Week
35

Stories To Read From FNArena
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Offshore Markets Add Sparkle To Lovisa

Fashion jewellery retailer Lovisa Holdings has proved successful in rolling out stores offshore and brokers expect earnings will accelerate significantly once the upfront investment tapers off.

-Investment case hinges on size and speed of roll-out -US the main target for growth in the short-medium term -New growth opportunity in Malaysia and possible progression to Canada

By Eva Brocklehurst

Brokers are enthusiastic about the outlook for fashion jewellery retailer Lovisa Holdings ((LOV)) as it embarks on a large global roll-out of stores. While the stock is considered far from "cheap", Morgans points out exposure to a significant roll-out program globally is a rarity for the Australian retail sector.

The broker believes the earnings growth profile will accelerate meaningfully, once leverage returns on operating expenditure. Citi is also confident in the company's long-term growth, supported by the extensive plans to roll out stores. Like-for-like sales are expected to improve in the first half of FY20 amid better retail conditions and foot traffic in Australia, which represents 40% of the company's stores.

Like-for-like sales growth to date is within the company's target of 3-5%. There is also increasing brand awareness in new markets. Macquarie notes shopping centre traffic growth in Australia turned positive during the week ending August 11, after declining for 14 consecutive weeks and this is a big help to Lovisa, as it is dependent on shopping centre traffic to drive sales.

Citi suspects the online business has lowered profitability, overall. Online was launched in Australia in October 2018 and in the UK in July 2019 and as this business ramps up there may be pressure on margins. Macquarie points out physical site availability is a key issue in the UK.

Morgans suspects margin pressure is unavoidable, noting for some time the company has been highlighting the impact of a lower Australian dollar on gross margins. The broker expects a portion of the decline will be recovered via price increases but assumes gross margin drops to 78.5%.

The pressures on gross margin from currency are understandable, in Citi's view, as investments in new markets remain necessary. Citi expects FY20 operating earnings (EBITDA) margins to decline to 22.8% because of the ongoing investment, the ramp up of online business and costs of opening stores in the US and France.

Macquarie assesses Lovisa has a globally proven and scalable retail concept but the investment case will hinge on the size and speed of the roll-out. The US is the main growth driver in the short-medium term.

Morgan Stanley, while noting softer momentum in the business from the recent trading update, points out the exposure to offshore markets does come at a time when there are concerns about the impact of Amazon and a weak consumer setting in Australia. Still, the broker expects upside will ensue from success in Spain, France and the US as well as new markets.

New Markets

Citi expects 66 new stores in FY20, amid a new growth opportunity in Malaysia and further upside if Spain delivers. In Malaysia new stores so far have generated strong returns with the potential to roll out up to 50.

Attractive markets include Canada, Mexico and China, based on GDP per target customer and population. Citi has assessed these three countries are in the top costume jewellery markets and could represent a combined opportunity of at least 314 stores.

Progression to Canada is considered logical as Lovisa is currently rolling out stores in the US but the company has highlighted the different leasing methods, which could be a deterrent. Macquarie notes management has been diligent in terms of network optimisation and site choice, ensuring hurdle rates are achieved.

FY19 results were considered solid, given a challenging market. Strength in cash generation continued, with 107% conversion of operating earnings. This meant the company lifted its dividend by 22%, taking taking the full year payment to $0.33 which equates to a 94% pay-out ratio.

Morgans suspects Lovisa will lower the ratio in coming years, as expenditure in new large markets increases and lowers the pay-out ratio forecast to 80% for FY20. Bell Potter expects the cost versus sales ratio will remain at current levels before beginning to taper in FY21-22 as scale benefits flow.

Given reduced reliance on its mature Australian footprint and strong operating attributes the broker, not one of the seven monitored daily on the FNArena database, retains a Buy rating with a $15.00 target for Lovisa.

FNArena's database has three Buy ratings and one Hold (Morgan Stanley). The consensus target is $12.57, signalling 2.7% upside to the last share price. This compares with $10.98 ahead of the results. Targets range from $9.00 (Morgan Stanley) to $14.10 (Citi).

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Costa Group Depends On Growth Projects

Can Costa Group prevail against the seasonal vagaries that affect agricultural stocks? Several brokers consider the business has strong potential in this regard.

-Significant period of expansion underway in China and Morocco -Mushroom affordability an issue relative to other vegetables -Domestic berry category expected to benefit from varietal improvements

By Eva Brocklehurst

Fruit and berry producer Costa Group ((CGC)) continues to be hampered by a swathe of negative factors, some of which are one-off but also reflect the nature of agricultural production. Demand/supply conditions were volatile over the first half and 2019 guidance has been downgraded, with the company signalling further potential for downside. Prior guidance for net profit of $57-66m was not restated.

Macquarie suggests a very strong December half year in produce is now required to achieve guidance and citrus is the main driver. The harvest of the citrus crop is slightly delayed. Mushroom pricing, down -20% over the year to date, is reflecting weak demand. The company considers pricing to be unsustainably low but remains unsure as to when this will change.

The company is in the midst of a significant period of expansion as it completes major growth projects in tomatoes, mushrooms and invests in China and Morocco. While a weak result was expected after the January and May trading updates, China, Morocco, mushrooms and raspberries were all weaker than Morgans expected.

The broker downgrades to Hold from Add, believing the poor visibility over the near-term is weighing on the stock. Morgans emphasises a conservative approach, attempting to capture the negative impact of the potential downside. In doing so net profit forecasts fall -9.8% for 2019. More material downgrades are made for 2020/21.

The broker recognises there are a range of growth projects that should support a recovery over 2020-21, particularly when combined with a seasonal and cyclical return to more normal conditions and will be looking for signs of an improvement in mushroom prices to alleviate short-term concerns.

2019 is shaping up as a tough year but not one to capitalise, Citi asserts, given the expenditure programs that will deliver growth in 2020 and 2021. The broker notes mushrooms were the largest drag on the first half earnings.

Credit Suisse suggests there is a dilemma in whether the company is an agricultural stock or a growth business with protected markets and technological advantages. Taking a view that this is an agricultural stock, and there are challenges such as weak output prices, low yields and rising costs, then the valuation is lower than if assumptions are made that margins can be grown through the maintenance of prices and economies of scale.

The company should achieve the latter through genetics and technical knowledge and by exploiting shoulder timing of crops while investing in acreage. Credit Suisse projects Costa Group's operating earnings margin over many years will rise to 14% and probably be leading the industry.

Issues

Mushroom affordability is an issue relative to other vegetables and recent price rises have outstripped food inflation. Still, Credit Suisse expects the Monarto expansion will consolidate the company's position as the number one player.

Blackberries contributed more than half of the revenue growth in berries, and initiatives in Queensland blueberries over the next two years are designed to reduce the exposure to the more commoditised harvest in northern NSW.

Macquarie points out this is now the fourth disappointment versus expectations in 12 months. The broker assesses the problems with raspberries have continued and, while the brunt of the impact is being experienced in 2019, there is likely to be a negative impact again in 2020.

Earnings benefits from the ramp-up of the tomato expansion are also likely to be pushed further out, Macquarie suggests, and there is additional blueberry supply in the second half looming. The broker observes increasing agricultural and seasonal risk is leading to greater earnings volatility. On the positive side the company has refinanced senior debt and growth projects are on track.

UBS believes six out of the nine main divisions have had issues that are out of the company's control in 2019 but this should normalise to an extent in 2020. The broker remains comfortable with the balance sheet, assessing a further -28% decline in operating earnings is needed to breach covenants.

Another challenging year in 2020 could put pressure on the balance sheet, although Morgans expects the net debt to earnings ratio should fall in 2020. The broker expects top-line growth over 2020-21 will be supported by additional mushroom and tomato volumes, ongoing maturity of the avocado footprint and increased berry production area in China.

The domestic berry category is also expected to grow from the benefits of the varietal improvement program. Cash conversion at 48% was similar to the first half of 2017, which included a comparable biennial citrus crop.

Morocco

The company is taking steps to improve its Moroccan blueberry business. Morgans notes structural pressures in the northern farms and strong price competition with competing Spanish supply. In a normal season, around 30-40% of the northern farm production should occur outside of the Spanish season.

The company is taking steps to reduce the reliance on seasonal conditions by expanding further south to capture early-season supply. Wilsons lowers margin forecasts for Morocco, assuming most of the pricing issues in the past two years are structurally derived.

However, it takes time to establish a footprint, Morgans counters. The company is also developing early-season tropical varieties of blueberry that are more suited to the climatic conditions of far North Queensland, China, Morocco and Mexico. While re-basing expectations for Morocco, relative to the record levels of profitability delivered in 2017, Morgans recognises this could prove premature if pricing outcomes do not improve.

Wilsons accepts value is emerging in the share price, although requires further improvements in earnings predictability. The broker, not one of the seven monitored daily on the FNArena database, has a Hold rating and $3.31 target. The database has three Buy ratings, two Hold and one Sell (Ord Minnett, yet to comment on the results). The consensus target is $4.23, signalling 40.9% upside to the last share price. Targets range from $3.40 (Macquarie) to $5.20 (UBS).

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Sentiment On Santos Expected To Improve

Santos is making progress on a number of developments and, as the oil company continues to deliver, brokers expect sentiment on the stock will improve.

-Focus on higher production at Quadrant, Dorado progress and Barossa de-risking -Large amount of upside priced into the stock, despite a number of developments -Questions over the sustainability of lower costs

By Eva Brocklehurst

Incremental improvement in costs and the benefits of scale are coming through for Santos ((STO)) as it makes progress on growth projects. Brokers suggest, as the company continues to deliver, sentiment is likely to improve.

Morgan Stanley expects further upside will be based on de-leveraging and the Dorado project. First half results were underpinned by higher production from Quadrant and output from PNG LNG. Quadrant synergies are tracking ahead of expectations and synergy guidance has increased to US$50-60m per annum.

Credit Suisse likes the potential upside from the progress at Dorado and the de-risking of the Barossa field. There is also an outside possibility that the Narrabri CSG obtains clearance, as Santos expects the environmental impact statement to be approved in the first quarter of 2020.

While GLNG and Narrabri may surprise over time, upside is not factored into Morgan Stanley's numbers. The broker also believes further expansion in northern Australia plus continued production improvements are difficult to forecast.

A large amount of upside is priced into the stock, Credit Suisse asserts, and the remaining upside is offset by downside risk, such as the long-term sustainability of onshore production, particularly at GLNG, and, in the near term, the political risk in PNG.

UBS agrees that most of the growth is factored into the share price, despite anticipating a number of developments over the next 12 months. The broker assesses the company should comfortably achieve its gearing target of less than 30% by the end of 2019 which will put it in a good position ahead of major growth expenditure over the next few years at Barossa, Dorado and PNG LNG.

Dorado

Morgan Stanley suggests the market may be materially undervaluing Dorado. The 2C resource estimate has increased by 68% to 310 mmboe, while FEED (front end engineering design) has been pushed to early 2020. The company holds an 80% interest in this discovery in offshore northern Australia. Citi now models Dorado as a liquid stripping project followed by domestic gas sales, as opposed to the smaller oil development.

Catalysts for de-risking in the second half include Dorado and drilling in the MacArthur Basin. Progress at the Dukas-1 well in the MacArthur Basin has been slow as higher pressure was encountered. Morgans notes this is still a positive given the pressure is associated with gas. The company has a decided to defer finishing the drilling until 2020.

The Barossa field, selected as the preferred backfill for Darwin LNG, continues to make progress and the company expects a final investment decision in early 2020. However, Morgans points out the current fields that feed Darwin LNG are likely to be depleted by 2022 and Barossa is not expected to be online before 2024.

The break-even oil price is reduced to US$31/bbl and Santos reiterated 2019 production, sales and production cost guidance, although 2019 capital expenditure guidance is reduced.

Management has highlighted that growth plans have not slowed and the lower expenditure guidance of US$950m-1.05bn versus US$1.1bn is largely because of reductions in average well expenditure in the Cooper Basin and Queensland. Sales guidance is 90-97mmboe and production guidance is 73-77mmboe for 2019.

Cost Sustainability

If it were not for some scepticism regarding cost sustainability onshore and concerns about PNG, Credit Suisse would take a more positive view, although accepts trends for costs and production are in the right direction and the ramp up at Roma East supports the company's claim to be on track for 6mtpa by the end of 2019.

However, the downturn in production costs appears to be levelling off in the Cooper Basin. The broker assumes onshore production costs decline for another year or so, but beyond that there is a need for technical improvement, while inflationary pressures may emerge.

Operating costs were lower than Macquarie expected in the first half. The broker acknowledges a large variance in reported profit versus estimates because of an assumed impairment in the Cooper Basin which did not materialise.

Morgans has upgraded to Add from Hold as Santos has demonstrated an ability to turn around over the past four years, rejuvenating its capital deployment strategy and moving free cash flow into positive territory. Gearing is also more manageable.

The Quadrant acquisition continues to prove transformational, assisting earnings and margins while lowering the company's oil price sensitivity. Santos continues to pay down its finance facility, with gearing being reduced to 31%. The improved cash flow is likely to be used for further de-gearing, Morgans asserts.

The broker has found it difficult to obtain an entry point to the stock over the last 12 months and assesses now is a good time to accumulate a position, as the company has demonstrated it can push its group earnings margin above 60% while making progress on growth projects and increasing diversity.

FNArena's database has four Buy ratings and three Hold. The consensus target is $7.62, suggesting 8.9% upside to the last share price. Targets range from $6.72 (Credit Suisse) to $8.20 (Macquarie).

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Challenges Persist For Bellamy's Australia

After an underwhelming twelve months brokers assess Bellamy's Australia still has large challenges to overcome for its infant milk formula expansion in China.

-Little progress on the Chinese regulatory front for Chinese-labelled sales -Shift in Australian buying channel away from daigou towards cross-border e-commerce -Significant untapped potential in Southeast Asia

By Eva Brocklehurst

Bellamy's Australia ((BAL)) remains confident it can execute a significant re-branding of its infant formula in a difficult market, yet its fortunes remain heavily dependent on the Chinese registration process as well as success with additional products.

Morgans suggests there is plenty the company needs to prove following a poor twelve months. Little progress has been made on the Chinese regulatory front and there is significant downside risk if new products fail to gain traction in what is already an overcrowded market category.

The company is guiding for FY20 revenue growth of 10-15% while the medium-term revenue target of $500m, originally set for FY21, has been deferred. Citi assesses, on current forecasts, this target will only be achieved by FY26.

FY20 guidance assumes no contribution from Chinese labelled product for the core organic infant formula although it does assume a contribution from the ViPlus product. The company is also launching a goat milk formula.

There is much uncertainty around the FY20 sales outlook given Chinese e-commerce law enforcement, increase support for Chinese domestic brands and declining Chinese birth rates. Preliminary estimates of 2019 birth rates suggest a decline towards around 14m infants, which would result in a -8% decrease in the addressable infant population.

Competition in the Australian organic infant milk formula category has also increased while, in the Chinese market, Danone and Johnson & Johnson have indicated interest in launching products.

Channel Shift

Citi also points out, relative to other Chinese infant formula operators, Bellamy's and rival a2 Milk ((A2M)) are still under-investing in marketing initiatives, likely to be a function of their historical reliance on the daigou channel (local purchases of goods for China) which funded a lot of the sales, marketing and distribution costs.

Bell Potter notes the -24% decline in Australian revenue in FY19, which has tended to be daigou-centric, is symptomatic of the shift in the channel towards cross-border e-commerce. The broker's analysis of export data from Australia reveals a change in the route to market, with exports to China contracting (a proxy for daigou activity) at the expense of direct shipments to Hong Kong (a proxy for cross-border e-commerce).

The end result is likely to require increased brand investment by Bellamy's, along with the required on-ground investment in China. This would also provide some explanation for the soft margin guidance in FY20 in light of the anticipated revenue growth, in the broker's view.

Citi prefers to wait for evidence of improved sales and earnings before upgrading its recommendation. However, given the improved exit run rates in the fourth quarter and new product launches there is too much upside risk to have a Sell rating.

FY19 results missed broker forecasts, largely as de-stocking in the third quarter of FY19 took longer than management expected. This stemmed from higher inventory levels as the distribution network was consolidated.

The company has acknowledged the difficulty in assessing inventory levels beyond the first line of distributors, which makes forecasting sales challenging. However gross profit margins increased to 43.5%, a highlight of the result, Morgans points out. The broker emphasises that until there are signs operating conditions improve and Chinese regulatory approvals are received, forecasting accuracy remains low.

The second half sales decline of -11% disappointed Citi, given marketing expenditure doubled and manufacturing performed better. The broker prefers to wait for evidence of improved sales and earnings before upgrading its

recommendation. However, given the improved exit run rate in the fourth quarter and new product launches there is too much upside risk to have a Sell rating.

On the positive side, Ord Minnett points out the company has expertise in sourcing organic product and enjoys a known and trusted brand but the economics of Bellamy's organic formula are less attractive than peers.

Chinese Approvals

The company is awaiting approval from the Chinese regulator (SAMR) for its Chinese label products. Citi's forecasts assume registration for the core organic and ultra-premium formula items will be received in the second half of FY20 for a resumption in Chinese label sales by the first half of FY21.

Yet, given the continued delays around registration, in conjunction with China's new 60% self-sufficiency target, the broker acknowledges successful registration appears anything but certain. Moreover, SAMR registration picked up in the first half of 2019 but around 78% of approvals were for domestic Chinese brands and two of the three foreign brands receiving approvals had direct links with Chinese entities.

Hence, all up, there is significant potential but also significant uncertainty, in Morgan Stanley's view. The broker notes the shares are fallen -14% over the past two weeks, highlighting these issues with the Chinese channel and the cost of growth in China.

Asian Expansion

South-east Asia currently represents less than 5% of sales. Citi calculates, assuming Bellamy's could capture around 2% of the market by FY21, Vietnam would be a $20m revenue opportunity that could result in a 6% uplift to operating earnings in FY21. Expansion in Indonesia and the Philippines is also contemplated.

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database has a Hold rating and $8.00 target. There are also four Hold ratings on the database. The consensus target is $8.09, signalling 7.4% upside to the last share price. This compares with $9.25 ahead of the results.

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Carrapateena Start-Up Edges Closer

OZ Minerals has signalled it will start processing stockpiled ore at Carrapateena in November and brokers keep fingers crossed for a smooth ramp-up over the subsequent 18 months.

-Carrapateena ramp up risks delivering recovery and grades below expectations -Difficulty in modelling costs for Carrapateena in 2020 -More capital expenditure at Carrapateena expected in 2020

By Eva Brocklehurst

OZ Minerals ((OZL)) has refined its guidance for the Carrapateena development in South Australia and brokers welcome the new detail, as the de-risking of Carrapateena has long been anticipated as a milestone for the company.

Morgans suggests the main risk for the company in the near to medium term is prolonged trade tensions and the impact on global growth while price tension in both the copper and gold markets offers the best chance for the stock to re-rate towards fair value.

The first half result was messy, involving material movements in inventory, stockpile accounting and the fact that only 78% of production at Prominent Hill was sold. The build up in inventory was the main item that displeased brokers, in addition to the depressed copper price. Inventory is expected to return to normal levels by the end of 2019.

Credit Suisse was not surprised by the confusing numbers in the first half, which included various non-cash accounting adjustments and a re-statement of quarterlies. The company has insisted that Carrapateena is on budget and schedule but the broker argues otherwise.

Carrapateena

The decision to start mining at Carrapateena in November with stockpiled development ore appears to signal the project is on schedule, but the broker asserts the mine is clearly behind schedule as production ore is not available.

The company expects Carrapateena's ramp up will take 18 months and the mill will run on a campaign basis until the full run rate of 4.25mtpa is achieved. Ord Minnett also notes plant construction will be well ahead of the ability of the mine, which raises issues around how to model costs for 2020.

UBS lifts cost estimates to take into account the higher contribution from development ore and campaign processing in 2020. This reduces 2020 operating earnings (EBITDA) forecasts by -16%. the broker reduces estimated mining rates at Carrapateena in 2022 2.3mt and maintains a 2021 forecast of 3.6mt.

Yet there is no guidance for 2020 production and Credit Suisse points out the year will be characterised by stop-start operations as production catches up with the mill's capability. This is likely to deliver recoveries and concentrate grades that are below expectations amid potential for an extension to capital expenditure until stable operations are achieved.

Morgans is confident de-risking of the project will take place steadily over the 18 months. The broker forecasts OZ Minerals will draw down $150m in debt in the second half to complete the project before free cash flow rebounds strongly from 2020.

The company has confirmed capital expenditure for 2019 but also noted there will be more expenditure in 2020 to set up development areas. The full extent has not yet been detailed and UBS factors in total expenditure at Carrapateena in 2020 and 2021 of $190m per annum.

The scoping study has outlined the potential to shift from a sub-level cave to a block cave and a pre-feasibility study has now commenced. Macquarie estimates conversion to a block cave at Carrapateena would more than double the mining throughput rate and increase average copper production from 2026. This would more than offset the forecast decline in output from Prominent Hill.

Prominent Hill

The haulage study for Prominent Hill (South Australia) is nearing completion. Management is trying to prevent a reduction in production which will occur when stockpiles are exhausted and the mill is only being fed by the

underground mine via truck haulage. Shaft or conveyor extraction is being considered. The main positive aspect to this is achieving 3.7mtpa underground ore haulage rates, consistent with guidance, Credit Suisse asserts.

The broker upgrades OZ Minerals to Neutral from Underperform on valuation, assessing strong operating cash flow at Prominent Hill should continue for the two years of copper stockpile recovery before a step down, when low-value gold-only stockpiles replace the high-grade copper as the dominant feed from early 2022 to mid 2023.

Morgans considers the stock is cheap, now trading at a -15% discount to valuation and approaching levels where it has received strong support over the last 3-4 years. The broker believes Carrapateena remains the critical factor, well ahead of Brazil or other growth projects to which little value is ascribed.

Antas, the company's sole operating asset in Brazil, sustained weak production, higher costs and consumed cash in the first half. The Antas pit will close in early 2021. Morgans notes the company has defended its capital allocation strategy, which came into question following an underwhelming financial performance at Antas.

The broker currently ascribes only $109m in value to Brazil and $90m to other joint ventures, assessing the market is sceptical about other growth investment while attention is required at Carrapateena.

Management hopes to accelerate the Pedra Branca development to provide continuity of feed to the Antas mill. The Pedra Branca development will now be undertaken on a smaller scale than originally envisaged, Macquarie points out.

The broker notes some delays have also been flagged for the West Musgrave (Western Australia) pre-feasibility study, now due in early 2020, with a risk the environmental regulator may require an assessment that could result in a delay to the current timeline. The main environmental risk is the presence of subterranean fauna in groundwater and first production is now envisaged in mid 2023.

Shaw and Partners, not one of the seven brokers monitored daily on the FNArena database, has a Buy rating and $12.50 target. The database has four Buy and three Hold ratings. The consensus target is $10.82, suggesting 18.4% upside to the last share price. Targets range from $9.50 (Credit Suisse) to $12.40 (Citi).

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Demand For Appen Intelligence Escalates

A period of investment is masking an encouraging growth trajectory at Appen, as demand for machine-learning applications escalates.

-Increase in speech & image data sales gathering momentum -Figure Eight disruption greater than expected -Main competitive advantage in long-standing relationships

By Eva Brocklehurst

Appen ((APX)), a global provider of language technology and services, has an encouraging growth trajectory as it capitalises on advances in the use of artificial intelligence.

The company should double 2018 revenue by 2023, UBS asserts, highlighting the fact the world is at an inflection point in artificial intelligence, fast approaching mass adoption. The broker also expects the company can achieve 20% operating earnings margins by 2023.

UBS ascertains machine learning applications are likely to continue requiring human training data sets for at least the next ten years. The company has modified 2019 guidance for operating earnings (EBITDA), expecting it will trend to the upper end of the $85-90m range.

Citi suspects this range could prove conservative, anticipating some further FX benefit and strong broad-based growth in speech & image data and Relevance, which provides annotated data used in search technology. The increase in speech & image data sales is evidence that demand for these services is gathering momentum, the broker adds.

The market may have overlooked the implied growth outlook for the Relevance business, UBS suggests. On a like-for-like basis that business is expected to deliver around 80% growth in operating earnings, which implies the end-market dynamics are strong. Bell Potter calculates that, of the 60% growth in Appen's sales revenue in the half year, 53% was organic and the remainder from the Figure Eight acquisition.

Figure Eight

Appen has made a downgrade to 2019 expectations for Figure Eight, acquired early in 2019. Figure Eight allows the transformation of text, image, audio and video data into customised training data for a wide range of uses.

Given this business was only acquired recently, UBS acknowledges the downgrade requires close scrutiny. The business, naturally, requires some integration of software platforms and the migration of customers, which carries risk and may not always be smooth or timely.

Credit Suisse agrees, suspecting prudent cost management will feature more on the path to breaking even for Figure Eight than was previously anticipated. Management has retained its profit outlook as per guidance at the time of acquisition and synergies in 2019 are guided to be 25-35% of the pro forma financials.

Credit Suisse takes a more conservative estimate for synergies, partly because of concerns about the company's ability to hold costs down. Citi acknowledges a loss of momentum at Figure Eight in the June quarter but does not believe this is material to the growth trajectory.

The company appears to be undertaking a period of elevated R&D and this is masking a strong performance, UBS points out. At the time of acquisition Appen expected Figure Eight returns to grow 40-50% but the disruption has been greater than expected and, combined with a shift in customer focus and earn-out, has resulted in lower renewals and sales in the second quarter.

Nevertheless, UBS continues to envisage upside opportunity from Figure Eight while continued artificial intelligence requirements are a major tailwind, particularly in government business, where Figure Eight has worked previously.

The broker upgrades to Buy from Neutral, believing the valuation remains attractive relative to peers. Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, also upgrades to Buy from Hold, with a target of $27.50.

The main competitive advantage is in long-standing relationships with many of the company's customers, the broker asserts. The majority of revenue is from repeat business from customers that regularly update and upgrade

products.

Credit Suisse is also upbeat when it comes to demand in the industry. Direct competitors to Appen are limited although, longer term, competition is likely to increase. Customers are highly concentrated, with the top five delivering 89% of 2018 revenue. Credit Suisse remains alert for any deterioration in the industry structure and considers the valuation full.

The main risk Citi is mindful of, as Appen adds scale with LeapForce (a website for independent contractors) and Figure Eight, stems from customers pushing harder to participate in the economies of scale. The FNArena database has two Buy and one Hold (Credit Suisse) rating. The consensus target is $29, signalling 13.7% upside to the last share price.

See also, Appen Highlights Lift In Order Book on June 4, 2019.

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Weekly Ratings, Targets, Forecast Changes - 26 August 2019

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

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

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

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

Summary

Period: Monday August 19 to Friday August 23, 2019 Total Upgrades: 30 Total Downgrades: 28 Net Ratings Breakdown: Buy 37.74%; Hold 44.97%; Sell 17.29%

The busiest week in the August reporting season generated an unusually high number of ratings upgrades and downgrades for individual ASX-listed stocks. The week ending on Friday, 23rd August 2019 generated no less than 30 upgrades and 28 downgrades. Clearly, there is a lot that needs to be rectified this month as corporate results mingle with risk off, risk on swings in sentiment.

Overall, the market is trending towards an overload in ratings in the Neutral/Hold basket with total recommendations for the seven stockbrokers covered now sliced into 44.97% in Neutral/Holds and Buy ratings only representing 37.74%, with Sells accounting for the remaining 17.29%.

No surprise thus, 17 of the week's 30 upgrades didn't move beyond Neutral/Hold. On the flipside, 13 of the 28 downgrades equally ended in the middle of the ratings spectrum.

Smartgroup was the sole receiver of two fresh Buy recommendations on the back of its financial results. Other fresh Buy ratings went to Santos, Seek, IDP Education, and Select Harvests. On the negative side, a number of gold producers are receiving fresh downgrades to Sell, with stocks including a2 Milk, Platinum Asset Management, Blackmores and Brambles equally receiving one downgrade to Sell.

Remarkable, and no doubt a big surprise to many a "bubble"-fearing value investor, the top three of the week's increases to valuations and target prices is filled with popular High PE growth stocks. WiseTech Global takes the week's Top Spot, followed by Cochlear and Carsales. Telstra follows in fourth position.

Blackmores is the week's biggest loser with its consensus target dropping by -22.69%. Next follows Orora, then Platinum Asset Management, Virtus Health and a2 Milk. As is custom during reporting season; all amendments are noteworthy.

For really big changes investors should cast an eye over the tables for changes to earnings estimates, which are simply huge on both sides. Western Areas and Senex Energy are both enjoying increases in excess of 100%, followed by equally impressive increases for WiseTech Global, WorleyParsons, Lendlease, Evolution Mining, and many others.

The top ten for reductions to earnings forecasts looks equally eye-catching, carrying Nearmap on top, followed by BlueScope Steel, Whitehaven Coal, oOh!media, Iluka Resources, and others.

The local reporting season continues in its final week that equally remains in the grips of international developments.

Upgrade

ALTIUM LIMITED ((ALU)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 0/3/0

Altium's result was modestly below expectation but largely due to promotional activity. Otherwise key metrics were strong, with better than expected new seat and subscriber additions.

Macquarie believes the company can maintain strong growth from its core base while retaining optionality to pursue larger initiatives over time.

Earnings forecasts have been ticked up and target rises 4% to $35.50. Upgrade to Neutral from Underperform.

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

Beacon's FY19 result met Morgan's expectation after a "perfect storm" of headwinds for the company in the second half. It looks like sales may have turned positive in August and the broker expects a return of operating leverage in FY20 as comparable sales growth cycles the prior period's weakness.

Beacon has a track record of bouncing back strongly from subdued periods and FY20 should be no different, Morgans believes. On the share price fall the broker upgrades to Add from Hold. Target rises to $1.16 from $1.13.

BEACH ENERGY LIMITED ((BPT)) Upgrade to Buy from Neutral by Citi .B/H/S: 2/3/0

Upon initial analysis, Citi analysts had already expressed the view that market consensus will likely move higher following the release of FY19 financials. On second consideration, they have decided to upgrade to Buy from Neutral.

Earnings estimates have been lifted by 8-19%. The analysts do make the point they have incorporated future exploration success in their forecasts. Beach is hereby labeled the standout among E&P companies in Australia.

Citi analysts are of the view this company's portfolio could facilitate an accretive acceleration of growth. Within this framework, higher capex for the years ahead is a positive, they suggest. Price target lifts to $2.33 from $2.06.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 4/2/0

BlueScope Steel's FY19 result slightly outpaced Maquarie's estimate, thanks to a strong cash performance. News the North Star expansion is expected to reach completion in 2021 was well received as was the balance sheet.

Operations in NZ and Building Products ASEAN missed a beat and the FY20 trading outlook is weak. Macquarie cuts EPS estimates -30%, -9% and -11% across FY20-FY22.

Target price falls to $10.80. Rating upgraded to Neutral from Underperform.

COCHLEAR LIMITED ((COH)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/3/3

FY19 net profit was in line with Credit Suisse estimates. Management expects underlying net profit in FY20 of $290-300m.

The broker expects Cochlear to reclaim lost market share in FY20, forecasting unit sales growth of 12% for cochlear implants, given a full 12-month benefit of the Nucleus Profile Plus implant in the US and Germany.

Rating is upgraded to Neutral from Underperform, given management's confidence it can reclaim lost market share, and the target raised to $211 from $168.

COLES GROUP LIMITED ((COL)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/5/1

Credit Suisse describes the maiden FY19 result as "so far so good". Supermarkets were better-than-expected. A reduction in net debt has also reduced perceptions of higher financial risk following the de-merger.

Once the convenience re-set is cycled, earnings growth in FY21 appears likely to the broker. Rating is upgraded to Neutral from Underperform and the target increased to $13.23 from $11.97.

CHARTER HALL RETAIL REIT ((CQR)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 0/3/2

FY19 earnings were slightly below Ord Minnett's forecasts. The broker reduces forecasts for earnings per share by -4.1% in FY20 and -3.2% in FY21.

This reflects a reduction in base rent estimates, the deferral of development projects and divestment of three assets. Rating is upgraded to Hold from Lighten on valuation. Target is steady at $4.50.

DOMAIN HOLDINGS AUSTRALIA LIMITED ((DHG)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/3/2

A soft FY19 was in line with UBS expectations. FY20 estimates are reduced by -12%. The broker recognises some investors are prepared to look through the short-term listings weakness for exposure to an eventual housing recovery.

The broker upgrades to Neutral from Sell. Target is raised to $3.00 from $2.75.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/3/0

Domino's Pizza Enterprises' FY19 result was below guidance and disappointed Credit Suisse, which now gives little credit to the company's bullish FY20 forecast.

The company's guidance thesis rests on a record year of store openings in France, but its execution history there has been wanting. Earnings are downgraded to reflect a rebase of profit forecasts for Australia.

Nonetheless, rating rises to Neutral from Underperform and the target price rises to $38.52 from $38.06, the broker believing the next catalyst is likely to be positive.

DOWNER EDI LIMITED ((DOW)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/1/0

FY19 results were ahead of estimates. This was largely because of a higher contribution from transport. Management appears upbeat on growth prospects, guiding to FY20 net profit of $365m.

With robust work in hand at $43.3bn, Credit Suisse believes the business is well-positioned for growth. Rating is upgraded to Neutral from Underperform. Target is raised to $7.70 from $7.10.

IDP EDUCATION LIMITED ((IEL)) Upgrade to Add from Hold by Morgans .B/H/S: 3/1/1

IDP Education's FY19 results met Morgans forecasts, logging strong growth across the board.

The broker says the metrics are hard to fault, the company providing a return on equity of greater than 45% and 100%+ cash conversion and low capital expenditure.

Indian student numbers grew 38%, the digital platform is in place and the broker expects margin expansion.

Broker upgrades to Add from Hold. Target price rises to $19.85 from $17.29.

See also IEL downgrade.

MOUNT GIBSON IRON LIMITED ((MGX)) Upgrade to Neutral from Sell by Citi .B/H/S: 1/1/0

Underlying, it turns out, Mt Gibson's FY19 report proved well, well, well below expectations at Citi; $70m versus $100m expected without a deferred tax recognition. But the focus of operations is shifting to Koolan Island and this will ensure operational continuity.

Citi analysts have upgraded to Neutral/High Risk from Sell/High Risk while increasing forecasts for volumes and costs. Price target remains unchanged at 85c. Citi analysts welcome the return of Koolan Island, but they also make it clear they are bears on the medium term outlook for iron ore prices.

MEDIBANK PRIVATE LIMITED ((MPL)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 0/3/3

The company executed strongly in FY19 and its defensive traits as well as the prospect of capital initiatives cause Morgan Stanley to upgrade to Equal-weight from Underweight.

Despite the structural issues facing the private health insurance sector, the glacial pace of change, coupled with the company's initiatives, is providing the capacity to insulate net margins, in the broker's view.

The target is raised to $3.15 from $2.60. Industry view: In-Line.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Hold from Reduce by Morgans .B/H/S: 0/1/5

Newcrest Mining's full-year result pleased the broker, thanks to increased production and lower costs. Net debt fell -62% and revenue rose despite lower realised gold and copper prices.

On the downside, gold grades at Cadia are forecast to fall and mine life of Gosowong and Telfer is dwindling and impacting the company's production profile.

Morgans expects continued global volatility will underpin the gold price and the broker increases the valuation, the target price rising to $33.71 from $24.92.

Rating upgraded to Hold from Reduce to reflect potential safe-haven benefits to the gold price should volatility escalate.

See also NCM downgrade.

NIB HOLDINGS LIMITED ((NHF)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 0/3/4

FY19 net profit was in line with Ord Minnett's forecasts. The company has flagged signs of increased claims inflation but Ord Minnett finds no discernible trends at this stage.

The broker believes the company can achieve above-system revenue growth in Australian Residents Health Insurance (ARHI) through policyholder growth.

Rating is upgraded to Hold from Sell as the share price has fallen -12.5% since the end of July. Target is raised to $6.97 from $6.58.

See also NHF downgrade.

NETWEALTH GROUP LIMITED ((NWL)) Upgrade to Buy from Accumulate by Ord Minnett and Upgrade to Neutral from Sell by UBS .B/H/S: 1/4/1

The company achieved record flows and reported growth of 18% in revenue and 24% in earnings per share in FY19. Ord Minnett expects earnings growth to compound over the next five years and upgrades to Buy from Accumulate.

The broker assesses the structural momentum will mean funds under administration quadruple over the next eight years. Target is reduced to $8.95 from $9.59.

FY19 operating earnings (EBITDA) were largely in line with UBS estimates. The broker expects flows to lift and considers the company better positioned to absorb ongoing revenue margin pressures, particularly if new third-party platform competitors emerge, or there are further reductions to official rates.

UBS upgrades to Neutral from Sell and reduces the target to $7.25 from $7.65. With the stock now trading at 39.8x PE, the bottom end of its historical range, downside risks appear more moderate.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Buy from Neutral by Citi .B/H/S: 5/2/0

The FY19 report card revealed a better-than-anticipated outlook for Energy Markets and this has triggered an upgrade from Citi analysts to Buy from Neutral. The analysts do note they remain cautious on wholesale electricity.

Another unforeseen benefit is that refinancing expensive debt will prove more beneficial than assumed previously. Combined with other adjustments, Citi's forecasts have increased by double digit percentages. Target price has lifted to $8.17.

PRO MEDICUS LIMITED ((PME)) Upgrade to Add from Hold by Morgans .B/H/S: 1/1/0

Pro Medicus's FY19 result was ahead of Morgans and consensus forecasts, thanks to strong organic growth. Management guided to a continuation of strong growth, pointing to an expanding pipeline and few restraints.

Morgans lowers tax rate forecasts and increases terminal growth rate estimates, which translate to an increase in EPS of 13.4%, 2% and 4.7% over FY20/FY21 and FY22.

The broker raises the target price to $32.79 from $25.46 and upgrades to Add from Hold, despite high multiples and low dividend, believing the company represents an excellent growth opportunity.

QANTAS AIRWAYS LIMITED ((QAN)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/2/1

UBS considers FY19 underlying profit of $1.3bn in FY19 was solid, despite the challenging economic conditions. International capacity is expected to fall by -1% across the market in the first half supporting the continuation of strong momentum in the international division.

The broker raises estimates for profit and earnings by 14-20%. UBS now envisages a benign fuel outlook along with accretive buybacks will support growth in earnings per share of 13% per annum over the next three years.

Rating is upgraded to Buy from Neutral. Target is raised to $6.40 from $5.30.

STEADFAST GROUP LIMITED ((SDF)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/1/0

FY19 net profit was in line with guidance. The company is raising $100m through an institutional placement and up to $20m through a share purchase plan.

Ord Minnett believes strong growth can be achieved in FY20, with room for further acquisitions and potential upside from monetising technology.

Rating is upgraded to Accumulate from Hold and the target lifted to $3.90 from $3.75.

The broker considers the environment favourable for businesses exposed to the uplift in the commercial insurance cycle in Australia.

SEEK LIMITED ((SEK)) Upgrade to Add from Hold by Morgans and Upgrade to Neutral from Sell by UBS .B/H/S: 3/3/0

Morgans does not provide an assessments of Seek's FY19 result, rather choosing to concentrate on a bold "doubling down" on growth opportunities amid a global slowdown. The company has committed to invest even more aggressively in new technologies and early stage ventures at the expense of near-term earnings growth.

Morgans has thus downgraded earnings forecasts in line with guidance but a roll-forward of valuation takes its target to $22.31 from $20.19, leading to an upgrade to Add from Hold.

Concerns around near-term earnings were confirmed and new FY20 guidance results in -20% reductions to UBS estimates for net profit.

While revenue is expected to be up 15-18% in FY20, the broker suspects a large amount will relate to low-margin/lower-multiple Chinese off-line growth.

UBS observes the market appears willing to back a quality management team to deliver on an eventual earnings rebound and upgrades to Neutral from Sell. Target is raised to $19.50 from $18.50.

STOCKLAND ((SGP)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 0/3/2

Stockland Group delivered a full-year result in line with revised guidance, and provided FY20 guidance for flat growth.

Metrics were mixed, the company struggling on several fronts. After a full model rebuild, Credit Suisse revises funds from operations down -1.4% in FY20 and -3.2% in FY21.

Target price rises to $4.32 from $3.17 and the broker upgrades to Neutral from Underperform.

See also SGP downgrade.

SONIC HEALTHCARE LIMITED ((SHL)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 3/3/1

FY19 underlying operating earnings (EBITDA) were below Credit Suisse estimates. The broker notes lower US organic revenue growth while pathology earnings margins declined. Guidance calls for FY20 growth of 6-8% in operating earnings.

Credit Suisse upgrades to Neutral from Underperform as the model is rolled forward. Despite the limited organic earnings growth outlook, the broker notes a strong balance sheet with capacity for further M&A. Target is raised to $26.80 from $24.20.

SELECT HARVESTS LIMITED ((SHV)) Upgrade to Buy from Neutral by UBS .B/H/S: 1/0/0

The company has upgraded its crop estimates by 8%. UBS upgrades estimates for FY19 and FY20 earnings per share by 17% and 31% respectively.

The broker expects the pricing environment to remain favourable in the medium term, with the Californian crop supply remaining tight and amid a tailwind from currency.

The strong operating momentum should support a net cash balance by FY20 and, in turn, capital management, in the broker's view. Rating is upgraded to Buy from Neutral and the target lifted to $9.10 from $7.25.

SMARTGROUP CORPORATION LTD ((SIQ)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Add from Hold by Morgans .B/H/S: 5/1/0

First half net profit growth of 5.4% was below the double-digits usually seen, although Credit Suisse notes there was no contribution from acquisitions. This was also set against a backdrop where new car sales declined -9% over the same period.

Credit Suisse expects similar growth in the second half and an acceleration in 2020 as conditions become easier. Rating is upgraded to Outperform from Neutral and the target raised to $9.80 from $9.25.

First half net profit was in line with forecasts. Topline growth was slightly better than Morgans expected. The broker believes the strong cash flow and low gearing provides options for acquisitions or capital management in the medium term.

The broker considers the valuation relatively undemanding, and there is upside risk over the next 12-18 months. Morgans upgrades to Add from Hold and raises the target to $10.15 from $9.50.

SANTOS LIMITED ((STO)) Upgrade to Add from Hold by Morgans .B/H/S: 4/3/0

Santos' first-half result outpaced the broker, broad cost cutting yielding an increased margin of 64% against Morgans' forecast 59%.

Gearing was high but the company has committed to using free cash flow to deleverage prior to hitting its growth stride. Meanwhile, Dorado logged a 68% increase in production.

Morgans says management has done a terrific job of turning around the company and, despite reservations given the stock's popularity, upgrades to Add from Hold. Target price rises to $$8.05 from $6.51.

WISETECH GLOBAL LIMITED ((WTC)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 2/2/0

FY19 results were ahead of forecasts. The main surprise for Ord Minnett was FY20 guidance, which highlights an acceleration in organic growth.

While still considering the valuation stretched, the broker acknowledges Lighten is no longer valid as a rating and upgrades to Hold. Target is raised to $26.69 from $18.37.

Downgrade

THE A2 MILK COMPANY LIMITED ((A2M)) Downgrade to Lighten from Accumulate by Ord Minnett .B/H/S: 2/3/1

FY19 net profit was up 47% but below Ord Minnett's forecasts. The broker downgrades to Lighten from Accumulate because of the higher-than-expected investment required to achieve the revenue opportunity as well as a more negative channel mix.

The broker reduces the target to $12.92 from $17.23. Ord Minnett reduces earnings estimates for FY20, given margin guidance of 28.2%, but also because marketing costs are forecast to increase further as a percentage of sales.

ABACUS PROPERTY GROUP ((ABP)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 0/2/0

FY19 results were ahead of Credit Suisse estimates. FY20 guidance suggests 2-3% growth in distributions.

Looking at FY20, Credit Suisse notes the company has around $118m in its growth pipeline including $63m of contracted acquisitions and a further $34m under consideration. This leaves $21m for new development expenditure.

Credit Suisse downgrades to Neutral from Outperform on valuation grounds. Target is reduced to $3.87 from $4.00.

ALACER GOLD CORP ((AQG)) Downgrade to Underperform from Outperform by Macquarie .B/H/S: 2/0/1

Alacer Gold's second-quarter report beat Macquarie's estimates on production, costs and revenue (up 48%), but missed on net profit after tax (-13%) thanks to a -US$16.9m impairment.

Gold production outpaced the broker by 12%, but oxide production outpaced by 42%. Costs proved a 9% beat. Net debt fell sharply.

EPS estimates rise roughly 2% for 2019 and 6% in 2020, before falling -3% to -8% in later years.

Target price rises to $6 from $5.80. Broker downgrades to Underperform from Outperform to reflect the recent share price rally.

BAPCOR LIMITED ((BAP)) Downgrade to Hold from Add by Morgans .B/H/S: 4/1/0

FY19 results were in line with expectations. Morgans likes the relative safe-haven status of the business, given the volatile retail sector.

Trading multiples have expanded materially and now appear fair, so the rating is downgraded to Hold from Add.

The broker is comfortable with net profit guidance for FY20, expecting growth of around 7.8%. Target is raised to $6.98 from $6.31.

BLACKMORES LIMITED ((BKL)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 0/4/2

Macquarie has downgraded to Underperform from Neutral after Blackmores' result came with a disappointing trading update showing decelerating demand trends. The company is victim to both changing market dynamics and weak execution, with the China strategy in transition.

While the stock has reached a level where support is typically found, the broker believes it is susceptible to further de-rating ahead of evidence of earnings stabilisation and execution on strategy. Target falls to $60 from $86.

BRAMBLES LIMITED ((BXB)) Downgrade to Underperform from Neutral by Credit Suisse and Downgrade to Neutral from Buy by UBS .B/H/S: 2/4/1

Brambles full-year FY19 result missed consensus and Credit Suisse forecasts due to pallet damage and lost pallets.

The broker expects continued margin decline in Canada and management's CHEP outlook was lacklustre. Earnings forecasts fall -12% for FY20 and -20% for FY21.

The buyback is expected to restart immediately after the pre-result blackout, and is expected to take a year to 18 months.

Target price falls to $11.20 from $13.50.

Results for the June half year were well below UBS forecasts. The Americas division was -13% below forecasts because of weaker performances in Canada and Latin America.

FY20 guidance for earnings (EBIT) growth to be in line or slightly above the prior year was well below the broker's estimates. UBS believes the stock is unlikely to outperform and downgrades to Neutral from Buy.

A number of issues are of concern. There appears to be a structural decline in profitability in Latin America and Canada which undermines confidence, the broker suggests.

Brexit could also add further costs. Target is reduced to $12.10 from $13.60.

CARSALES.COM LIMITED ((CAR)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/2/1

Carsales had pre-released its headline numbers so no surprises. The core domestic business continues to perform well and the company is well placed to deliver solid growth over the medium term, Macquarie believes.

The recent run in the share price nevertheless brings valuation into line hence the broker pulls back to Neutral from Outperform. Target rises to $15.80 from $13.20, including a boost from lowering the risk free rate.

FY19 net profit was in line with Ord Minnett's forecasts. The broker observes the online advertising segment was resilient in the face of tough conditions, with dealer revenue up 6.9%.

Weakness in display showed signs of moderating in the second half, a positive sign for FY20. International business was a highlight, particularly Webmotors, where growth appears to be accelerating.

Ord Minnett retains a positive stance on the stock, underpinned by the long-term growth potential. Target is raised to $16.54 from $13.61 and the rating is downgraded to Accumulate from Buy.

CREDIT CORP GROUP LIMITED ((CCP)) Downgrade to Hold from Add by Morgans .B/H/S: 0/2/0

Credit Corp Group has paid $65m for agency collection business Baycorp and the company increases guidance to account for purchase-debt-ledger (PDL) acquisitions and an improvement in net profit after tax.

Morgans spies scope for earnings upgrades as PDL acquisitions continue through FY20, and believes the growth outlook is strong.

Earnings-per-share forecasts rise 5% to 6% across FY20 to FY22.

Target price rises to $28.80 from $27.00 (a 5% upside to valuation) but rating downgraded to Hold from Add to reflect over-extended share price.

EBOS GROUP LIMITED ((EBO)) Downgrade to Hold from Add by Morgans .B/H/S: 0/4/0

Ebos Group's FY19 result met Morgans' forecasts. The company completed $300m of acquisitions and is expected to continue buying in FY20.

Key metrics were solid across most divisions, Healthcare proving the laggard, as PBS reform and the unwinding of the HepC benefit weighed.

Morgans leaves forecasts unchanged. Target price is steady at $24.07. The broker downgrades to Hold from Add following the recent sharp share price rally.

ERM POWER LIMITED ((EPW)) Downgrade to Hold from Accumulate by Ord Minnett and Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/0

FY19 underlying net profit was down -14% but overshadowed by the coincident announcement that Shell Australia has made an acquisition proposal at $2.465 a share cash. Ord Minnett considers the offer fair and in line with value estimates.

The likelihood of a competitor bid is low, given competition constraints that prevent an incumbent from placing a rival bid. The broker downgrades to Hold from Accumulate and raises the target to $2.45 from $2.00.

The broker does not comment on ERM's result, likely because it is swamped by a takeover offer from Shell at $2.465, a premium to Macquarie's valuation. While the broker cannot rule out a higher offer, it sees a limited number of players who would be permitted to bid and have an investment grade rating.

The broker shifts to Neutral from Outperform and lifts its target to the offer price of $2.47 from $2.05.

GBST HOLDINGS LIMITED ((GBT)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

GBST Holding's full-year result seriously outpaced consensus, with underlying profits up 76% thanks to a strong UK performance.

The result is most likely the company's last, given it will soon be acquired by FNZ for $3.85 per share.

Target price rises to $3.85 from $3.79. Rating downgraded to Hold from Add. The broker suggests investors seek tax advice before deciding to sell before or after bid completion.

GWA GROUP LIMITED ((GWA)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/3/1

Citi downgrades to Sell from Neutral as industry forecasts suggest sectors relating to around 84% of the company's bathroom & kitchens sales are likely to weaken over the next year or two. Citi suspects organic growth will be hard to come by.

The broker considers the stock expensive given the limited organic growth profile. Forecasts for earnings per share are reduced by -8-11%. Target is lowered to $3.13 from $3.26.

IDP EDUCATION LIMITED ((IEL)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/1/1

FY19 net profit was in line with Ord Minnett's forecasts. Student placement was the driver of the result, with Australian volumes up 10.4% and multi destinations up 51%.

Ord Minnett expects a recovery in volumes back to system in the short term and strong growth in placements to continue but does not suggest the business model is immune to risk.

Hence, the broker struggles with valuation and downgrades to Hold from Accumulate. Target is raised to $16.23 from $14.16.

See also IEL upgrade.

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

A very strong result from IPH beat forecasts across the board, helped by cost discipline and forex tailwinds, Morgans notes. The stock is a quality defensive with a big step-up in earnings offered by the Xenith acquisition, with margin increases expected ahead as has been the case with AJ Park.

Incorporating Xenith takes the target to $9.48 from $8.51 but as the stock has rallied hard up the the result Morgans pulls back to Hold from Add.

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

UBS found the first half results messy. The underlying business continues to lose share and 87% of volume growth was from acquisitions. This highlights the importance of the Protect & Grow strategy, in the broker's view.

The broker was expecting a bigger rebound in the death rate and, while this should normalise over time, it creates potential risk to second half and FY20 forecasts. UBS downgrades to Sell from Neutral and lowers the target to $12.70 from $13.95.

MONADELPHOUS GROUP LIMITED ((MND)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/3/1

Yesterday, Citi analysts initially responded by noting it appeared Monadelphous's FY19 report marked a clear "miss", but underlying the miss was only circa -2%. Then followed a non-tangible outlook, marred by delayed projects and margin pressure due to increased competition.

Today, Citi has decided to downgrade to Sell from Neutral. Price target drops to $15.50 from $16.80. Citi has come to the conclusion the immediate outlook has too much risks embedded, including management's reference to lower margins.

Estimates have been culled by double digit percentages. Citi's focus is not entirely on lower margins, but it is a central factor in its cautious approach on second consideration.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/1/5

FY19 earnings were in line with Citi's estimates. With declining production after FY20 and capital expenditure required to sustain earnings, Citi believes medium-term risks are to the downside.

Rating is downgraded to Sell from Neutral. Target is lowered to $31.05 from $33.25.

See also NCM upgrade.

NIB HOLDINGS LIMITED ((NHF)) Downgrade to Sell from Neutral by UBS .B/H/S: 0/3/4

FY19 results were largely in line with UBS estimates. The emergence of higher hospital claims inflation over the fourth quarter along with a reduction in premium rates points to margin compression ahead, the broker asserts.

With lower bond yields and an earnings headwind in FY20, the broker downgrades to Sell from Neutral. Target is raised to $6.40 from $5.80.

See also NHF upgrade.

ORORA LIMITED ((ORA)) Downgrade to Neutral from Buy by UBS .B/H/S: 3/4/0

FY19 earnings were below UBS estimates. The broker notes a more challenging macro environment in the US, where volumes have been affected by trade tensions. There is also increased competition and an inability to pass through raw material costs.

UBS does not expect this situation to materially improve in FY20. Forecasts are downgraded for FY20-21 by -7%. Rating is downgraded to Neutral from Buy and the target lowered to $2.85 from $3.85.

PLATINUM ASSET MANAGEMENT LIMITED ((PTM)) Downgrade to Sell from Hold by Ord Minnett .B/H/S: 0/2/3

Having upgraded to Hold in May, expecting continued improvement in performance, Ord Minnett has now pulled back to Sell again. Underperformance and funds outflows are dominating the picture again, the analysts observe.

The broker is now talking "false dawn". Platinum's investment performance simply doesn't seem to be able to keep pace with, for example, Magellan Financial's ((MFG)) and Hyperion. On this basis, forecasts have seen material reductions, pulling down the price target to $3.53 from $4.77.

On updated forecasts, FY20 seems poised for yet another year of negative growth.

ST BARBARA LIMITED ((SBM)) Downgrade to Sell from Neutral by Citi .B/H/S: 1/0/3

The FY19 performance missed expectations, by some -7% vis-a-vis market consensus on Citi's observation. The analysts note the share price has weakened in the past year, but remains above their now revised price target.

While acknowledging there is upside potential were the price of gold to rally higher, Citi analysts have nevertheless decided to downgrade to Sell from Neutral. The new price target at $3 compares with $3.40 prior to the release.

SG FLEET GROUP LIMITED ((SGF)) Downgrade to Neutral from Buy by Citi .B/H/S: 1/2/0

Citi analysts are of the view that management is controlling the controllables, but operating dynamics remain tough and there simply does not appear to be any catalysts for an upward move in momentum on the horizon.

Post a rally in the share price, Citi analysts have thus decided it's time for a downgrade to Neutral from Buy. Forecasts remain largely unchanged post what the analysts describe has been a good performance in a challenging environment.

Meanwhile in the background, the UK is becoming an incrementally important profit contributor, the analysts observe. Price target improved slightly to $3.17 from $3.13.

STOCKLAND ((SGP)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/3/2

Macquarie has chosen not to focus on Stockland's FY19 result but instead on the FY20 outlook. Despite residential conditions improving, and net deposits in the Jun Q, and so far in the Sep Q, exceeding the company's expectations, Stockland has guided to flat earnings and dividend growth.

Rents for retail tenants are being re-based but the broker sees further downside due to structural headwinds for the sector. Downgrade to Neutral from Outperform. Target falls to $4.34 from $4.77.

See also SGP upgrade.

THE STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/2/0

Credit Suisse models no earnings growth in FY20 after downgrading estimates for earnings per share by -6-8%.

This makes the case difficult for an Outperform rating and the broker concedes the stock may be appropriately valued, downgrading to Neutral.

Target is reduced to $3.75 from $4.90. A high pay-out ratio for the dividend in FY19 signals to the broker the company may hold the dividend at $0.20.

VIRTUS HEALTH LIMITED ((VRT)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 1/2/0

FY19 results were below expectations. The company has adjusted its operating earnings (EBITDA) margin down by around -420 basis points with lost share in most markets, the broker observes.

Adverse mix and increased compliance costs have put pressure on margins and the broker is unsure when this may revert. Lower margin assumptions result in a -20% reduction to estimates for FY20-21.

Rating is downgraded to Equal-weight from Overweight and the target lowered to $4.44 from $5.34. Industry view is In-Line.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ALTIUM LIMITED Neutral N/A Macquarie 2 BEACH ENERGY LIMITED Buy Neutral Citi 3 BEACON LIGHTING GROUP LIMITED Buy Neutral Morgans 4 BLUESCOPE STEEL LIMITED Neutral Sell Macquarie 5 CHARTER HALL RETAIL REIT Neutral Sell Ord Minnett 6 COCHLEAR LIMITED Neutral Sell Credit Suisse 7 COLES GROUP LIMITED Neutral Sell Credit Suisse 8 DOMAIN HOLDINGS AUSTRALIA LIMITED Neutral Sell UBS 9 DOMINO'S PIZZA ENTERPRISES LIMITED Neutral Sell Credit Suisse 10 DOWNER EDI LIMITED Neutral Sell Credit Suisse 11 IDP EDUCATION LIMITED Buy Neutral Morgans 12 MEDIBANK PRIVATE LIMITED Neutral Sell Morgan Stanley 13 MOUNT GIBSON IRON LIMITED Neutral Sell Citi 14 NETWEALTH GROUP LIMITED Neutral Sell UBS 15 NETWEALTH GROUP LIMITED Buy Buy Ord Minnett 16 NEWCREST MINING LIMITED Neutral Sell Morgans 17 NIB HOLDINGS LIMITED Neutral Sell Ord Minnett 18 ORIGIN ENERGY LIMITED Buy Neutral Citi 19 PRO MEDICUS LIMITED Buy Neutral Morgans 20 QANTAS AIRWAYS LIMITED Buy Neutral UBS 21 SANTOS LIMITED Buy Neutral Morgans 22 SEEK LIMITED Buy Neutral Morgans 23 SEEK LIMITED Neutral Sell UBS 24 SELECT HARVESTS LIMITED Buy Neutral UBS 25 SMARTGROUP CORPORATION LTD Buy Neutral Morgans 26 SMARTGROUP CORPORATION LTD Buy Neutral Credit Suisse 27 SONIC HEALTHCARE LIMITED Neutral Sell Credit Suisse 28 STEADFAST GROUP LIMITED Buy Neutral Ord Minnett 29 STOCKLAND Neutral Sell Credit Suisse 30 WISETECH GLOBAL LIMITED Neutral Sell Ord Minnett Downgrade 31 ABACUS PROPERTY GROUP Neutral Buy Credit Suisse 32 ALACER GOLD CORP Sell Buy Macquarie 33 BAPCOR LIMITED Neutral Buy Morgans 34 BLACKMORES LIMITED Sell Neutral Macquarie 35 BRAMBLES LIMITED Neutral Buy UBS 36 BRAMBLES LIMITED Sell Neutral Credit Suisse 37 CARSALES.COM LIMITED Neutral Buy Macquarie 38 CARSALES.COM LIMITED Buy Buy Ord Minnett 39 CREDIT CORP GROUP LIMITED Neutral Buy Morgans 40 ERM POWER LIMITED Neutral Buy Macquarie 41 GBST HOLDINGS LIMITED Neutral Buy Morgans 42 GWA GROUP LIMITED Sell Neutral Citi 43 INVOCARE LIMITED Sell Neutral UBS 44 IPH LIMITED Neutral Buy Morgans 45 MONADELPHOUS GROUP LIMITED Sell Neutral Citi 46 NEWCREST MINING LIMITED Sell Neutral Citi 47 NIB HOLDINGS LIMITED Sell Neutral UBS 48 ORORA LIMITED Neutral Buy UBS 49 PLATINUM ASSET MANAGEMENT LIMITED Sell Neutral Ord Minnett 50 SG FLEET GROUP LIMITED Neutral Buy Citi 51 ST BARBARA LIMITED Sell Neutral Citi 52 STOCKLAND Neutral Buy Macquarie 53 THE A2 MILK COMPANY LIMITED Sell Buy Ord Minnett 54 THE STAR ENTERTAINMENT GROUP LIMITED Neutral Buy Credit Suisse 55 VIRTUS HEALTH LIMITED Neutral Buy Morgan Stanley Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SEK SEEK LIMITED 42.0% -7.0% 49.0% 6 2 SUL SUPER RETAIL GROUP LIMITED 64.0% 29.0% 35.0% 7 3 SIQ SMARTGROUP CORPORATION LTD 83.0% 50.0% 33.0% 6 4 TLS TELSTRA

CORPORATION LIMITED 8.0% -14.0% 22.0% 6 5 IEL IDP EDUCATION LIMITED 50.0% 30.0% 20.0% 5 6 BPT BEACH ENERGY LIMITED 40.0% 20.0% 20.0% 5 7 DOW DOWNER EDI LIMITED 50.0% 30.0% 20.0% 5 8 QAN QANTAS AIRWAYS LIMITED 33.0% 17.0% 16.0% 6 9 BSL BLUESCOPE STEEL LIMITED 58.0% 42.0% 16.0% 6 10 DMP DOMINO'S PIZZA ENTERPRISES LIMITED 36.0% 21.0% 15.0% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 AQG ALACER GOLD CORP 33.0% 100.0% -67.0% 3 2 VRT VIRTUS HEALTH LIMITED 33.0% 67.0% -34.0% 3 3 SGF SG FLEET GROUP LIMITED 33.0% 67.0% -34.0% 3 4 EPW ERM POWER LIMITED 50.0% 83.0% -33.0% 3 5 BXB BRAMBLES LIMITED 14.0% 43.0% -29.0% 7 6 SBM ST BARBARA LIMITED -63.0% -38.0% -25.0% 4 7 CAR CARSALES.COM LIMITED 36.0% 57.0% -21.0% 7 8 PTM PLATINUM ASSET MANAGEMENT LIMITED -60.0% -40.0% -20.0% 5 9 BAP BAPCOR LIMITED 80.0% 100.0% -20.0% 5 10 APX APPEN LIMITED 33.0% 50.0% -17.0% 3 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 WTC WISETECH GLOBAL LIMITED 29.998 22.785 31.66% 4 2 COH COCHLEAR LIMITED 193.429 175.129 10.45% 7 3 CAR CARSALES.COM LIMITED 15.413 14.041 9.77% 7 4 TLS TELSTRA CORPORATION LIMITED 3.907 3.560 9.75% 6 5 SEK SEEK LIMITED 21.152 19.599 7.92% 6 6 IEL IDP EDUCATION LIMITED 17.982 16.670 7.87% 5 7 SUL SUPER RETAIL GROUP LIMITED 9.681 9.033 7.17% 7 8 NWS NEWS CORPORATION 23.680 22.135 6.98% 4 9 EPW ERM POWER LIMITED 2.173 2.033 6.89% 3 10 STO SANTOS LIMITED 7.582 7.094 6.88% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 BKL BLACKMORES LIMITED 66.517 86.042 -22.69% 6 2 ORA ORORA LIMITED 2.967 3.460 -14.25% 7 3 PTM PLATINUM ASSET MANAGEMENT LIMITED 3.856 4.354 -11.44% 5 4 VRT VIRTUS HEALTH LIMITED 4.703 5.203 -9.61% 3 5 A2M THE A2 MILK COMPANY LIMITED 14.180 15.376 -7.78% 7 6 BXB BRAMBLES LIMITED 11.941 12.944 -7.75% 7 7 APX APPEN LIMITED 26.330 27.995 -5.95% 3 8 CWY CLEANAWAY WASTE MANAGEMENT LIMITED 2.252 2.382 -5.46% 5 9 SGR THE STAR ENTERTAINMENT GROUP LIMITED 4.570 4.823 -5.25% 6 10 SGF SG FLEET GROUP LIMITED 2.775 2.893 -4.08% 3 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 WSA WESTERN AREAS NL 15.155 5.782 162.11% 6 2 SXY SENEX ENERGY LIMITED 1.485 0.605 145.45% 6 3 WTC WISETECH GLOBAL LIMITED 29.575 18.067 63.70% 4 4 WOR WORLEYPARSONS LIMITED 95.827 59.003 62.41% 6 5 LLC LENDLEASE GROUP 132.600 82.548 60.63% 5 6 EVN EVOLUTION MINING LIMITED 21.129 13.530 56.16% 7 7 NCM NEWCREST MINING LIMITED 154.349 106.308 45.19% 6 8 WEB WEBJET LIMITED 84.088 58.172 44.55% 5 9 AOG AVEO GROUP 8.400 6.100 37.70% 3 10 BBN BABY BUNTING GROUP LIMITED 15.250 11.375 34.07% 4 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 NEA NEARMAP LTD -3.767 -0.867 -334.49% 3 2 BSL BLUESCOPE STEEL LIMITED 86.202 178.550 -51.72% 6 3 WHC WHITEHAVEN COAL LIMITED 30.257 54.200 -44.18% 7 4 OML OOH!MEDIA LIMITED 18.774 27.040 -30.57% 5 5 ILU ILUKA RESOURCES LIMITED 69.700 92.485 -24.64% 6 6 S32 SOUTH32 LIMITED 22.655 29.000 -21.88% 7 7 REG REGIS HEALTHCARE LIMITED 13.175 15.975 -17.53% 4 8 SEK SEEK LIMITED 46.925 55.503 -15.46% 6 9 BXB BRAMBLES LIMITED 48.891 57.243 -14.59% 7 10 VRT VIRTUS HEALTH LIMITED 30.667 35.333 -13.21% 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.

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Uranium Week: Activity Reawakens

News that Kazakhstan intends to extend production reductions through 2021 sparked a return to buying interest in both the spot and term uranium markets last week.

-Kazatomprom extends production cuts -Market interest returns after a dead August to date -No new Japanese restarts in 2019

By Greg Peel

"Kazatomprom does not expect to return to full production until a sustained market recovery is evident, and demand and supply conditions signal a need for more uranium."

This official announcement last week from Kazakhstan's (mostly) state-owned uranium producer rekindled interest in uranium markets after activity had slowed to a grinding halt in August. Kazatomprom's production capacity is large enough for the company to be the swing factor in the global uranium demand/supply balance as OPEC once was in the global oil market.

The company announced it would extend its planned -20% production reduction through 2021.

For some time now the uranium market had assumed utility buying interest was just over the horizon, but recent weeks have seen a complete stalling of market activity. Firstly as participants awaited the president's decision on the section 232 recommendations from the Department of Commerce and again after the president rejected the recommendations and instead established a Working Group to examine the whole nuclear cycle in the US, from production to power generation. That report is still being awaited.

Last week nevertheless saw five transactions completed in the uranium spot market, industry consultant TradeTech reports, totalling 600,000lbs U3O8 equivalent. The bulk of buying interest came from traders, although several utilities are quietly making inquiries regarding potential spot purchases, TradeTech notes.

The consultant's weekly spot price indicator rose US40c to US$25.30/lb.

In term markets, four transactions were concluded involving deliveries of less than 500,000lbs in the mid-term. Again, traders and producers were the buyers, with utility buying yet to actually manifest.

TradeTech's term price indicators remain at US$28.50/lb (mid) and $31.00/lb (long).

Slow and Slower

Weighing on uranium markets beyond the initial impact of the Fukushima disaster of 2011 has been the extremely slow pace of restarts of Japanese reactors in the interim, pending safety upgrades and both regulatory and local government approval.

While another six reactors have passed initial regulatory approval and were expected to restart in 2019, stricter safety requirements and public opposition mean they are yet to do so and likely will not do so before year-end.

Meanwhile Tokyo Electric (Tepco) is reportedly submitting plans to decommission five units at its Kashiwazki-Kariwa nuclear facility. The company also has two new units ready to start but as yet has not received local prefecture government approval.

At least Bulgaria is planning to build two new reactors.

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

The Short Report - 29 August 2019

Guide:

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

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

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

Summary:

Week ending August 22, 2019

Last week saw the ASX200 recover to some extent from the US yield curve inversion sell-off, although volatility persisted.

Wow. Get a load of the sea of green below. One would be forgiven for thinking there was an earnings season on.

Indeed, last week was the biggest by stock count in the earnings season, so that may explain the aforementioned sea, but we also had the macro overlay of extreme global market volatility, which in itself may explain short-covering. Or a combination of both. I just sincerely hope the ASIC data are accurate, and we don't see everything go back the other way next week (wouldn't be the first time), or my assessment would make me look a fool (again).

There are far too many major short reductions to assess this week and to try and pin a story to every one of them would take me about a week. So rather, I have simply listed the movers in order of quantum.

I will note that some of the bigger movers had yet to report by the date in question.

Reductions of over -3%:

Reliance Worldwide ((RWC)), GWA Group ((GWA)), Blackmores ((BKL)), Collection House ((CLH)).

Reductions of over -2%:

Inghams Group ((ING)), Nufarm ((NUF)), Galaxy Resources ((GXY)), Orocobre ((ORE)), Bellamy's Australia ((BAL)), Syrah Resources ((SYR)), NextDC ((NXT)), BWX ((BWX)), Bega Cheese ((BGA)), Bingo Industries ((BIN)), Sims Metal Management ((SGM)), InvoCare ((IVC)), Speedcast International ((SDA)), Costa Group ((CGC)).

Reductions of over -1%:

Pilbara Minerals ((PLS)), Western Areas ((WSA)), G8 Education ((GEM)).

Reductions of amounts unknown, given they fell off the table:

Nine Entertainment ((NEC)), Sandfire Resources ((SFR)), Cooper Energy ((COE)), Elders ((ELD)), Genworth Mortgage Insurance ((GMA)), oOh!media ((OML)), Senex Energy ((SXY)), Alumina ((AWC)).

The only companies to see short increases, all of which are from below 5% prior:

Pact Group ((PGH)), Nearmap ((NEA)), Emeco Holdings ((EHL)), EclipX Group ((ECX)).

As for Movers & Shakers? Well, all of them.

Weekly short positions as a percentage of market cap:

10%+ ING 17.1 NUF 16.3 GXY 14.5 BAL 14.3 JBH 14.3 ORE 14.2 SYR 12.1 NXT 11.3 DMP 11.1

Out: BWX, HUB, PLS, BGA, RWC

9.0-9.9

PLS, BWX, MTS, BOQ

In: PLS, BWX Out: HVN, IFL, GWA, BIN, SGM, KGN 8.0-8.9%

HVN, IFL, BGA, PPT, SUL, HUB, KGN, BKL, IVC, SDA, DCN, CGC

In: BGA, HVN, IFL, KGN Out: BKL, IVC, SDA, DCN, CGC

7.0-7.9%

DCN, CGF, SGM, BIN, MYR WSA, CLH, CSR

In: BIN, SGM, DCN, Out: WSA, CLH, CSR

6.0-6.9%

WSA, RWC, PGH, CSR, GWA, A2M, IVC

In: RWC, GWA, IVC, CGC, WSA, PGH

Out: GEM, AMP, NEC, SFR, COE, CTD, NCZ

5.0-5.9%

SDA, AMP, GMA, GEM, CUV, CLQ, CGC, BKL, LNG, NCZ, CTD, NEA, EHL, ECX, NWL, MSB

In: SDA, CGC, BKL, AMP, GEM, NCZ, CTD, NEA, EHL, ECX

Out: ELD, OML, SXY, AWC

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 0.5 0.5 RIO 4.6 4.8 ANZ 0.6 0.7 S32 0.8 1.1 BHP 3.3 3.3 SCP 0.4 0.7 BXB 0.1 0.2 SUN 0.6 0.7 CBA 1.1 1.2 TCL 0.4 0.5 COL 0.7 1.0 TLS 0.3 0.4 CSL 0.3 0.2 WBC 1.0 1.1 IAG 0.5 0.5 WES 0.9 1.0 MQG 0.8 0.7 WOW 1.4 1.6 NAB 0.5 0.5 WPL 0.7 0.9 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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Accent Group Stands Out Among Retailers

Footwear retailer and distributor Accent Group is trialling new store concepts while offering a superior digital presence. Growth initiatives in the near term are primarily in the domestic sphere.

-Seeking under-represented areas of the domestic footwear market -Gross margin up strongly, reflecting cessation of widespread discounting -Investment in omni-channel approach paying dividends

By Eva Brocklehurst

As others look offshore for expansion opportunities, Accent Group ((AX1)) is playing it safe, building out its domestic presence as a footwear retailer and distributor.

Citi believes Accent is one of the most innovative and driven listed retailers and the market should like its lower-risk Australian focus. The trading update for the first seven weeks of FY20 signalled like-for-like sales were up 2.7%.

No formal earnings guidance was provided at the results but the company expects to roll out 40 stores in FY20 and there will also be the benefit from the annualised performance of 54 stores that were rolled out in FY19.

Like-for-like sales growth is expected in the low single digits and gross margin should be in line with the previous year. Morgans notes the FY19 results were among the strongest across the retail sector in the current reporting season, with operating earnings (EBITDA) up 22.5%.

The broker expects another strong year of digital sales growth in FY20 because of the recent launch of express delivery, the “endless aisle” and the new website, while the growth profile could be larger and of longer of duration than what is being priced into the stock.

Citi, which retains a Neutral rating and $1.61 target, suggests the digital offering is best in class and there are options to be developed from new store concepts. Online penetration is now at 15% and the company has effectively met its targets a year earlier than previously forecast. Digital sales grew 93%, with particularly strength in Skechers, Vans, Doctor Martens, Timberland and Merrell.

Morgans also highlights that Accent has also found its digital sales are attracting similar profit margins to the retail stores, the opposite of other retailers, and welcomes the investment in the omni-channel approach, which appears to be paying dividends.

Gross margin was up strongly and reflected the cessation of blanket discounting, increased vertical brand/product penetration and margin improvement in The Athlete's Foot. That said, gross margin was below Morgans' forecasts as the company sustained a strong inventory clearance program in June. Morgans has an Add rating and $1.72 target.

The business also comfortably met Bell Potter's expectations with most platforms performing strongly. The broker believes a combination of the vertical model, omni-channel capabilities and an undemanding valuation are attractive and retains a Buy rating with a $1.78 target.

New Concepts

The company continues to seek under-represented areas of the domestic footwear market, trialling a new concept called PIVOT for value sport and street-inspired footwear not currently available locally.

Morgans assesses this concept is a mix of the old Amart All Sports and Platypus, although at a lower price point. There will be no crossover of product between PIVOT and the company's other retail store brands and PIVOT will sell products not currently available domestically.

The children's concept Trybe is also being rolled out fully after the four pilot stores were successful, moving past the trial phase quicker than Citi expected. The company believes this is a 40-store concept for Australasia and notes trading has been ahead of expectations to date.

Citi notes international aspirations have been put on the back burner in order to focus on the domestic opportunities and, while this makes the outlook less exciting, it allows the company to better leverage existing infrastructure and support functions.

The company bought back 21 franchises at The Athlete's Foot in FY19. The operating earnings impact was neutral because the investment costs required to acquire these stores and develop retail infrastructure.

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Audinate On Track For Substantial Share

Audio technology provider Audinate has guided to similar revenue growth in FY20 and brokers do not believe the sell off in the shares was justified.

-Guidance likely to be conservative as FY20 will start with larger product and customer base -Dante Domain Manager and video yet to contribute meaningfully to future earnings -Business now profitable on all metrics

By Eva Brocklehurst

Audio technology provider Audinate ((AD8)) is on track to achieve substantial market share, and it is profitable. FY19 results beat guidance and the company expects similar revenue growth again in FY20. Yet the shares slipped and several brokers suspect the outlook statement may have spooked the market. The market is fickle, taking notice of outlook statements to dictate price action, Shaw and Partners asserts.

This may stem from issues surrounding quality, which can be subjective, but the broker believes it should also be about context. Morgan Stanley agrees, assessing the quality of the company's guidance is under appreciated, as revenue growth guidance of 26-31% is consistent with history.

Moreover, guidance is likely to be conservative, as the company will start FY20 with a larger product and OEM (original equipment manufacturer) base. Video revenue, an acceleration in existing software sales and the contribution from new software products will underpin FY20.

Morgan Stanley suspects declining legacy revenue masks the underlying trajectory in the business and the shortfall should be made up for by an acceleration of higher-quality growth.

Shaw and Partners acknowledges the shares had a stellar performance in the lead up to the results but finds no reason why this should not continue as DDM (Dante Domain Manager) and video are yet to contribute meaningfully to the future earnings trajectory.

The broker points out Audinate is in the best position in its history with no debt, robust cash flows and multiple products and revenue streams, and remains adamant investors should be grabbing the stock now, given a total shareholder return of 22%. Shaw and Partners has a Buy rating and $8.50 target.

Market penetration in FY19 was stronger than expected and Morgan Stanley reiterates an Overweight rating and $10.30 target. The structural growth story is in the early stages of maturing, although the broker points out Audinate is reinvesting to build a bigger network.

The company plans to enhance its training program to facilitate the structural shift to digital audio, with a focus on rolling out video and software as additional drivers of growth.

In this way, UBS believes the shipping of the video module by the end of 2019 could act as a catalyst for further OEMs to sign. As part of a capital raising the company will invest to double engineering and R&D functions over the next two years.

The impact of investment, UBS assesses, may result in effectively flat operating earnings in FY20-23 and, taking on board the recent capital raising, forecasts for earnings per share are reduced by -1-10%. The broker has a Buy rating and $9.60 target.

Regardless, Shaw and Partners considers the slump in the share price of -6% overdone and the stock a good entry point at under $7.00. The business is now profitable on all metrics and scale is likely to allow sales growth to exceed costs growth.

Furthermore, the company has outperformed in three areas in FY19, the chips business, which delivered around 30% volume growth, the AVIO adapters, which experienced strong demand, and software revenue, which improved 39%.

Hardware chips, cards and modules comprised 82% of revenue in FY19 while software, including license fees and royalties, delivered 16%. Maintenance was 2%. The number of Dante-enabled products on the market continues to grow, now 2,134 versus just 925 in 2017, and is now more than six times the market adoption of Audinate's closest competitor, CobraNet.

Shaw and Partners believes there is significant potential for the company to reach a 30-40% market share in a few years. The digital audio market adoption is only penetrated at a lowly 7-8% and this is a volume not margin game, in the broker's view, while the key is to reduce marginal costs while ramping up volumes in order to benefit from scale.

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Confidence Grows In City Chic

Fashion retailer City Chic has successfully expanded its online presence in the US, providing confidence in the substantial potential offshore.

-Poised for expansion with the US progressing strongly -20 new stores expected in Australasia over the next 2 years -Majority of growth from online business offshore

By Eva Brocklehurst

Fashion retailer City Chic Collective ((CCX)) is expanding and growth prospects will be supported by additional stores, new categories and the burgeoning online business in the northern hemisphere.

The company's US website continues to gain traction and new partnerships have been established with Belk and Co-edition. The company has also acquired online plus-size intimates retailer, Hips & Curves, which has a large customer base in the US.

Northern hemisphere sales, the greatest majority being in the US, lifted 39% in FY19 and accounted for 20% of the sales total. Citi believes offshore sales will continue to be the largest contributor to growth, while additional stores in Australia and operating cost leverage should also help.

Australasian stores reported flat like-for-like sales but growth is expected in FY20 from the expansion of categories and stores. The company expects to add 20 new stores over the next two years and will also convert 15 high performing stores to large format stores over the next three years.

Baillieu considers the business well capitalised, rating the stock a Buy with a $2.20 target. Wilsons found the commentary on the outlook vague, although the revenue gains amid substantial market potential provide confidence. The broker estimates both the southern and northern hemisphere online businesses achieved revenue growth of 39.8% and 34.3% respectively in FY19.

The broker is encouraged by the composition of the financials and retains a Hold rating and $1.79 target, noting City Chic is showing the strong traits of an online company as earnings margins expanded while gross margins contracted.

Online is the most profitable channel for the company, Bell Potter highlights, and the company is now poised for global expansion with the US now at an inflection point. The broker assesses the business model and prospects are attractive, maintaining a Buy rating with a $2.45 target.

FY19 underlying operating earnings (EBITDA) of $24.9m were up 25%. Sales increased 12.6% and online sales now represent 45% of the total. Operating margins increased to 16.8% from 15.1% because of the increased contribution from online.

Citi suggests the second half may provide the clue to online profitability going forward as the majority of growth came from online and offshore, underscoring the margin and mix benefit.

Margin

The shape of growth in each half year was different in FY19, Citi notes, with stronger sales growth in the second half but much slower margin expansion for operating earnings. Most of the decline in gross margin reflects a shifting sales mix towards online sales in the US and additional wholesale and marketplace sales.

Second half margin on incremental sales was 18.6% and Citi believes a margin of 18-22% is plausible, while store margins are expected to be nearer to 14-16% in the near term. Citi expects net cash to fall to $17m in FY20 as additional taxes are paid (related to the capital gain on sale of the other Specialty Fashion brands) and expenditure steps up.

Still, a dividend of 8.5c is forecast, delivering a pay-out ratio of 95%. While the stock has good growth prospects, Citi believes there is insufficient safety in the valuation to reflect the risks and maintains a Sell rating with a $1.70 target.

The dividend pay-out supports the share price and offers potential upside risk to the rating, Citi acknowledges. The broker upgrades earnings forecasts because of a faster roll-out of stores while reducing estimates for earnings per share by -4-7% over the next three years because of higher depreciation and tax rates.

Late addition: Goldman Sachs has upgraded to Buy on increased growth projections post the FY19 result. The new price target is set at $2.45.

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

Costs Catching Up With HUB24

Costs are catching up with HUB24 as the business scales up to take advantage of the plethora of advisers switching to independent platforms.

-Downside risks to platform pricing from lower interest rates -Share price vulnerable to concerns about how the sector will manage a lower cash rate -Lower interest rates may also lead to higher costs for account holders

By Eva Brocklehurst

HUB24 ((HUB)) is continuing to invest in sales and IT resources as more and more financial advisers are signalling intentions to switch platforms. HUB24 ranks third, Ord Minnett assesses, as the most prominent candidate to win this business.

The broker calculates the business switch is worth over $20bn alone and, as HUB24 invests to take advantage of the new adviser relationships, FY20 and FY21 forecasts are reduced by -16% and -11% respectively.

Credit Suisse is supportive of management's decision to invest in the business and believes the platform will attract significant flows in coming years. This should translate to margin expansion and high growth in earnings per share. Volatility, however, is likely to continue in the near term, the broker adds.

Wilsons observes market share is clearly accelerating, although this is bringing forward some of the assumed growth in costs. The contraction in operating earnings (EBITDA) margins, despite top-line growth, reflects investment in distribution, compliance and finance, and more of this investment is expected in FY20.

Funds Under Administration (FUA) guidance has been lifted 14% to $22-26bn for FY21 and this higher guidance is supported primarily by the existing client base, the broker notes. On balance, Wilsons retains a target and valuation of $9.48. Not one of the seven monitored daily on the FNArena database, the broker continues to be concerned around near-term risks to cash management earnings and maintains a Sell rating.

There were both temporary and enduring pressures on margins over FY19, Ord Minnett acknowledges but retains a view that higher growth in FUA will come at the cost of margin, not revenue dollars. Hence, short-term pain should be outweighed by the long-term gain, and the broker sustains a Buy rating, believing there is a significant opportunity for investors.

Broker views run the gamut. Macquarie is at the other end of the spectrum, suspecting consensus margin forecasts are too high and maintaining an Underperform rating, while suggesting net flows will be weighted to FY21.

Citi estimates net flows provided a solid start to the year over the first eight weeks of FY20, especially given the lack of transition flows, and assumes 44% growth in underlying net flows. The broker upgrades to Neutral from Sell, given the improving outlook for net flows, although continues to envisage downside risks to platform pricing from a lower rate environment.

Morgans is also attracted to the embedded growth within the business and the long-term profile but, tactically, agrees the share price is susceptible to concerns about how the sector will manage lower cash rates.

All About Margins

Wilsons continues to model a gradual decline in revenue margins, driven by increasing average account balances and pricing tension. Assumptions do not incorporate larger client wins which would increase the rate of decline.

Revenue margins declined -6.5 basis points in FY19. Macquarie found little visibility on revenue margins was provided by HUB24 and factors in another decline of -7.3 basis points over the next two years.

The counter argument, that FUA flows are strong, has been made, but the broker dismisses this, suspecting the required rate of investment will mean expectations are not met, while revenue margins and earnings have been consistently weaker than forward estimates.

Macquarie assesses estimates for revenue margins have, historically, been too bullish and remain too high. Lower interest rates will also lead to higher platform costs for the account holder.

Citi forecasts revenue margins to decline by -7 basis points, to 44 basis points by FY21, reflecting a skew to new clients with higher balances, a reduction in cash margins assuming an official cash rate of 0.5% and increased focus

by advisers on the overall platform fee.

Operating earnings margins are expected to expand by 420 basis points, with platform cost growth slowing to 25% FY20, yet Citi envisages downside risk to these margins over the medium term as costs weigh. HUB24 is also relatively more exposed to a further -25 basis points reduction in the cash rate as, the broker asserts, some clients are receiving a cash management rate closer to 25 basis points.

There is one Buy rating (Ord Minnett), three Hold and one Sell (Macquarie) on FNArena's database. The consensus target is $12.44, signalling 6.4% upside to the last share price. Targets range from $8.72 (Macquarie) to $15.48 (Ord Minnett).

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

The Quality Of Quality Continues To Show

Dear time-poor reader: August corporate reporting is once again putting quality in focus.

In this week's Weekly Insights:

-The Quality Of Quality Continues To Show -Rudi On Tour

The Quality Of Quality Continues To Show

By Rudi Filapek-Vandyck, Editor FNArena

A lot of ink and airtime have been spent on the never ending debate on Value versus Growth investing in the Australian share market, but if the August 2019 corporate reporting season is proving anything it is that investors might be best off by focusing on corporate quality and leaving the Value/Growth debate for another day.

Sure, BWX shares were trading not that far off all-time lows when the company released FY19 financials last week which triggered a rally on the day of 28.7%. And Mayne Pharma shares that were trading near $2 not that long ago, and above $1 late last year, jumped nearly 9.5% to 52c upon releasing FY19 numbers.

But for each such positive example -often accompanied by suspicion of forced short covering- there is at least another observation that compensates with a far more negative outcome.

Boral shares dived in excess of -19% on Monday leading the stock to join the likes of Adelaide Brighton, Platinum Asset Management and Event Hospitality and Entertainment in falling to a multi-year low. Shares in ARQ Group fell to a fifteen year low this week. Shares in Michael Hill have never since its IPO traded at a cheaper price level.

In sharp contrast, dependable, high quality, structural growth achievers including CSL ((CSL)), ResMed ((RMD)), and REA Group ((REA)) all traded at all-time highs before another wave of selling hit the local share market on escalations in the USA-China trade conflict.

Equally remarkable, shares in some of the better performing retailers are also at multi-year, if not all-time highs, including Baby Bunting ((BBN)), Lovisa ((LOV)), and JB Hi-Fi ((JBH)). Footwear retailer Accent Group ((AX1)) equally appears to be performing from a sweet spot.

Inside the property sector there is similarly a noticeable divergence between, say, Scentre Group and Stockland (not so good) and the much better performing Aventus Group ((AVN)), Charter Hall ((CHC)) and Goodman Group ((GMG)); companies which are clearly enjoying much better operational dynamics, and are expected to continue enjoying just that in the year(s) ahead.

Investors are usually obsessed with valuations and how much growth can be expected and is potentially already/not yet priced in. But this August reporting season is proving yet again that (much) weaker share prices do not by default equal lower risk. Cue Costa Group. Japara Healthcare. The examples above. Numerous others.

In contrast, high-flying a2 Milk ((A2M)) and IDP Education ((IEL)) equally surprised in a negative sense, and were heavily punished for it, but a rather large number of companies in a similar position met with share market approval, irrespective of large gains, high valuations and sometimes even small misses compared with market expectations. Cue Carsales ((CAR)), Altium ((ALU)), Medibank Private ((MPL)), and numerous others.

WiseTech Global Outshines Qantas

One of the eye-catching performances was delivered by global logistics services provider WiseTech Global ((WTC)), usually the focus of criticism by value-conscious investors lamenting the stock's bubble-alike valuation for a business that since listing has continuously acquired smaller competitors across the globe at break-neck pace.

More recently, the observation was made that WiseTech Global's market capitalisation now exceeds $10bn. This makes it larger than domestic icon Qantas, which generates operational cash flow in excess of $2.8bn and recently unveiled an underlying operational profit of $1.3bn before tax.

Qantas International reported EBIT of $285m. The latter exceeds total sales generated by WiseTech Global in FY18.

While the Qantas result was positively received, it was still down -17% on the corresponding performance from the prior financial year.

In sharp contrast, every financial metric inside the FY19 update by WiseTech Global grew by a double digit percentage. Sales were up by 57%. Operating profits improved by 37%. Earnings per share increased by 27%. Dividends for shareholders went up by 18%. This is a company that reinvests between 30%-40% of its annual revenues back into the business.

Annual customer retention for the core CargoWise product runs above 99%. The business continues to add additional services, new customers, and expanded geographical reach on its global network. In response to some of the criticism, WiseTech Global added more details in the operational disclosure for investors and analysts, proving it is far more than simply a Pac Man operation that continues to gobble up smaller players.

Organic growth at WiseTech Global is running at no less than 33%. And, so explained founder and CEO Richard White, carefully chosen acquisitions, once properly integrated into the global network, actually accelerate the company's pace in organic growth. FY20 guidance is for revenue growth between 26%-32% and for EBITDA (operational profits) to improve by between 34%-42%.

Note that WiseTech Global since IPO has built up a track record of meeting, if not exceeding, ambitious looking targets and guidance. The FY19 report again forced analysts to significantly increase their forecasts, pushing up the consensus price target by 31.6% to $30. Citi analysts moved their share price target to $36.30, which is still well above where the share price is trading.

While the Qantas result contained many positives, including an additional $76m allocated to buy back its own shares, a $400m benefit from management's transformation program and Qantas winning market shares in a largely moribund domestic market, it's not quite to the same level of enthusiasm that an update as the one provided by WiseTech Global manages to attract.

Qantas shares look undervalued on 9x-8x projected EPS for the next two years and a projected dividend yield in excess of 4.5%, but the cold hard reality here is that WiseTech Gobal shares, trading on more than 100x next year's EPS forecast, might still prove the better investment.

As long as those performance promises keep ticking along. Which remains the same story as for Charter Hall, Medibank Private, the ASX ((ASX)), Iress Market Technologies ((IRE)), ARB Corp ((ARB)) and many more others that continue trading on elevated, above-market valuation multiples.

Citi analysts, in their update on Goodman Group on Monday, formulated it as follows: "Earnings growth that will let you sleep at night". That just about sums it up perfectly. As long as these companies do not destroy the market narrative through heavy disappointment, there is no reason as to why the positive tailwind from robust reporting in August cannot carry share prices longer and higher from here, macro issues not accounted for.

'Cheap' Not Automatically Value Or Defensive

The one hard lesson investors had to learn in years past is that lagging or sagging share prices do not necessarily offer better protection during times of extreme market volatility. This is in particular the case when companies released yet another disappointing market update this month. Cue G8 Education, South32, and numerous other examples - not just from this month, but equally from past reporting season experiences.

Every season offers a number of Phoenix-like resurrections and this month, thus far, companies including Lendlease ((LLC)) and McMillan Shakespeare ((MMS)) have -finally- rewarded patient and loyal shareholders. In plenty of other cases, think Fletcher Building, IOOF Holdings and Crown Resorts, it appears a lot more patience will be required.

August has also become the month wherein the divergence between old economy business models under pressure and modern day disrupters has taken an additional negative turn. Witness how WiseTech Global is responding to market doubts and questions by providing increased disclosure whereas reporting from companies including Scentre Group and Event Hospitality and Entertainment now comes with notably less disclosure and details about how operations are actually performing.

For investors this creates a different type of dilemma: do you want to be on the register of companies that are reducing their communication with investors in the hope this might sustain a higher share price?

All-Weather Model Portfolio

Having said all of the above, only Blind Freddy would disagree the overall risk profile for staying invested in equities has risen noticeably these past few weeks, predominantly because of escalating tensions between the Trump administration and China.

We have made several adjustments to the All-Weather Model Portfolio which should help cushion against potential negative consequences ahead, while also offering a higher return than simply keeping a lot of funds in cash. I'll

revisit this in more detail post the August reporting season in September, as I am sure many investors are struggling with similar dilemmas.

More than 25% of the Portfolio is currently not invested in the share market. And while we remain holders of shares in quality smaller cap technology plays including Xero ((XRO)), WiseTech Global and Altium, the portfolio's overall exposure is kept to a level that not one of such stocks is likely to single-handedly destroy the performance in case of unforeseen calamities.

Paying subscribers have access to the dedicated section on the website from which the All-Weather Model Portfolio draws inspiration.

More 'Misses' Than 'Beats'

On a macro level, this reporting season has been repeating the key message that large parts of corporate Australia are, frankly, under the pump. This leads to a wide and sharp division between the Haves and the Have Nots. Australia's corporate earnings recession is poised to continue its underlying trends from the years past, with August reports signalling the gap between the quality top end of the market and the rest might be getting wider and more pronounced.

In recent days, it appears more small cap companies have managed to surprise instead of adding on to the early misses released by Brambles, Woodside Petroleum, CommBank, and others. As a result, the gap between total "beats" -at 21.3%- and total "misses" -at 26.1%- has narrowed markedly, but still retains a bias to the latter.

It'll be interesting to watch whether more upside surprises from Fortescue Metals, Audinate Group, Readytech Holdings, Santos and the likes can close the gap on ongoing disappointments stemming from BHP Group, BlueScope Steel, Boral, G8 Education, IOOF Holdings, Ardent Leisure, Iluka Resources, and others.

FNArena updates daily on August Corporate Results via a dedicated section on the website:

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

Readers of The Australian would have noticed my prior update on the August reporting season made it into the weekend newspaper (24-25 August).

See also:

-August Reporting Season: Early Signals

https://www.fnarena.com/index.php/2019/08/22/august-reporting-season-early-signals/

-August Reporting Season: Early Progress Report

https://www.fnarena.com/index.php/2019/08/15/august-reporting-season-early-progress-report/

-August Preview: Lower Rates & Lower Growth

https://www.fnarena.com/index.php/2019/08/08/august-preview-lower-rates-lower-growth/

Rudi On Tour In 2019

-AIA and ASA, Perth, WA, October 1

In 2020:

-ASA Hunter Region, near Newcastle, May 25

(This story was written on Monday 26th August 2019. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website. There will be no Part Two this week).

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

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