On the flipside, Corporate Travel Management received the largest percentage downgrade to earnings forecasts, as March quarter results missed the consensus forecast. After a strong run for the share price, Citi downgraded its rating to Neutral from Buy. There's thought to be less upside risk for earnings over the next 12-18 months and management's earnings guidance is still estimated to be materially short of the consensus forecast.

Despite the major headwind of omicron, Morgan Stanley retained its Overweight rating for the company as the quarterly update demonstrated an earnings recovery into FY23 is on track. Activity in March improved to more than 70% of pre-covid volumes in all regions except Asia, while industry feedback suggests a further recovery is coming.

Regis Resources came second on the earnings downgrade table last week, as March-quarter production and costs disappointed Macquarie, due largely to lower-than-expected grades. While management reiterated production guidance, the analyst thinks the Duketon gold project in Western Australia will have to deliver a strong performance for that to happen.

Nonetheless, the broker upgraded its rating to Outperform from Neutral, to reflect the maintained guidance and management's view that a plant upgrade and underground mines will deliver a much stronger June quarter.

Ramsay Health Care also suffered a fall in forecast earnings by brokers following a third quarter trading update. Credit Suisse was surprised by the extent to which earnings were impacted by covid, while Morgans noted the company still faces numerous headwinds including staff shortages, surgical restrictions, cancellations, inflationary pressures and covid-related costs.

Nonetheless, Macquarie pointed out the rationale for the $88/share bid (by a consortium led by KKR) probably lies with a favourable outlook for Australian hospital volumes over the medium to longer term. In addition, the unrealised value residing within the company's Australian property portfolio is undoubtedly an attraction.

Meanwhile, Citi described BWX's market update as underwhelming. The company offered weaker than anticipated full year guidance, with the mid-point of revenue and earnings guidance a -17% and -24% miss on the broker's forecasts.

UBS was also disappointed by management's downgraded guidance though managed to find a positive in that Sukin and Mineral Fusion, which combined represent 56% of FY22 forecast revenues, are performing in-line with expectations.

Finally, at a conference hosted by Macquarie, Inghams Group presented a range of woes in a third quarter trading update including war, pestilence, fires and floods which have combined to keep chook-feed costs elevated.

The analyst at Morgans poses the question: to what extent will price rises and the company's continuous improvement program offset ongoing headwinds? Given the near-term earnings uncertainty, particularly around grain prices, the broker retained its Hold rating.

Total Buy recommendations take up 59.57% of the total, versus 34.22% on Neutral/Hold, while Sell ratings account for the remaining 6.21%.

Upgrade

FORTESCUE METALS GROUP LIMITED ((FMG)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/5/2

Credit Suisse's commodities team expects coal and iron ore prices will remain elevated in the mid-term as geopolitical conflict and trade flow constraints continue to impact on supply. Low output from iron ore majors have driven a global market iron ore deficit, while an energy crisis is emerging in Europe as coal consumers look to move away from Russian supply.

Upgrades to the broker's commodity price deck saw Fortescue Metals' earnings forecasts lift 11% and 66% in FY22 and FY23, with the broker estimated the company's price realisation has improved to 75%, and anticipating further improvement to 80% in FY23.

The rating is upgraded to Neutral from Underperform and the target price increases to $20.00 from $15.00.

HOME CONSORTIUM LIMITED ((HMC)) Upgrade to Neutral from Sell by UBS .B/H/S: 2/2/0

UBS upgrades HMC Capital to Neutral from Sell after management advised the market it will raise and deploy the $1.2bn from its capital raising over three years to generate an internal rate of return of 17%.

Given the company's recent strong execution (a year UBS doubts will be repeated), the broker considers the strategy plausible, but would want to see a better cost of capital among listed REITs before committing to a higher rating.

Target price rises to $6.34 from $5.40.

LOVISA HOLDINGS LIMITED ((LOV)) Buy by Citi .B/H/S: 5/0/0

Lovisa Holdings' latest market update has demonstrated continued strong sales growth despite global supply constraints, although Citi anticipates growth to moderate over the coming months and forecasts sales growth of 45% over the second half.

New store rollout has been slower than expected, with 17 stores to date in the second half. Given the company had guided to a second half rollout in line with the first half, the four stores per month in the second half compared to 7 per month in the first half has disappointed.

The Buy rating is retained and the target price decreases to $20.40 from $21.45.

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

Morgans upgrades its rating for PTB Group to Add from Hold as mangement's upgraded FY22 profit guidance implies a 23% improvement in performance over 1H22. An improved performance at PT USA was cited as the primary growth driver.

Relatively speaking the US operations are much larger than those in Australia, and the analyst believes more opportunities will be sought out in the US. The target price rises to $1.51 from $1.23 due to the stronger revenue growth and expectations of more to follow.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/3/0

Regis Resources's March-quarter production and costs disappointed Macquarie, thanks largely to lower-than-expected grades, and the company reported higher net debt.

Production fell -11% shy of the broker's forecast and management reiterated guidance, but the broker says Duketon will have to deliver a strong performance for that to happen.

EPS forecasts fall -2% and -1% in FY23 and FY24.

Macquarie upgrades to Outperform from Neutral, to reflect maintained guidance and management's view that the plant upgrade and underground mines will deliver a much stronger June quarter. Target price falls -4% to $2.30.

RELIANCE WORLDWIDE CORP. LIMITED ((RWC)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Overweight from Equal-weight by Morgan Stanley.B/H/S: 6/0/1

Reliance Worldwide's March-quarter trading generally pleased Macquarie, as strong organic revenue in the Americas accelerated.

On the downside, earnings (EBITDA) margins eased and EZ_FLO margins fell well below the broker's forecasts.

Management expects costs will continue to slightly erode margins.

EPS forecasts fall -3.9% in FY22; -6.3% in FY23; and -9.5% in FY24.

Target price falls to $4.95 from $5.40. Rating upgraded to Outperform from Neutral given the strong share price retreat.

Morgan Stanley believes the Reliance Worldwide share price has been unfairly marked down by association with peers. It's noted the business carries the lowest weighting within the broker's coverage of the sector to new housing construction.

The company's main repair and renovation exposure should prove much more resilient, in the analyst's opinion, in the face of rising mortgage rates.The broker raises its rating to Overweight from Equal-weight.

The price target rises to $5.40 from $5.30 after Morgan Stanley incorporates earnings forecast upgrades following a 3Q trading update by the company. Industry view: In-Line.

SUPER RETAIL GROUP LIMITED ((SUL)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/1/0

Super Retail's Q3 update showed ongoing strong sales momentum, points out Ord Minnett. The broker argues the stock deserves a higher multiple given the absence of lockdown tailwinds during the period.

Alas, gross margins are normalising too and this offsets the strong sales performance, in the broker's opinion. Hence, forecasts remain broadly unchanged with minimal adjustments made.

Target price falls to $13.50 from $13.80 but the rating moves to Buy from Accumulate.

Downgrade

BOOKTOPIA GROUP LIMITED ((BKG)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

Morgans assesses a disappointing 3Q trading update from Booktopia Group with an elevated cost base and ongoing margin compression. In addition, co-founder Tony Nash announced he would be standing down as ceo. The rating is lowered to Hold from Add.

Third quarter earnings (EBITDA) fell by -65% on the previous corresponding period to $1.5m. After allowing for the update and guidance, the broker lowers its FY22-FY24 earnings estimates by around -45%. The target falls to $0.95 from $1.85.

CORPORATE TRAVEL MANAGEMENT LIMITED ((CTD)) Downgrade to Neutral from Buy by Citi .B/H/S: 5/1/0

After a strong run for Corporate Travel Management's share price, Citi downgrades its rating to Neutral from Buy due to a more balanced risk/reward profile.

The analyst anticipates less upside risk for the company's earnings over the next 12-18 months. Also, it's estimated that management's earnings guidance is still materially short of the consensus forecast.

Some future headwinds the broker lists include a higher (lower-margin) domestic mix in total transaction value (TTV), and a slow ramp-up in International capacity. The target falls to $25.49 from $28.05.

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

Negative news for Crown Resorts in that the Victorian government has proposed an increased tax rate for electronic gaming machines at Crown Resort's Melbourne casino, to be implemented from 1 July 2023.

In response, Ord Minnett has reduced forecasts by -3-5% from FY24 onwards.

The broker does not believe this will have any impact on the intended acquisition by the KKR-led international consortium.

Target price trimmed to $13.30 from $13.60. Downgrade to Hold from Buy.

FLIGHT CENTRE TRAVEL GROUP LIMITED ((FLT)) Downgrade to Sell from Lighten by Ord Minnett .B/H/S: 0/3/2

Flight Centre Travel's March-quarter loss guidance does not appear to have surprised Ord Minnett, the broker noting Outbound Travel to Aussie consumers has always been where the money has been generated.

The broker sheets the market's disappointment back to over-excitement about the reopening theme.

Meanwhile, Flight Centre hinted revenue margins could be lower for some time due to a reduction in front-end air commissions as airlines revisit low-yielding fares. Ord Minnett considers news of labour shortages problematic given it suggests the company may have to fork out for higher wages, hitting margins.

Rating downgraded to Sell from Lighten. Price target eases to $14.28 from $14.40.

KOGAN.COM LIMITED ((KGN)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S: 0/1/1

Credit Suisse downgrades Kogan.com to Underperform from Neutral and sharply cuts the target price to $3.75 from $5.53 after the company published a March-quarter loss.

Sales fell well short of forecasts and market averages, gross sales falling -7.2% year-on-year and Third-Party and Exclusive Brands falling -21.8% and -18.8% respectively.

Credit Suisse believes gross profit will struggle in the short term due to high direct sourcing costs and cautions the company's cost/profit problem could become a cash problem. Costs eased on the previous quarter but remained 16% above 2021, says the broker. Margins (EBITDA) have also tumbled.

MIRVAC GROUP ((MGR)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 3/2/0

Morgan Stanley reassesses its view of Mirvac Group following a slowdown in the residential cycle, and the recent development investor day, and downgrades its rating to Equal-Weight from Overweight.

The analyst feels the profits associated with the company's $12.9bn pipeline lack the certainty of the FY16-22 period when development profits were secured three years in advance.

The target price falls to $2.60 from $3.30 after the broker applies a more balanced 25/50/25 weighting to its bull/base/bear valuations from 35/50/15. The target is also impacted by less aggressive cap rate and residential assumptions. Industry View: In-Line.

QANTAS AIRWAYS LIMITED ((QAN)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/1/1

Ord Minnett comments Qantas Airway's Q3 report showed ongoing acceleration in the domestic recovery, on top of long-held plans for direct flights to London and New York ready to commence in late 2025.

Leisure is leading the travel recovery, the broker observes, while corporate travel is equally recovering earlier-than-expected.

Earnings estimates have been lifted, which pushes up the price target by 7% to $6.40. Rating is downgraded to Accumulate from Buy, on valuation.

RIGHTCROWD LIMITED ((RCW)) Downgrade to Hold from Speculative Buy by Morgans .B/H/S: 0/1/0

Morgans downgrades its rating for RightCrowd to Hold from Speculative Buy after the 3Q was weaker than expected and management lowered FY22 guidance and withdrew its FY23 profit target. The broker's target price tumbles to $0.12 from $0.26.

The broker's house view is underweight the technology sector with a preference for profitable companies in the current macro environment. Nonetheless, there's still considered to be potential for substantial medium-term value creation for RightCrowd.

SILVER LAKE RESOURCES LIMITED ((SLR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Silver Lake Resources's March-quarter production fell -7% short of Macquarie's forecasts, a poor performance at Mount Monger more than offsetting a strong performance at Deflector.

Management has withdrawn guidance, citing covid and supply-chain disruption.

The broker cuts FY22 sales forecasts and raises its all-in-sustaining cost estimate.

EPS forecasts fall -25% in FY22, then -17% in FY23, and -1% in FY24 to reflect a downward revision to Mount Monger's prospects.

Target price falls -9% to $2. Rating downgrades to Neutral from Outperform.

TRANSURBAN GROUP LIMITED ((TCL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/2/0

Transurban Group's investor day has left Ord Minnett with a positive impression overall. Nevertheless, the rating has been downgraded to Accumulate from Buy, on valuation.

The price target remains $15.

The broker notes, on the basis of indications provided by management, that underlying network traffic trends are now positive.

VIVA ENERGY GROUP LIMITED ((VEA)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 5/1/0

With regional refining margins doubling since the end of the last quarter, Ord Minnett notes while current margins are likely not sustainable domestic refiners look set to benefit from a turnaround in refining profitability.

Large inventories of low-cost crude, restrictions on exports from China and demand recovery have all supported improved profitability. The broker has updated margin expectations for Viva Energy's Geelong refinery, pushing forecasts well above consensus.

Ord Minnett prefers Ampol ((ALD)) to Viva Energy, noting both offer compelling near- to medium-term outlooks. The rating is downgraded to Accumulate from Buy and the target price increases to $2.95 from $2.75.

WOOLWORTHS GROUP LIMITED ((WOW)) Downgrade to Underperform from Neutral by Credit Suisse .B/H/S:

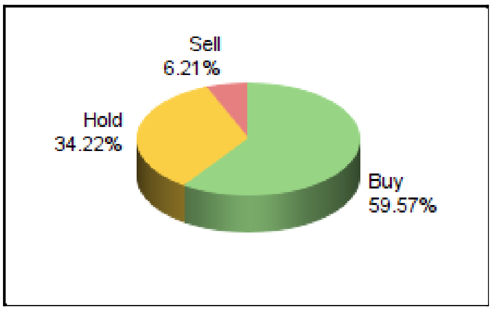
While Credit Suisse acknowledges a solid third quarter result from Woolworths Group, the broker expects softer than anticipated inflation and higher than expected costs will likely temper more bullish expectations.

The broker noted shelf prices for Australian Food increased 2.7% in the quarter, compared to an expected 4%, although 4.4% comparable growth for Australia Food sales did exceed expectations.

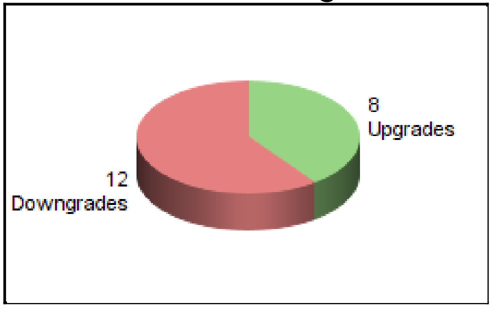
Credit Suisse expects inflated costs and staff absenteeism to continue to impact in the coming quarter.

The rating is downgraded to Underperform from Neutral and the target price increases to $33.89 from $33.35.

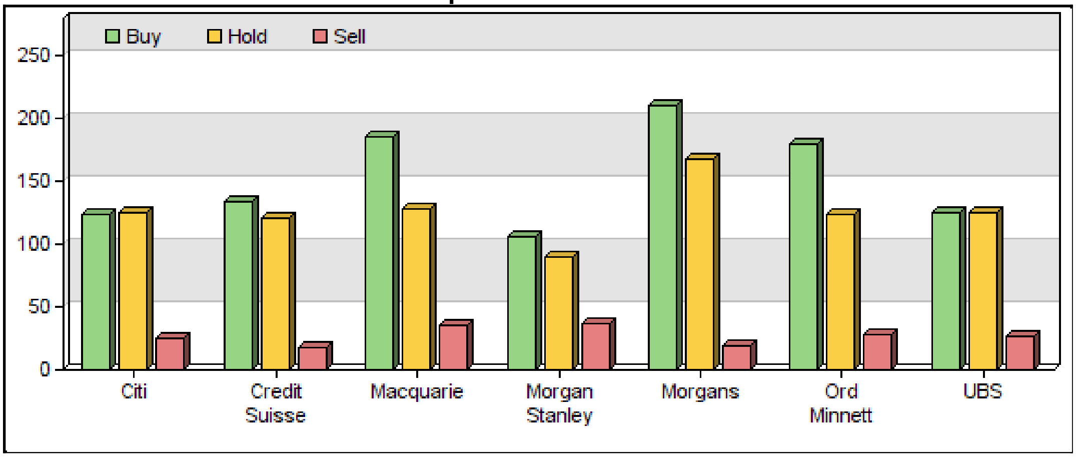
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	FORTESCUE METALS GROUP LIMITED	Neutral	Sell	Credit Suisse
2	HOME CONSORTIUM LIMITED	Neutral	Sell	UBS
3	LOVISA HOLDINGS LIMITED	Buy	Neutral	Citi
4	PTB GROUP LIMITED	Buy	Neutral	Morgans
5	REGIS RESOURCES LIMITED	Buy	Neutral	Macquarie
6	RELIANCE WORLDWIDE CORP. LIMITED	Buy	Neutral	Macquarie
7	RELIANCE WORLDWIDE CORP. LIMITED	Buy	Neutral	Morgan Stanley
8	SUPER RETAIL GROUP LIMITED	Buy	Buy	Ord Minnett
Downgrade				
9	BOOKTOPIA GROUP LIMITED	Neutral	Buy	Morgans
10	CORPORATE TRAVEL MANAGEMENT LIMITED	Neutral	Buy	Citi
11	CROWN RESORTS LIMITED	Neutral	Buy	Ord Minnett
12	FLIGHT CENTRE TRAVEL GROUP LIMITED	Sell	Sell	Ord Minnett
13	KOGAN.COM LIMITED	Sell	Neutral	Credit Suisse
14	MIRVAC GROUP	Neutral	Buy	Morgan Stanley
15	QANTAS AIRWAYS LIMITED	Buy	Buy	Ord Minnett
16	RIGHTCROWD LIMITED	Neutral	Buy	Morgans
17	SILVER LAKE RESOURCES LIMITED	Neutral	Buy	Macquarie
18	TRANSURBAN GROUP LIMITED	Buy	Buy	Ord Minnett
19	VIVA ENERGY GROUP LIMITED	Buy	Buy	Ord Minnett
20	WOOLWORTHS GROUP LIMITED	Sell	Neutral	Credit Suisse

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	QAN	QANTAS AIRWAYS LIMITED	6.218	5.860	6.11%	6
2	NIC	NICKEL MINES LIMITED	1.625	1.538	5.66%	4
3	FMG	FORTESCUE METALS GROUP LIMITED	18.221	17.521	4.00%	7
4	HMC	HOME CONSORTIUM LIMITED	6.965	6.730	3.49%	4
5	WOW	WOOLWORTHS GROUP LIMITED	38.123	37.083	2.80%	6
6	TCL	TRANSURBAN GROUP LIMITED	14.710	14.438	1.88%	6
7	VEA	VIVA ENERGY GROUP LIMITED	2.795	2.762	1.19%	6
8	FLT	FLIGHT CENTRE TRAVEL GROUP LIMITED	17.624	17.536	0.50%	5
9	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	99.130	98.967	0.16%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	RWC	RELIANCE WORLDWIDE CORP. LIMITED	5.203	5.471	-4.90%	7
2	MGR	MIRVAC GROUP	2.908	3.048	-4.59%	5
3	SUL	SUPER RETAIL GROUP LIMITED	13.278	13.675	-2.90%	6
4	LOV	LOVISA HOLDINGS LIMITED	22.160	22.642	-2.13%	5
5	PLS	PILBARA MINERALS LIMITED	3.888	3.938	-1.27%	4
6	MQG	MACQUARIE GROUP LIMITED	218.833	221.600	-1.25%	6
7	RRL	REGIS RESOURCES LIMITED	2.310	2.336	-1.11%	5
8	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	27.957	28.050	-0.33%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ECX	ECLIPX GROUP LIMITED	37.700	25.467	48.03%	3
2	HMC	HOME CONSORTIUM LIMITED	29.400	24.733	18.87%	4
3	CRN	CORONADO GLOBAL RESOURCES INC	93.148	78.935	18.01%	3
4	NIC	NICKEL MINES LIMITED	13.560	11.866	14.28%	4
5	QAN	QANTAS AIRWAYS LIMITED	-68.175	-77.852	12.43%	6
6	ORG	ORIGIN ENERGY LIMITED	33.722	30.465	10.69%	6
7	AX1	ACCENT GROUP LIMITED	9.425	8.675	8.65%	4
8	QBE	QBE INSURANCE GROUP LIMITED	89.596	83.593	7.18%	7
9	RIO	RIO TINTO LIMITED	1826.883	1747.084	4.57%	7
10	FMG	FORTESCUE METALS GROUP LIMITED	281.502	269.441	4.48%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CTD	CORPORATE TRAVEL MANAGEMENT LIMITED	14.267	24.600	-42.00%	6
2	RRL	REGIS RESOURCES LIMITED	8.096	11.440	-29.23%	5
3	RHC	RAMSAY HEALTH CARE LIMITED	124.572	169.933	-26.69%	5
4	BWX	BWX LIMITED	9.633	12.733	-24.35%	3
5	ING	INGHAMS GROUP LIMITED	13.580	16.420	-17.30%	5
6	EML	EML PAYMENTS LIMITED	4.833	5.800	-16.67%	3
7	SFR	SANDFIRE RESOURCES LIMITED	67.996	79.556	-14.53%	7
8	TPW	TEMPLE & WEBSTER GROUP LIMITED	5.688	6.640	-14.34%	4
9	FLT	FLIGHT CENTRE TRAVEL GROUP LIMITED	-133.880	-117.540	-13.90%	5
10	AGL	AGL ENERGY LIMITED	41.688	46.655	-10.65%	5

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Anxious Buyers

The push by end-users to secure reliable term uranium supply continues ahead of any potential sanctions on Russian exports.

-Spot uranium market remains beholden to volatility
-Utilities actively seeking reliable supply
-Supply costs are rising

By Greg Peel

Continuing uncertainty over potential sanctions on Russian uranium exports is leading more utilities each week having a diminished appetite for Russian nuclear fuel, industry consultant TradeTech reports.

These concerns have led buyers to not wait around but to pursue alternative, more secure sources of supply. While several industry participants have expressed concern over the future reliability of existing transport routes originating from the Port of St. Petersburg, threats to logistics from potential sanctions are just one of many concerns driving buyer behaviour currently.

Recognition of the Russian government's strategy to secure its own energy independence while driving energy scarcity elsewhere in order to exert its political influence is accelerating interest among many uranium buyers in reliable domestic production, such as in the US.

With volatility ongoing in financial markets in general, last week saw buyers and sellers in the spot uranium market staring at each other across the bid-ask spread, reluctant to move. Such volatility has led the influential Sprott Physical Uranium Trust to stall its buying for now, so it was left to other participants to break some of the deadlock.

By week's end five transactions were completed totalling 500,000lbs U308 equivalent, with prices rising successively during the week. TradeTech's weekly spot price indicator is up US$1.75 at US$54.75/lb.

<u>In Good Time</u>

The term uranium market remains active with utilities pursuing a variety of avenues to hedge their portfolios against potential supply interruption of deliveries from Russia, TradeTech reports. Utilities in Europe and the US were particularly active in April as they pushed forward with commitments to non-Russian supply sources.

Due to elevated volatility, utilities have all but abandoned the uranium spot market.

Momentum continues to grow, particularly in the US, for sanctions on Russian nuclear fuel imports. The Biden Administration has indicated it is working on a "plan," but details of that plan are still unknown.

Thus US utilities are actively planning for the unexpected, including potential challenges related to transportation, corporate or banking policies, in order to ensure material is securely delivered at the most reasonable cost possible.

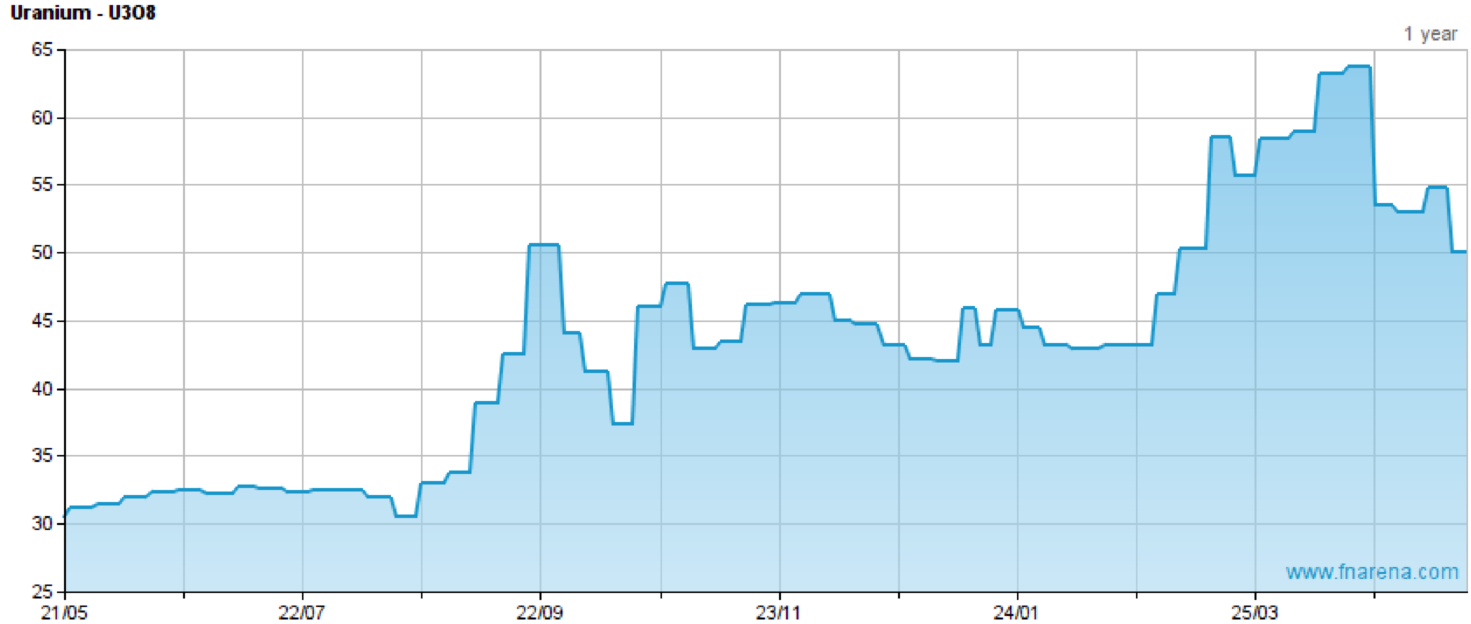
With transportation and labour costs steadily growing, utilities are also carefully vetting longer term suppliers to ensure their reliability in delivering product over contracted time periods.

TradeTech's term market price indicators remain at US$61.00/lb (mid) and US$52.00/lb (long).

<u>Uranium companies listed on the ASX:</u>

ASX CODE	LAST PRICE	% MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
BKY	0.4100	0.00%	$0.64	$0.00			
BMN	0.2100	0.00%	$0.44	$0.00			
BOE	2.3000	0.00%	$3.10	$0.00		$3.200	▲39.1%
ERA	0.3000	0.00%	$0.58	$0.00			

PDN	0.7300	0.00%	$1.12	$0.00	-75.7	$1.000	▲37.0%
PEN	0.2000	0.00%	$0.35	$0.00			
VMY	0.2000	0.00%	$0.33	$0.00		$0.210	▲5.0%



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WEEKLY REPORTS

The Short Report - 12 May 2022

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

Summary:

By Greg Peel

Week Ending May 5, 2022.

Two weeks ago the ASX200 tipped over violently as resources stocks were crushed, largely due to China's lockdowns. Last week the index levelled out until Friday, when it tipped over again.

No stocks within the 5%-plus shorted table changed position by a percentage point or more last week, but there were some notable additions at the bottom end.

Firstly we note that while Polynovo ((PNV)) shorts only rose to 10.2% from 9.9% last week, from the next day the stock rallied 30% on an update.

Down at the low end, Ansell ((ANN)) has appeared at the bottom after rallying 9% since late April. One presumes the rally can be put down the ongoing omicron wave, not just in China, maintaining demand for the company's PPE products. But Ansell has been thrown out with the bathwater this week.

Bank of Queensland ((BOQ)) has reappeared in the wake of the RBA rate rise, its share price falling given its exposure to Queensland mortgages.

Lendlease ((LLC)) has also been on a downward path, with rate rises potentially impacting residential sales.

Retailers City Chic Collective ((CCX)) and BWX ((BWX)) are not new to the table, but again we can cite rates rises and falling consumer confidence. BWX cut its guidance last week and promptly fell -30%.

Bega Cheese ((BGA)) has been under pressure from rising milk prices.

And finally, AGL Energy ((AGL)) is not a surprise newbie, a loose Cannon possibly preventing the planned demerger.

Weekly short positions as a percentage of market cap:

10%+

FLT 17.3
BET 13.8
NAN 12.2
PNV 10.2

In: PNV Out: EML

9.0-9.9

KGN, EML, WEB

In: EML Out: PNV

8.0-8.9%

AMA, APX, RRL, Z1P, ING, MSB

In: RRL, ING

7.0-7.9%

PBH, OBL, ING, LAM, SQ2

In: SQ2 Out: RRL, ING

6.0-6.9%

TYR, CUV, VUL, NEA

Out: SQ2

5.0-5.9%

IEL, ANN, ADH, MP1, DUB, BOQ, PDN, AGL, NHC, LLC, RBL, CCX, BWX, BGA

In: ANN, BOQ, AGL, LLC, CCX, BWX, BGA

Out: MFG, BRG, IMU

Movers & Shakers

Nothing this week not already noted.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	NAB	0.7	0.7
ANZ	0.7	0.7	NCM	1.0	1.1
BHP	0.3	0.3	RIO	0.6	0.5
CBA	0.6	0.6	STO	0.1	0.1
COL	0.5	0.5	TCL	0.9	0.8
CSL	0.2	0.2	TLS	0.2	0.2
FMG	1.7	1.7	WBC	1.3	1.3
GMG	0.2	0.2	WES	0.4	0.3
JHX	0.5	0.5	WOW	0.4	0.4
MQG	0.3	0.3	WPL	1.6	1.8

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

In Brief: Recession, Real Estate, Telecoms

Weekly Broker Wrap: economic downturn, real estate overcorrection, telecom pricing.

-Market conditions not yet pointing to an imminent global economic recession
-Australian real estate responds to first cash rate increase in over a decade
-Pivotal period ahead for mobile market pricing

By Danielle Austin

Economic downturn more likely than recession

Despite the covid-linked global recession occurring only 18 months ago, market commentary has sparked fear that another economic downturn is on the horizon. While global growth is slowing, the Oxford Economics analysts doubt a recession is imminent based on market markers. A brief inversion of the US yield curve, historically a strong predictor of an economic downturn, is the biggest driver of recession concern, and a reason to at least remain vigilant of further predictors according to Oxford Economics.

While the yield curve inversion is the most significant predictor, it is not the only trigger Oxford Economics identified, additionally pointing to anticipated aggressive Federal tightening, China lockdowns and high commodity pricing as having potential to incite a recession. However, it was noted each of these triggers are not enough alone to drive a global economic recession.

Further, market analysts noted successive downward revisions have been made to global growth forecasts since February, driving Oxford Economics' global gross domestic product growth forecast down -1 percentage point this year, and -0.5 percentage points in the coming year.

Examining these markers, the analysts anticipate an economic slowdown (similar to that of 2015 and 2016) is more likely than a full economic recession. Additionally, on a geographic basis the risk of recession is uneven, with Europe currently the most at-risk region but the US likely to be most at-risk in 2023 given its more progressed position in the economic cycle.

Market overcorrects for cash rate rises

Following the much predicted first increase to the cash rate in twelve years, analysts from Citi note the market may have over-anticipated impacts of the rise given Australian real estate investment trust (A-REIT) stocks have declined -18% year-to-date and -12% month-to-date, and underperformed the market -14% year-to-date and -8% month-to-date. The RBA last week announced a 25 basis point increase to the cash rate, and the market is anticipating near-record cash rate rises will occur over the coming two years. Citi analysts are predicting the cash rate will rise an additional 100 basis points by years end, and a further 100 basis points in the following year to leave the rate near 2.35% by the end of 2023.

Taking a look at historical cash rate rises, the Citi analysts noted underperformance in anticipation of rate rises usually reverses within 60 days of the first rate hike, with the market generally pricing in potential impacts before increases are issued. Should the current rate cycle reflect this, Citi sees possible near-term upside for stocks including Goodman Group ((GMG)), Charter Hall Group ((CHC)), Stockland ((SGP)) and Abacus Property Group ((ABP)).

Citi highlights given a lack of evidence suggesting weakness in direct property markets to date, and with market participation indicating ongoing demand for real estate, the market may have overcorrected ahead of the initial rate rise.

Pricing decision looms over domestic telecoms

A pivotal period could be ahead for the Australian mobile market, with the potential Telstra ((TLS)) and TPG Telecom ((TPG)) network deal, and particularly TPG Network's pricing response, key to the market outlook in Goldman Sachs' opinion.

While the broker is anticipating Telstra will increase its pricing $3-6 per month in July, bringing pricing back in line with historical premiums and introducing an inflation-linked mechanism for future pricing, it expects TPG will wait for the proposed network to receive regulatory approval before reviewing its pricing.

With approval for the network expected before the end of the current year, the broker notes TPG will be face the decision of raising prices in early 2023 given a then vastly expanded network, or hold prices steady to encourage subscriber growth.

Retaining lower prices despite facing cost pressures of an expanded network will likely place pressure on market rationality. With competitor Optus expected to follow Telstra in raising prices this year, both companies could lower prices to remain competitive if TPG does not issue a price increase next year.

RUDI'S VIEWS

Rudy’s View: Trend Is Turning For Corporate Profits

In this week's Weekly Insights:

-Trend Is Turning For Corporate Profits
-No Weekly Insights Next Week
-FNArena Talks
-AusbizTV

By Rudi Filapek-Vandyck, Editor FNArena

Trend Is Turning For Corporate Profits

First came the bond market rout, because the Federal Reserve conceded it had waited too long to tackle inflation and thus portfolios globally needed a major reset.

Cue the January sell-off which in particular hit yesteryear's champion performers, i.e. technology, growth, quality and low-volatility defensives.

The Fed's about-face also triggered the worst performance for bonds... ever? Arguably, with all major US equity indices down double-digits year-to-date, a bear market is unfolding for both bonds and equities which is exactly what happened back in 1994.

Back then, the Federal Reserve was equally in accelerated tightening mode to combat too-high inflation.

Once the Fed was done, and inflation had been tamed, there followed no recession and equity markets globally embarked on a strong up-trend that would only be interrupted by a hedge fund debacle (LTCM) and the Asian currency crisis, until the TMT/Nasdaq bubble burst in March 2000.

Equity investors and commentators are by default optimistic and positive, so many will be counting on a repeat of the post-1994 era, which is possible, though not a guarantee.

Either way, first markets have to shrug off the tail-end of this year's bond market abyss and inflation scare; meanwhile the focus already is shifting to the consequences of accelerated central bank tightening, which might well end with the next economic recession. Consumers are now leveraged to low rates and housing is an important driver for most economies.

Within this context, it's probably not wise to focus on current corporate earnings reports or still firm looking economic data and indicators. Accelerated rate hikes in the US combined with quantitative tightening (= reduced liquidity) amounts to what could well turn out to be **the biggest leap in tightening ever undertaken by any central bank in such a short period**.

This is the true meaning of "aggressive tightening", a policy-stance that has become necessary in 2022 because inflation is (way) too high for comfort, and central bankers have by now lost confidence it will deflate by natural forces alone.

The scenario only few are willing to talk about in the world of equities is that if inflation now sticks around for longer, the only way to bring it back down to acceptable level is through economic contraction, i.e. a recession.

It may yet take a while before investors can confidently assess whether a US recession can be avoided, or not, but shorter-term the focus is shifting to the deteriorating outlook for corporate profits, on the back of stubborn inflation, slowing growth and still plenty of interruptions and sectorial headwinds.

The US leading the way?

In the US, more than anywhere else, business leaders have refined the art of beating market expectations. In just about every single reporting season, and they have four each year, the aggregated statistics are stunningly good. The current season over there is no exception with all 11 sectors beating consensus forecasts thus far.

Despite the market's scepticism, and various harsh punishments in case of major disappointments, the consensus EPS forecast for this year has actually risen by circa 4% since the start of April. At face value, this has created an odd schism between weak share prices and bearish market sentiment whereas corporate profits are actually better-than-expected and forecasts in aggregate are still rising.

But don't be fooled by what the situation looks like on the surface. More experienced market analysts warn there is a lot of smoke and mirrors happening and recent, in-depth analysis by BofA Securities suggests the running season instead is shaping up as a turning point in trend, for the worse.

Take the energy sector out of the calculation, says BofA, and the underlying trend is already slightly negative. On BofA statistics, both ratios for companies providing forward guidance and for analyst revisions to earnings are running at their lowest level since the second quarter of 2020 - at the height of the then freshly-arrived covid pandemic.

BofA has developed its own natural language processing (NLP) analysis which reads earnings calls transcripts while measuring overall sentiment via the language used by corporate leaders.

This proprietary piece of insight equally suggests the underlying trend is back to where it was in Q2 of 2020. On a year-to-year basis, report the analysts, this season's plummeting NLP sentiment score marks the biggest drop outside of the GFC and covid recessions.

History shows such a sharp deterioration in sentiment indicates US earnings growth is about to get a lot worse - not something that is currently assumed in analysts' forecasts, including BofA's. And **equity markets tend to follow corporate earnings, both during up-trends as well as when the trend deteriorates**.

BofA analysts have identified two important covid demand reversals taking place this reporting season: a rapid shift from big ticket items such as housing and autos -sensitive to rising rates- towards services, while earnings forecasts for the technology sector are now fully reversing the positive pull-forward from covid over the past two years.

Further adding to the analysts' scepticism about market forecasts is the fact that, historically, forecasts tend to start each calendar year on an optimistic note and then, in aggregate, decline as the year progresses.

This year, however, forecasts for both 2022 and 2023 have kept rising while macro conditions are arguably becoming more challenging.

BofA's 2022 year-end fair value target for the S&P500 is 4368 (the index closed at 3991 on Monday).

Inflation Is Real, Finds Corporate Australia

Last week, 103 ASX-listed companies presented at the annual **Macquarie Conference** and analysts report inflation made a come-back as the key common factor most cited by company representatives.

A year ago, report Macquarie analysts, a quarter of presenters mentioned rising costs. This year just about everyone talked about costs and inflation, also on the back of tight labour markets and covid-related absenteeism.

Macquarie also noted a big gap: while most companies seem comfortable they can pass on cost increases, investors are more sceptical about it. Witness, for example, share prices for most discretionary retailers this year.

Strategy-wise, Macquarie is most comfortable holding shares in beneficiaries of higher rates, like Computershare ((CPU)), or in companies that posses contract-based pricing power, such as Transurban ((TCL)), while producers of commodities with strong cash flows, covid recovery plays and defensives on reasonable valuations are also included.

Stocks mentioned for the latter three segments include South32 ((S32)), CSL ((CSL)), Dexus ((DXS)), and Amcor ((AMC)).

Market segments now facing headwinds include lower interest rate beneficiaries (housing, autos, discretionary retail), covid beneficiaries and so-called higher beta stocks, including cyclicals, small caps and stocks with no earnings.

Many Reasons To Sell

Australia has its own out-of-season corporate results season running and thus far, it has to be pointed out, the numbers don't look too bad, even though we are talking about a small parcel of companies only (17 up until last Friday).

So far a large majority of reports has either beaten (41%) or met (35%) analysts' forecasts, including the household names of National Australia Bank and Premier Investments ((PMV)), joined by Westpac ((WBC)) on Monday, and resources-related WH Soul Pattinson ((SOL)), Gold Road Resources ((GOR)), and New Hope Corp ((NHC)).

See also **FNArena's Corporate Results Monitor**:

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

Outside of the 40-odd companies that traditionally release financials in between February and August, there is a growing tendency for ASX-listed companies to release quarterly updates, which only adds to the broader insights available to investors. Here two negative observations stand out: confession season is back in Australia, with a vengeance, plus investors will not hesitate to punish, and to punish immediately and hard.

Last Friday, quarterly releases by News Corp ((NWS)) and REA Group ((REA)), as well as the half-yearly financials reported by Macquarie Group ((MQG)), all disappointed. On Monday, share prices are down -16%, -11% and -10% respectively.

The carnage has been a lot worse for the likes of ARB Corp ((ARB)), Atomos ((AMS)), BWX ((BWX)), Corporate Travel Management ((CTD)), EML Payments ((EML)), Inghams Group ((ING)), Janus Henderson ((JHG)), Pointsbet Holdings ((PBH)), Tyro Payments ((TYR)) and many, many others.

The thesis that smaller cap companies are more likely to struggle when put under pressure is certainly receiving a lot of affirmations in Australia this quarter, while trends of higher input costs, ongoing supply chain challenges and technology companies giving up all their covid-related benefits are equally all too apparent too.

Offsetting these ultra-negative experiences have been rather positive and affirmative market updates by the likes of AdBri ((ABC)), Eclipx Group ((ECX)), Lovisa Holdings ((LOV)), MA Financial Group ((MAF)), nib Holdings ((NHF)), Orora ((ORA)), QBE Insurance ((QBE)), Super Retail ((SUL)), and Vicinity Centres ((VCX)).

It is not too difficult to establish many of the positive updates were delivered by companies that were previously lagging or suffering from covid impacts. Alas, with macro factors remaining dominant, and liquidity in general remaining an issue, not all positive market updates are rewarded via a good old fashioned share price rally, plus not all initial rallies stick.

I have been warning since late March for the rising risk of disappointing market updates and profit warnings ahead of the August results season, but the confluence of such a diverse set of factors impacting on market sentiment and share prices has made it practically impossible to avoid any form of portfolio damage.

Add the moribund performance of gold bullion, and the only asset that has truly retained its value over the past months is cash. I suspect this might well remain the case until we see a genuine market capitulation, or the Federal Reserve and other central banks refrain from their aggressive tightening intentions.

Up until such turning point, investors better tread carefully because the ASX looks like a minefield these days, and it's pretty much impossible to predict where the next disappointment might come from.

Short-term damage doesn't necessarily destroy the longer-term investment thesis, but it surely can hurt in the immediate.

Looks A Lot Like 1994

In further confirmation that optimism in equity markets is directly linked-in with a much more benign path for central bank tightening than bond markets are implying, UBS analysts have repeated their positive view for Australian equities by year-end.

This view is based on the in-house conviction that the RBA will cease hiking the cash rate well before all those aggressive forecasts we all get to read in daily newspapers and elsewhere come to fruition. It's simple, argues UBS, hike interest rates in line with the current bond market and thou shalt crash local housing.

Does anyone out there want that to happen? Certainly the RBA does not.

UBS thinks the RBA will not hike beyond 1.60%, which translates into 25bp follow-up moves in each of June, July and August, then a pause, and two more hikes in November and February next year. In case stronger-for-longer inflation requires more hikes, it won't be long before the RBA will be forced to start cutting rates, predicts UBS.

Elsewhere, UBS analysts have come to the conclusion that 2022 is following the script of 1994 when accelerated tightening from the US Fed caused a big reset for global bonds.

Australian equities, at the index level, lost -10% that year. Mining and Energy sectors outperformed the broader market back then, as they have thus far in 2022.

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More to read:

-A Bear Market Anomaly That Confuses

https://www.fnarena.com/index.php/2022/05/05/rudis-view-a-bear-market-anomaly-that-confuses/

-Peter's Portfolio Reviewed:

https://www.fnarena.com/index.php/2022/04/13/rudis-view-peters-portfolio-reviewed/

-Double Your Protection:

https://www.fnarena.com/index.php/2022/03/17/rudis-view-double-your-protection/

No Weekly Insights Next Week

Weekly Insights takes a short break next week and will resume the following week.

FNArena Talks

Video of my recent Zoom presentation to members of University of the Third Age (U3A) in Toowoomba is now available to all:

https://www.fnarena.com/index.php/fnarena-talks/2022/05/05/2022-exploiting-the-post-pandemic-recovery/

AusbizTV

I am scheduled to appear on AusbizTV's The Call on Tuesday, midday-1pm:

https://www.ausbiz.com.au/

(This story was written on Monday 9th May, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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