WEEK 19

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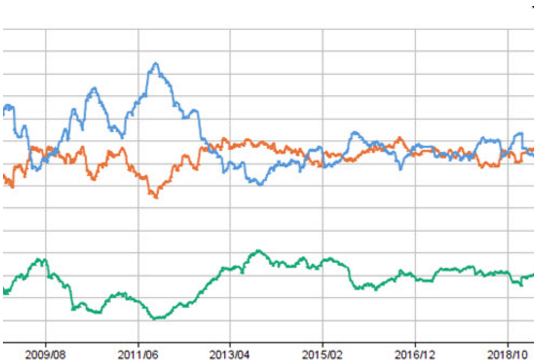
Friday, 6 May 2022

How Hard Will The RBA Now Go?

Super Retail's Hidden Upside



Rudi's View: A Bear Market Anomaly That Confuses

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AUSTRALIA

Orora Packing a Punch With Growth Initiatives

Capacity expansion and acquisition activity look to support Orora's guidance to prioritise growth over returns in its near future.

-Commentary from Orora points to growth over returns moving forward
-Sustainability trends should support expansion in canning and packing lines
-The company appears keen to pursue small acquisition targets in the US

By Danielle Austin

A period of growth through reinvestment looks to be ahead for global packaging solutions provider Orora ((ORA)), with the company outlining an intention to reinvest in itself through organic and inorganic means moving forward in an effort to prioritise growth over capital returns. The company has committed to a $220m investment in growth capital expenditure over the next three years.

Moving forward, company strategy looks to take advantage of continuing demand for sustainable packaging solutions, with the company pursuing an $85m expansion at its Revesby facility to enable a second can line and address heightened demand, with completion of the project expected in FY25. The investment follows an $80m expansion at its Dandenong can facility, which is due for completion in FY23, which combined should allow for a 20% increase in domestic can capacity.

In a bid to maximise benefit from continuing sustainability trends, the company will not only expand can capacity and continue to support demand for fibre packing solutions, but Orora is also targeting a goal of 60% recycled content in its glass beverage packaging by 2026. With a glass furnace rebuild due in 2024 the company plans for an upgrade to include oxy fuel technology that will enable a -20% carbon emissions reduction.

Management at the company continues to guide to full year earnings growth, with earnings momentum continuing into the second half. The company continues to hold a strong market position, with a 65% share of the domestic cans market making it the market leader in Australia, and despite an inflationary environment has been able to manage cost inflation in both the United States and Australia through price increases.

Stability in the US, but growth on the horizon

With the integration of the SAP system completed, Orora's US-based operations are experiencing a period of relative improved stability and solid demand, but the company has indicated inorganic growth through merger and acquisition activity is ahead for the region.

With customer numbers reducing -20% benefits of the SAP system integration are appearing, with the reduction allowing a clearer focus on margins and custom packaging solutions expected to deliver further margin improvement, according to the company. Orora expects second half earnings for the US will be up on the previous comparable period.

Despite a $400m balance sheet capacity available to support growth initiatives, analysts note Orora appears gun shy given its acquisition history and looks to be conservative in its approach to acquisition, with experts expecting a series of small- or medium-sized acquisitions as a result. The company has indicated it will target acquisitions that can offer improved customer capability, operational and manufacturing lead times, and sustainability outcomes.

Of the four brokers within FNArena's coverage who have so far reported on Orora's market update, three are Hold rated or equivalent and one is equivalent Buy rated, with an average target price between them of $3.96.

With an Equal-Weight rating and a target price of $3.80, Morgan Stanley expects Orora to retain around $280m in headroom for acquisitions after capital expenditure commitments at the end of FY23, anticipating this to increase to $500m by the end of FY25.

With the company intending to pursue merger and acquisition opportunities in the US, Morgan Stanley analysts noted the company suggested both the healthcare and technology sectors were of interest for potential acquisition activity. Despite acknowledging a bolt-on acquisition would likely be a positive catalyst, the broker not only noted an inconsistent record of US acquisitions, but further noted it sees better value elsewhere in the packaging industry.

Macquarie, which is Outperform rated with a target price of $4.05, notes despite a definite preference to pursue growth through acquisitions rather than further buybacks, the company may consider further buybacks if it fails to complete value accretive acquisitions.

The broker did issue 1%, 3% and 2% increases to its earnings per share forecasts through to FY24, largely incorporating the impact of the current 5% buyback, but noted its valuations are yet to take into account increased domestic can capacity and potential US acquisitions.

According to UBS, margin recovery in the US as operations stabilise should support medium-term earnings growth alongside an expected 20% production capacity increase in Australia off the back of facility expansion. The broker, which is Neutral rated with a target price of $3.80, anticipates Orora can deliver a 10% earnings per share compound annual growth rate through to FY24 given the company's current growth strategy.

Ord Minnett points out the company's earnings should prove defensive but its Hold rating also reflects the view of limited share price upside without any M&A deals given the strong rally in the share price this year. The broker did lifts its price target to $4.20 from $3.90.

Combining all seven stockbrokers under coverage, Orora shares are rated five times Neutral/Hold and twice an equivalent of Buy. FNArena's consensus price target sits at $3.93, which is slightly higher than where the shares are trading at.

Forward looking dividend yields, on consensus forecasts, are 4.3% (running year) and 4.4% (FY23).

AUSTRALIA

April In Review: ASX Defensives Shine

While still outperforming global peers, the ASX200 experienced a -0.9% loss (total return) in April as losses in the materials and technology sectors outweighed gains for defensive sectors.

-The ASX200 lost -0.9% (total return) during April
-Growth outperformed Value, while the reverse occurred in the US
-Investors sought out defensive sectors
-The CRB Commodity Index rose by 4%
-10-year bond yields continue to climb in Australia and the US

Mark Woodruff

The ASX200 closed out April with a total loss of -0.9% (including dividends) though Australia maintained performance leadership year-to-date amongst global peers.

The MSCI Developed Markets Index dropped by -6.9%, largely driven by the S&P500 which lost -8.7% as a more Hawkish Fed pushed up real yields. The Emerging Markets World Index lost -3.5%.

In US dollar terms the monthly performance in Australia was in-line with Developed Markets, as a lower Australian dollar dragged down the loss to -6.4%.

Since November 2021 in the US, Value and Defensives have outperformed, while the Nasdaq has underperformed.

Growth outperformed Value in Australia by 2.2 percentage points (ppt) in April, while in the US Value outperformed Growth by 8.6ppt, where the Nasdaq fell by -13.2%. Macquarie points out that while Australian Technology was the worst performing sector in April, it comprises only a small part of the Australian market. Also, the more defensive Growth sectors of Staples and Health outperformed in Australia.

Large caps generally outperformed small caps though stocks within the top 20 by market cap relatively underperformed the top 50 stocks. Resources performed best within small caps, whilst Industrials had the edge in the mid-to small-cap stock universe.

As investors were seeking defensive sectors over the month, Utilities gained 9.3% to be the best performed sector, followed by fellow defensive sectors including Transport (5.4%), Insurance (5.2%) and Staples Retail which gained 4.6%. The Technology sector lost -10.4%, while Materials and Discretionary lost -4.3% and -3.1%, respectively.

Bond markets saw material moves through April. Australian 10-year yields climbed as investors priced in aggressive rate hikes beginning at the RBA's May meeting. (Investors were proven correct with yesterday's 0.25% rate rise).

Meanwhile, **commodity prices continue to hold up well relative to other asset classes.** During April prices for energy and grains rose, while metals and livestock prices fell.

Within energy, Brent crude oil increased a relatively modest 1.9% though natural gas rose over 30% on supply disruptions. As nuclear power increasingly looks like an alternative to carbon energy sources, Macquarie notes uranium also increased by 48%.

Best and worst shares across indices

Within the **ASX50**, shares with the highest returns included Ramsay Health Care ((RHC)) which gained 24.5% on take-over interest, Amcor ((AMC)) 10.4%, Origin Energy ((ORG)) 9.8%, Lendlease Group ((LLC)) 9.4%, APA Group ((APA)) 7.7% and Qantas Airways ((QAN)) which gained 7.5%.

Underperformers within the ASX50 were Block Inc ((SQ2)) which lost -21.7%, ResMed ((RMD)) -10.1%, Northern Star Resources ((NST)) -8.6%, Aristocrat Leisure ((ALL)) – 8.35%, BHP Group ((BHP)) -7.2% and Xero ((XRO)) which lost -6.2%.

For the **Mid-Cap50** the highest return was achieved by AMP ((AMP)) with 20.2%, AGL Energy ((AGL)) 12.4%, Mineral Resources ((MIN)) 11.1%, Orora ((ORA)) 10.8%, Ampol ((ALD)) 10.5% and Aurizon Holdings ((AZJ)) which gained 9.2%.

On the flipside, IDP Education ((IEL)) and Lynas Rare Earths ((LYC)) both lost -14.9%, a2 Milk Co ((A2M)) -14.6%, Domino's Pizza Enterprises ((DMP)) -14.3%, Fisher & Paykel Healthcare ((FPH)) -11.8% and WiseTech Global which lost -11.4%.

The **Small Ordinaries Accumulation Index lost -1.5% in April.**

Outperformers included GrainCorp ((GNC)) which gained 21.6%, Viva Energy Group ((VEA)) 19.6%, Whitehaven Coal ((WHC)) 18.6%, Flight Centre Travel Group ((FLT)) 14.7%, Pendal Group ((PDL)) 14.2% and Kelsian Group which gained 12.5%.

Underperformers included EML Payments ((EML)) which lost -46.8%, Megaport ((MP1)) -37.6%, Life360 ((360)) -31.6%, Tyro payments ((TYR)) -28.7%, ZIP Co ((Z1P)) -26.3% and Liontown Resources ((LTR)) which lost -22.1%

REITs

Despite further rises in bond yields over April, REITs outperformed the broader ASX by 1.4% for the month and by 15.1% on a rolling 12-month basis.

Credit Suisse believes the risk to REITs under the broker's coverage from rising rates is immaterial for FY22 though more pronounced for FY23 and FY24.

The broker doesn't envisage negative revaluations in the June-2022 reporting period and believes the market has already priced in expectations of asset declines and/or negative earnings revisions for certain stocks.

At current levels, Credit Suisse prefers Stockland ((SGP)) among the large cap diversifieds, Goodman Group ((GMG)) from the fund managers and Scentre Group ((SCG)) for regional mall exposure.

For yield-focused investors, the analysts see value in Centuria Office REIT ((COF)) among small caps. Also, Charter Hall Retail REIT ((CQR)) and Shopping Centres Australasia ((SCP)) are expected to be well supported in the short term, given exposures to supermarket tenants that pay turnover-based rent.

Outperformers for April included Charter Hall Retail REIT, Shopping Centres Australasia, Hotel Property Investments ((HPI)), Goodman Group and GDI Property Group ((GDI)).

Underperformers included fund managers Charter Hall Group ((CHC)) and Centuria Capital Group ((CNI)), residential-exposed names Ingenia Communities Group ((INA)) and Mirvac Group ((MGR)), as well as National Storage REIT ((NSR)).

Interest rates

In the US, the 10-year treasury yield rose by 56bpts to 2.89%, while in Australia the 10-year bond yield climbed by 30bpts to 3.12%.

Futures markets are pricing steep rate hikes by both the RBA and the Federal Reserve.

For the US, Morgan Stanley notes an expectation by the futures market for eleven rate hikes in the next twelve months, while in Australia the broker expects inflation pressures to continue to build, after strong first quarter increases for headline and underlying CPI.

Commodities

The CRB Commodity Index rose by 4% to 308.3 in April.

Brent crude oil rose by 1.3% to US$109.3/bbl.

Iron ore price fell by -8.8% to $US144.5/t.

The gold price decreased by -2.1% to US$1,897/oz.

Hard coking coal prices remained steady, while thermal coal increased by 26.1% during April.

Foreign exchange

The US dollar Index (DXY), a measure of the value of the US dollar relative to a basket of foreign currencies, gained 4.7% to 102.96.

The Australian dollar fell by -5.6% to close out April at US71.10 cents.

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AUSTRALIA

How Hard Will The RBA Now Go?

Yesterday's RBA rate hike was of little surprise, but the magnitude of it was, raising the question of just how fast the RBA will now move to "normalise" rates, and what the consequences may be.

-25 points hike not anticipated
-RBA and economists see a 2.5% rate ahead
-Just how fast will the RBA move?
-Mortgages on the line

By Greg Peel

From *When Will the RBA Hike?* April 6 (https://www.fnarena.com/index.php/2022/04/06/when-will-the-rba-hike/):

"There is no clue yet as to by what amount the RBA will hike. The obvious choice is an initial 15 basis points on top of the current 0.10% rate, to take the cash rate to a more familiar 0.25%, before standard 25 point hikes follow thereafter. But if the board is caught out by the strength of the upcoming numbers, vis a vis its own forecasts, it is not beyond the realms a 40 point hike will result, taking the cash rate straight to 0.50%."

The above summarised economist consensus in April regarding the first RBA rate hike expected in June. The only reason economists expected the first hike in June rather than May was an RBA desire not to be seen influencing the election.

Unless, they conceded, the "upcoming numbers" referred to above came in a lot stronger than expected, then perhaps a May hike was not beyond the realms.

There were two sets of upcoming numbers economists suggested were critical to RBA policy. The first was the release of March quarter CPI data, and the second the March quarter wage price index. Only one would have been released by the May meeting – the CPI.

It came in at 5.1% year on year, when consensus had forecast 4.6%, up from 3.5% in the December quarter. Headline inflation came under pressure in the March quarter initially from omicron, but by the month of March, Putin. The ramifications of the war in particular on global commodity supply were underestimated.

Hence the 5.1% headline inflation print was a wake-up call for the RBA. The "trimmed mean" or core rate (ex food & energy) came in at 3.7% -- well above the RBA's 2-3% comfort zone. The "hot" numbers led economists to predict the RBA would be forced to ignore the election and bring the first cash rate hike forward to May, regardless of not having the most recent wage data at hand.

Arguably the only reason economists assumed an initial 15 basis point hike was it would bring the rate to 0.25%, such that thereafter more "standard" 25 points hikes could follow. But this was not to be the case. A once "patient" RBA went straight to an impatient 25 point hike to 0.35% -- election be damned.

The clue is in the RBA's revised economic forecasts. While the board now expects the trough in the unemployment rate will be 3.5%, down from a prior 3.75%, it has lifted its peak inflation expectation all the way to 6.0%, up from a prior 3.75%.

That's reason enough for the board not to hang around waiting for the latest wage growth numbers. However, in Philip Lowe's post-meeting press conference yesterday he did cite feedback from businesses suggesting wage growth was now running at 3% (annual) compared to the 2.3% recorded in the December quarter – the latest official data until June 1.

For many months Philip Lowe has pointed to weak wage growth as reason not to rush into rate hikes too soon, along with the fact Australia's inflation was running well below levels suffered in other Western economies. But now, it seems, all has changed in a hurry.

Given the RBA has always (not including the 0.10% covid emergency rate) set the cash rate on 0.25% increments, a cash rate of 0.35% is unusual enough for economists not to have forecast such a move. When asked about it at the press conference, Lowe shrugged off a 25 point hike as "business as usual", irrespective of the odd mid-range rate.

This could suggest that rate hikes from here might all be 25 points, continuing the "business as usual" theme. The RBA is not inclined to deviate from standard 25 point hikes, unless, Lowe said, there is "a very strong argument to do so". But that's not what economists expect. Economists suggest something more underhand is afoot.

Harking back to the extract above, the implication was that on the assumption of a 4.6% March CPI print, the RBA would target a 0.50% cash rate, possibly by June but at least by July. But given the 5.1% inflation result, it is assumed the RBA wants to get to 0.75% quick smart. Hence consensus sees a 40 point post-election hike in June to 0.75% as quite possible, given the unexpected 25 point jump yesterday which can at least, pre-election, be shrugged off as "business as usual".

The first main "argument" will come with the March quarter wage price index, followed by the March quarter GDP numbers.

<u>When will it all end?</u>

At his press conference, Philip Lowe reminded that he had previously suggested the current neutral rate was

2.5%.

The “neutral” rate, also known as the “terminal” rate, is a utopian concept of an equilibrium rate which is neither stimulating nor constricting economic growth. It’s the rate that comes with a bowl of porridge. Given economies only ever travel through boom-bust cycles, the neutral rate is only a rate that’s passed through briefly on the way up and way down.

But it’s a guide.

While Lowe also reminded that he had previously not set any timeline for his expectation on when the neutral rate would be reached, yesterday’s RBA forecasts suggested by end-2023, with 1.50-1.75% by end-2022 on the way. In other words, the RBA expects to keep hiking from 0.35% to reach 2.5% by the end of next year.

It will, however, depend entirely on what happens between now and then. Variables include the length of the war, the length and extent of Chinese lockdowns and – heaven forbid – another new strain of covid appearing to send Melbourne into lockdown, to name only the obvious ones.

Economists generally agree with Lowe’s neutral rate assumption, although there is a bias among forecasts for the RBA to stop at 2.25% in 2023. As to how the board gets there – in terms of timing and magnitude of hikes in the months ahead – there are many possible combinations and permutations, and about as many individual economist expectations.

What we do know is the RBA is now focused on the need to “normalise” rates (ie get to “neutral”). Whether this involves a series of consecutive 25 point hikes, or 40 in June, or more outsized hikes but at fewer meetings, or even hikes in between meetings, it matters not. Barring any significant change in macro settings ahead (Putin’s assignation and Russia’s surrender, a President Xi about-face on zero-covid, or even a cure for covid…all nice dreams) the RBA has begun a hiking cycle and yesterday was only the beginning.

That’s not to say the RBA is not well aware of the potential consequences. One reason US economists are not screaming “recession ahead!” now the Fed has become very hawkish is because US household balance sheets are on average in a healthy position. In Australia, household debt is at record levels.

The RBA will not mind if house prices cease their parabolic increases and finally pull back to more affordable levels, but will mind if a house price collapse is triggered by mortgage foreclosures. A whole generation of Australians has never experienced a rate hike cycle. Arguably, many a recent young(ish) new home owner is ignorant to the consequences, having felt confident enough to take out overbearing mortgages with a cash rate at 0.10%.

The impact will need to be monitored closely by the RBA, and it is not beyond the realms the board goes hard to start with, and then pauses to assess the collateral damage. Or, as some economists suggest, the board does not go too hard to begin with so as to make the transition more manageable.

As noted, there are many combinations and permutations, with macro developments still very much in the realms of uncertainty.

<u>Could Australia go into recession?</u>

Recent Australian history shows rate hike cycles don’t have to cause recessions and recessions don’t have to be preceded by rate hike cycles.

The last rate hike cycle began in 2010, as rates began to normalise globally following the then “emergency rates” put in place in the GFC. Australia did not subsequently go into recession. The prior cycle began in 2002 and ran steadily up to the GFC, including the much referenced 2007 hike just ahead of the election – being the last time the RBA has done so – but given Australia saw only one quarter of negative growth, it did not technically suffer a recession.

The last recession was in 2020, but it was one out of the box. The RBA was actually in a cutting cycle before covid hit. The last non-left field recession was in the early 90s, following a decade of ultra-high inflation and cash rates, and the 1987 stock market crash. Rates came screaming back down again from 1990 during the “recession we had to have”.

While the US might fear recession if Fed policy proves to overcompensate for being “behind the curve” for a year or more, the US economy did contract by -1.4% (running annualised rate) in the March quarter. Our March quarter number will be out in June, but the RBA is forecasting a well above-trend 4.25% growth rate over 2022, falling back to 2.0% in 2023.

Not the stuff recessions are made of.

<u>Bank Response</u>

Following the surprise 25 point RBA rate hike, the Big Four banks have decided not to re-price their variable mortgage rates. By “re-price” I mean that while they have all now increased their variable mortgage/investment loan rates by the full 25 points, they have not gone any further.

Economists did not expect they would. Aside from a highly competitive market – not just amongst themselves but in a market now full of fintech “disruptors” – the banks had not been waiting around for the RBA to make its move. Interest rate markets have been shifting rates higher for some time now, forcing the banks to begin increasing their loan rates before now.

And while higher rates imply higher bank margins – deposit rates will also rise but shy of loan rate increases – the balancing act must include consideration of a resultant increase in mortgage defaults, and bad debts in general.

On Monday, talk of a rate rise coming this week despite the election was one reason the Australian stock market tanked, including the banks. They were a little lower yesterday too. But today, with uncertainty removed, the financial sector is up 0.8% at the time of writing.

AUSTRALIA

Super Retail's Hidden Upside

Following a second half trading update by Super Retail, brokers remain upbeat and point to positive changes that may have been overlooked during the pandemic.

-Super Retail Group's second half trading update stronger than expected
-Five of six brokers in the FNArena database are Buy-rated or equivalent
-Positive changes overlooked with the focus on covid impacts
-Elevated inventory concerns overstated
-The macroeconomic outlook may weigh

By Mark Woodruff

A second half trading update by Super Retail ((SUL)) was stronger than most brokers anticipated.

As no lockdown tailwinds were blowing over the period, Ord Minnett believes the company deserves increased recognition and raises its rating to Buy from Accumulate.

As a result, there are now five of six covering brokers in the FNArena database with a Buy or equivalent rating and an average 12-month target price of $13.27, which suggests 25% upside to the latest share price.

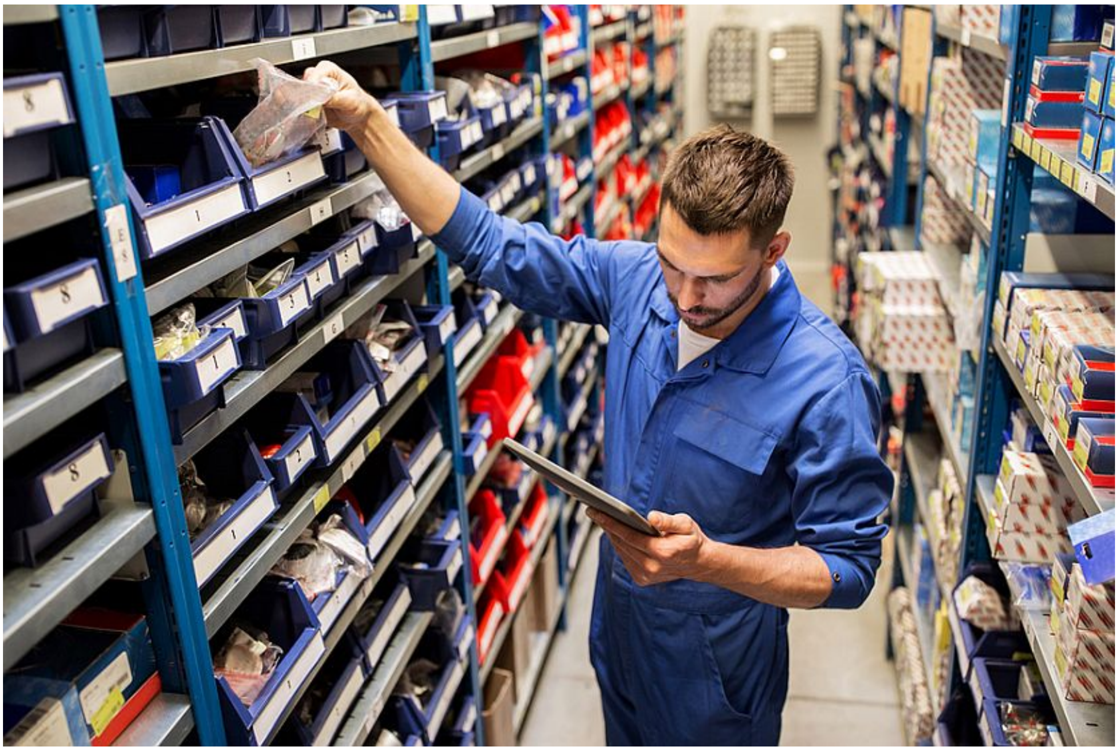
The company has brands that include Supercheap Auto, Rebel, BCF and Macpac in 700 stores across Australia and New Zealand.

Overall, like-for-like sales increased by 4.4% and the gross margin was in-line with the first half. Given commentary in February around some moderation in gross margins, Overweight-rated Jarden believes a stable margin is a good outcome. The broker, not one of seven updated daily in the FNArena database, also expected slowing second half sales.

The trading update also demonstrated to Citi **continued strength in sales, particularly for Supercheap Auto and BCF**. This strength is thought to expose **exaggerated market concerns around the company's elevated inventory position.** UBS agrees and believes the inventory position has been a support for sales as availability issues remain for some peers.

Apart from Rebel, the trading updates were stronger than Credit Suisse had forecast for all brands. Highlights included a comparable store sales increase of 8.4% year-on-year for Auto and 7.6% for BCF. While the company had increased overall inventory investment in the first half, Rebel's performance was impacted by limited stock availability, particularly in footwear.

Meanwhile, **management continues to point to growth opportunities in expanding its store network and from increased online penetration**. Only once supply chain disruptions pass and trading conditions normalise will capital management be considered.



Inventory

Super retail has held elevated levels of non-perishable inventory due to the disrupted supply chain since FY21.

While this has concerned some market participants, Citi points to management's track record of sourcing private label product and ongoing robust sales trends. As the first half accumulation of inventory was mostly concentrated in Supercheap Auto and BCF, there's considered to be minimal ageing risk.

Despite the recently limited footwear stock availability, Macquarie points out Rebel is benefitting from improved foot traffic, while Macpac has inventory in place for the key winter period and the expected upside from the reopening of international travel.

Positive changes hidden by covid impacts

In the last two years there have been 2.4 million members added to Super Retail's loyalty program, with club benefits driving visitation and club members spending more than other customers, notes UBS.

Ord Minnett also sees the loyalty program as a competitive strength, with 69% of sales made to 8.7 million loyalty members, and notes sales growth in the program is double the overall sales growth of the business.

Another positive change, according to UBS, is **store network optimisation including a network quality upgrade**. The broker cites the example of the Rebel RCX stores, which have an interactive format focusing upon sporting experiences. Citi agrees and believes longer-term growth for Rebel should be supported by the rollout of the RCX concept to the top 25 stores (up from ten currently) and upgrading of the next 30 best stores.

Some caution on the outlook

While the Neutral-rated Macquarie upgrades its earnings forecasts as a result of the trading update, its target price falls to $10.57 from $12.13 as the applied valuation multiple was lowered to reflect current macroeconomic conditions for consumer discretionary stocks.

Jarden (Overweight) also noted **the macroeconomic backdrop is becoming more challenging, which creates growing risk for the company coming into FY23.**

BOOK REVIEWS

Only Ambidextrous Banks Will Survive The Age Of Disruption

By the authors of *Disruption: The Future Of Banking And Financial Services*.

Only Ambidextrous Banks Will Survive The Age Of Disruption

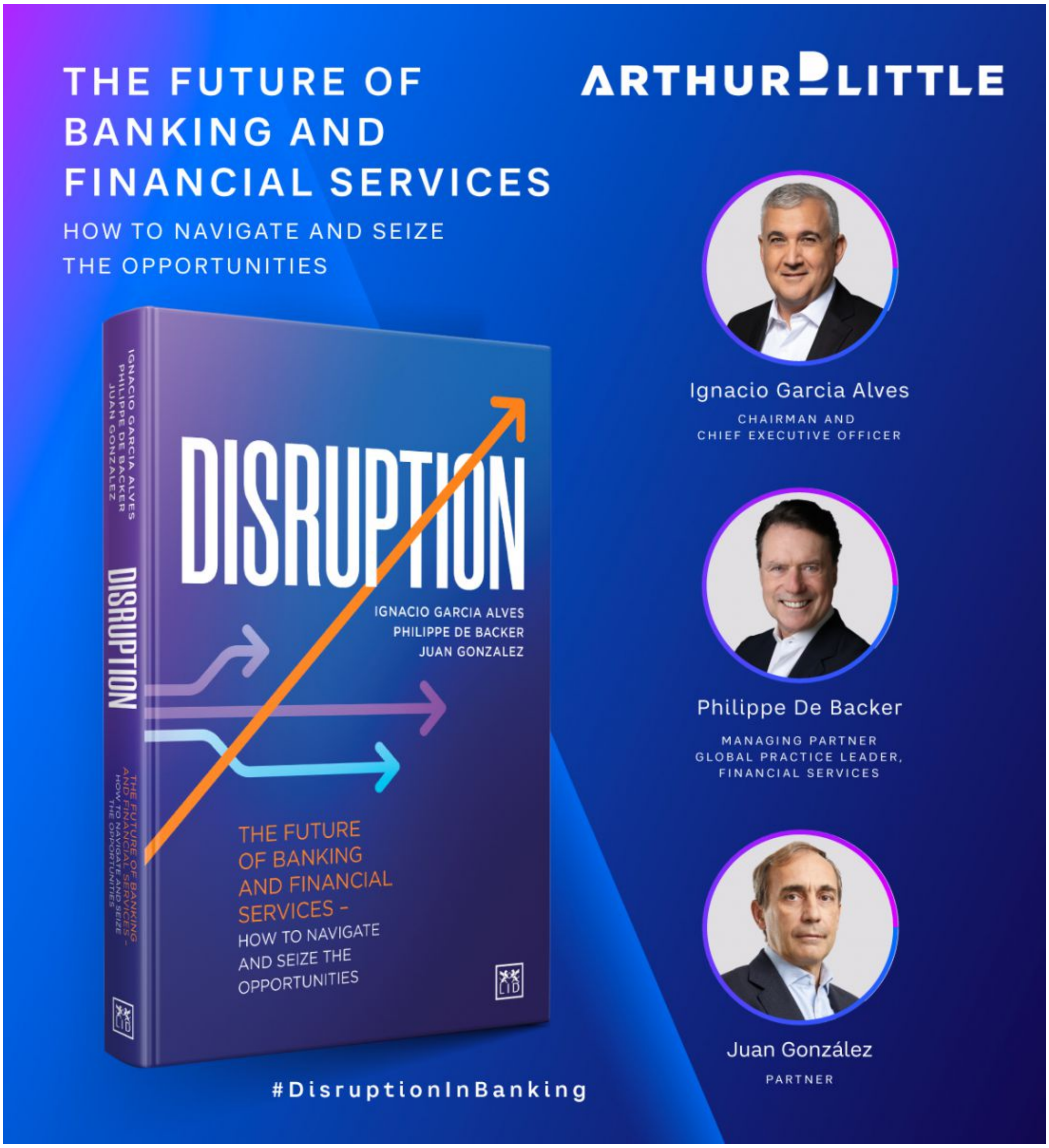
By Philippe De Backer & Juan Gonzalez, Arthur D. Little

The traditional banking sector is experiencing profound turbulence. For too long, many institutions have built their business on customer inertia rather than reacting to the needs of the modern consumer. Now, in an age of disruption where the digital online economy is kicking over the traces of the old world, conventional banks are being punished for their complacency.

This is most starkly illustrated by the digital natives of Generation Z, with only just over half saying that they trust banks with their money. Instead, they prefer the agility and low-cost structures of new digital players. Simply put, customers are falling out of love with traditional banks, opening the door for disruptors to enter.

Has the sacred contract between the traditional bank and its customers broken down irrevocably? I would argue, “not yet”. But urgent action is needed to transform their business from a monolithic enterprise to one that is more suited to the multiple demands of the 21st century.

It is time for radical change. Those banks that make the right strategic choices have a future, but it will be very different to what has gone before. Crucially, banks have to move on from just exploiting their pre-existing markets, because that particular well is running dry. To survive, and to potentially thrive, they must instead embrace innovation and develop an ‘ambidextrous’ mindset and culture.



Banks face an immense challenge

The magnitude of the challenge facing traditional banks is immense. To get a sense of it, we need look no further than Ant, the financial arm of Chinese digital marketplace giant Alibaba. Ant's technology can handle 120,000 orders every second and reach a decision to grant a loan or not in just three minutes. This is perhaps the world's purest example of digital finance's tremendous potential, but the vivid signs of a banking revolution are everywhere – for instance, Europe's three largest 'neobanks' – Revolut, N26 and Monzo – have 23 million registered users between them and that number continues to grow.

The scalable business models of the neobanks give them an easy advantage. Their lower cost structure, lower capital requirement and greater flexibility in introducing products make them nimbler and more adaptable to changing consumer demands. And they've benefitted from sitting outside the stringent regulatory environment of legacy banks, saving them millions of dollars in compliance. They're also free from the high labour and capital costs that traditional banks incur by maintaining obsolete technology that requires endless unpicking whenever any change is required.

There are also incursions into the market from those with business profiles very different from traditional financial institutions. For example, Amazon Cash enables customers to load money from their Amazon account on to a card and use it to buy products at physical retailers. Google has launched a physical debit card linked to a Google Wallet account. And the Apple Pay app further removes consumers' mental association between day-to-day financial transactions and traditional banks. Meanwhile, supermarkets and high street brands have become post offices, banks, and *bureaux de change*.

It is here, where industry lines begin to blur, that customer loyalty to conventional banks starts to erode and the convenience offered by digital newcomers proves too tempting to resist.

Even corporate lending is under threat. Large banks are losing their grip on market share as alternative providers lure away their traditional customers with cheaper, faster, more transparent, e-commerce integrated payment services, and superior deposit and lending platforms. Innovative solutions such as Kickstarter's crowdfunding model are also proving popular.

Balancing 'exploit' versus 'explore'

Against this challenging backdrop, traditional banks need to adopt an 'ambidextrous' approach if they are to survive, let alone thrive. That means balancing short- and long-term priorities and exploiting existing markets while experimenting with new ones – capitalizing on historical strengths while also embracing radical change.

The problem is that banks have remained in 'exploit' mode for too long, the consequences of which are now catching up with them. Now, they have to learn from 'explore-oriented' businesses if they are to continue to remain viable.

Yet such organizations are rare. In a study by Arthur D Little, only 8% of organizations were explorers. These explore-orientated firms were typically smaller and less complex than those in the exploit-orientated cohort. They focused on experimentation, risk-taking, discovery and innovation. They were more flexible and comfortable in the presence of uncertainty than their exploiter counterparts, creating an environment from where interesting innovations can emerge.

Neither exploration nor exploitation is inherently good or bad. The key is to achieve a working equilibrium between the two. The ambidextrous bank must balance short-term value drivers with the need for innovation to drive growth and transformation.

The ambidextrous bank

For a bank to become ambidextrous, the first step is to perform an honest stock take of its current position. An initial 'pulse check' can give banks an idea of their current capabilities. They can then follow this up with a benchmark survey to see how those capabilities stack up against other banks. After this 'ambidexterity audit', banks will have a much better idea of how to achieve a better balance between explore and exploit.

For traditional banks, this won't be a simple matter of cost reduction or adding more features to standard products and services. It will necessitate a total rethink of its business model to enable the bank to differentiate itself in a marketplace that, on the one hand, is becoming increasingly commoditized, and on the other, is transforming beyond recognition.

Against this challenging backdrop, the most important thing that banks can do is find the right person to lead them to the ambidextrous future. This appointment needs to be an inspirational and entrepreneurial leader who understands the need for transformation and is willing to take risks and think differently – rather than merely maintain the status quo.

Boards must play their part by choosing a CEO with the capabilities needed to lead a bank of the future. This might force them to set aside old expectations of what leaders look like, because the person they're looking for is a rare breed. He or she must be a mix of innovator and optimizer: someone who can resolve the exploration-exploitation dilemma by replicating the drive and technology innovation of a digital start-up, through risk-taking and experimentation – while simultaneously squeezing the most from the organization in the short-term.

It's also vital that new blood is brought in at the executive level to nurture and stimulate the ambidextrous mindset. There should be an increasingly diverse mix of expert directors, because research shows that diverse teams perform better. There should be a widespread mix not just of age and gender, but of technology skillsets and digital acumen too, all of which are critically important in challenging a board's traditional assumptions that hold it back from change.

Timid board members who hide behind the excuse that transformation initiatives will disturb business-as-usual miss the point. In a brave new world of neobanks and digital fintech, disrupting business as usual is precisely what needs to be done. And if they feel they cannot, or prefer not to, participate in this, then they should make room for someone who's willing to do what's necessary.

Ambidexterity in action – DBS Singapore

In the wider economy, it's easy to spot ambidextrous businesses: Amazon and Alphabet are clearly two companies that have blended left- and right-brain capabilities to spectacular effect. Yet there are also companies in the financial services sector that have also combined the efficient exploitation of traditional markets with digital risk-taking and service innovation.

A great example of this is DBS, Singapore's largest bank. As outlined above, the radical change needed to create an ambidextrous business has to come from the top, driven by a CEO with an explorer mindset – Piyush Gupta, CEO of DBS, exemplifies this persona. His mantra of “live more, bank less” has underpinned what is regarded as the most extensive transformation program of any bank. Today’s reimagined DBS is characterized by simple, effortless service delivery. As Gupta explains, “I found that once you give people permission and some training, you unleash this tremendous energy to do things.”

DBS has taken a leap into the digital future, drastically changing its business model through innovation. By adopting the cultural vision of a ‘27,000-person start-up,’ DBS has successfully repositioned itself, developing new products and services and delivering the type of growth and financial performance that has seen it go from a traditional regional player to being recognized as one of the world’s most forwarding-thinking and innovative banks.

Creating a new ‘digital culture’ was central to DBS’s transformation. It was certainly the first bank in the world to develop a methodology for measuring digital value creation, which has led to the creation of a very successful digital banking model. For example, in India, DBS switched to a digital-only model with absolutely no physical presence. Its digital retail customers now generate twice

the income, at a 20% lower cost-to-income ratio. This segment also generates a 9% greater ROE than DBS’s traditional banking segment. Digital customers now make up more than 40% of the bank’s customer base and generate about 70% of its profit.

There’s no question that in order to remain competitive in this new world of digital finance, the traditional banking model has to change. But banks will only achieve this if they see this transformation for what it is — a fundamental reconfiguration. It is not a gradual, incremental set

of improvements, or fiddling around at the edges, or battening down of the hatches and waiting to see what happens. Instead, it’s a total shift in both mindset and operations.

As such, creating an appropriate culture must be a top priority for the CEO of any truly ambidextrous organization. He or she must also ensure that innovation permeates every cell of the business as part of the transformation process. In fact, banks must now start thinking of themselves as tech companies as much as financial institutions because online and digital dominates the world that their customers now live in.

Yes, there is still money to be made in traditional financial services, but very soon it won’t be sufficient to support the sprawling corporations that conventional banks have become. These behemoths have to innovate and diversify now, or face a slow and painful extinction.

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ESG FOCUS

ESG Focus: Will Your Property Be Uninsurable By 2030?

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

Recent findings by the Climate Council reveals one in twenty-five homes in Australia might be uninsurable by 2030.

-Climate Council report reveals river flooding accounts for 80% of risk to properties
-Story below includes link for local climate change impacts across Australia
-Ten most at risk electorates

Mark Woodruff

While recent flooding on the east coast of Australia reinforced the need for home insurance it appears **one in twenty-five homes will be uninsurable by 2030.**

These are the findings after a detailed analysis by the Climate Council, which also reveals the number rises to one in seven within Australia's top ten electorates most at-risk of climate impacts.

Alarmingly for residents in the seats of Nicholls in Victoria and Richmond on the north coast of NSW, the figure rises to 27% and 20% for properties that fall into the high-risk category.

By state and territory, Queensland fares worst with 6.5% of properties potentially uninsurable by 2030, followed by NSW and South Australia with 3.3% and 3.2%, respectively. Next is Victoria with 2.6%, ahead of the Northern Territory (2.5%), WA (2.4%), Tasmania (2%) and 1.3% for the ACT.

The Climate Council report 'Uninsurable Nation' notes **80% of the risk for properties classified as 'high risk by 2030' is attributable to flooding from rivers.**

It's probably at this point some readers are feeling the inclination to get a risk assessment on their own property. After clicking on this Climate Risk Map of Australia | Climate Council link you may enter your suburb to see how it will be impacted by climate change and the number of properties at risk in your area.

The map can also be used to view data on the risk under different greenhouse emissions scenarios in a particular suburb, electorate or local government area for the years 2030, 2050 and 2100.

Action plan

Dr Karl Mallon, CEO of climate Valuation (which conducted the analysis) encourages all homeowners and buyers to ensure they fully understand local hazards and get a property-specific report on their risk.

Mallon noted “Insurers and banks are already quantifying the risks from climate change. It’s essential that Australians inform themselves about these risks to their safety and financial wellbeing, which are well known to financial institutions and governments.”

Meanwhile, on the subject of governments, Climate Council CEO Amanda McKenzie suggested "The decisions of the next Federal Government will influence the future impacts of climate change for generations to come. Pollution from coal, oil and gas must begin to plummet and we must scale up renewable power so it meets the needs of all sectors of our economy."

The Climate Council recommends Australia triple its efforts and take strong, bold measures to reduce its national emissions by -75% by 2030 and reach net zero by 2035.

The ten most at risk electorates

Based on the percentage of 'high risk' properties by 2030, the top 10 most at-risk electorates are:

1. Nicholls, Victoria: 27% or 25,801 properties

2. Richmond, New South Wales: 20% or 22,274 properties

3. Maranoa, Queensland: 15% or 9,551 properties

4. Moncrieff, Queensland: 14% or 18,032 properties

5. Wright, Queensland: 14% or 12,140 properties

6. Brisbane, Queensland: 13% or 19,355 properties

7. Griffith, Queensland: 13% or 14,812 properties

8. Indi, Victoria: 11% or 11,215 properties

9. Page, New South Wales: 11% or 11,691 properties

10. Hindmarsh, South Australia: 11% or 10,775 properties

P.S. In case the link above doesn't work: www.climatecouncil.org.au/resources/climate-risk-map/

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

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 29-04-22

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday April 25 to Friday April 29, 2022
Total Upgrades: 6
Total Downgrades: 8
Net Ratings Breakdown: Buy 59.54%; Hold 34.25%; Sell 6.21%

For the shortened week ending Friday April 29 there were six upgrades and eight downgrades to ASX-listed companies covered by brokers in the FNArena database.

Following March quarter results, Nickel Mines was upgraded to Outperform from Neutral by both Macquarie and Credit Suisse. Earnings were ahead of the brokers' expectations due to lower cash costs.

Alongside an impressive cost performance, Macquarie noted the company is set to almost triple production over the next several years and raised its target price to $1.50 from $1.30. Credit Suisse's previous concerns about costs and counterparty risk from Tsingshan have now lessened and the broker raised its target price to $1.50 from $1.35.

Meanwhile, Citi cautioned nickel prices will moderate and it is hard to forecast beyond the June quarter with lockdowns in China and the uncertain status of HPAL projects in Indonesia.

Nickel Mines also came third on the table for the largest percentage increase in forecast earnings last week. Coronado Global Resources was the leader despite revealing slightly softer March quarter production than was generally expected.

After Morgans materially upgraded its coking coal price assumptions and included a premium for further upside risk, its target price for Coronado jumped to $2.73 from $1.96. While current prices may not be sustainable, Credit Suisse noted rising geopolitical tensions are exacerbating supply tightness, and elevated thermal coal prices will continue to support firm metallurgical coal prices into the medium term.

Management has committed to additional shareholder returns as strong cash flows continue to strengthen the balance sheet. Morgans predicted upside risk for dividends, and felt there's capability to both fund organic growth/improvement and build reserves for potential M&A.

Brokers also upgraded earnings forecasts for Nufarm after management raised first half guidance. UBS pointed to good agricultural conditions and favourable commodity prices, while Credit Suisse found the outlook is supported by a more sustainable cost base. Also, it's thought a pulling forward of volumes will result in a greater than usual skew in profit to the first half.

On the flipside, United Malt Group received the largest percentage downgrade to forecast earnings last week, following materially weaker than expected first half guidance. Despite this, Macquarie believes the share price will be supported and notes the potential for corporate interest.

Morgans downgraded its rating to Hold from Add and lowered its forecast earnings due to inflationary pressures, a lower contribution from the company's new Scottish plants and lower transformation benefits. Credit Suisse adopted an opposing stance and raised its rating to Outperform from Neutral as the industry enters a period of tight supply and increasing malt prices.

Broker earnings forecasts were also downgraded for 29Metals last week. According to Morgan Stanley, one-off impacts contributed to weak production in the March quarter and full year production is now anticipated at the lower end of guidance for copper, gold and silver. The broker downgraded its rating to Equal-weight from Overweight in response.

Nonetheless, Macquarie remains attracted to the company's free cash flow yield and the tailwind of 60% production growth out to 2024, while Citi expects copper and zinc prices to continue to enjoy near-term and structural support.

Regis Resources came third on the list of largest percentage earnings downgrades last week. Production at Garden Well and Tropicana in the March quarter missed Credit Suisse's expectations, while plant modifications at Duketon were impacted by delays to the reopening of the WA border. Nonetheless, management anticipates a strong fourth quarter at the Duketon operations.

Absenteeism and labour availability issues also impacted production, according to Citi, while Morgans felt lower grades processed at Tropicana were largely responsible though expects grades to improve over 2022. Overall production guidance was unchanged though management signaled the top end of guidance for costs.

Finally, while copper and zinc grades at Sandfire Resources' MATSA operation beat Ord Minnett's forecasts, the analyst downgraded its earnings forecasts due to another round of cost increases. However, Morgans perceived FY22 cost guidance was better than the market had feared and other brokers generally found positive takeaways from the March quarter production report.

Citi retained its Buy rating and considered the share sell of since March has been overdone. At the same time, market strategists at the broker believe copper is structurally challenged, while zinc is being traded as a play on the continuation of the European energy shortage.

A few remnants from the previous Friday have left a mark on the week's tables, which explains the leading positions for Redbubble and Alumina on the negative earnings forecast table and Zip Co's top position on the negative change in target price table. There were no material changes in target prices set by brokers in the FNArena database during the week past.

Total Buy recommendations take up 59.54% of the total, versus 34.25% on Neutral/Hold, while Sell ratings account for the remaining 6.21%.

Upgrade

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/2/1

March quarter production was in line with expectations. Taking into account current price increases and supply disruptions as well as the uncertainty in the macro environment Credit Suisse lifts mineral sands price forecasts for 2022 and 2023, while maintaining a downward price trend from 2022.

Several catalysts are lining up for the second half with the next big decision being a mine at Balranald which could refresh the ageing operations.

The broker assesses the recent sell-off opens up some value and upgrades to Outperform from Neutral. Targets raised to $13.20 from $13.00.

NICKEL MINES LIMITED ((NIC)) Upgrade to Outperform from Neutral by Credit Suisse and Upgrade to Outperform from Neutral by Macquarie.B/H/S: 3/1/0

Margins and earnings were ahead of expectations in the March quarter following small price increases and slightly reduced cash costs. Specifically, Credit Suisse had expected higher smelting and reductant costs following a significant rise in the benchmark coal price.

Having been concerned about costs and counterparty risk at Tsingshan, the resilience reflected in the results means thee concerns have dissipated and Credit Suisse upgrades to Outperform from Neutral. Target is raised to $1.50 from $1.35.

March quarter results revealed lower cash costs which drove a beat to Macquarie's expectations for operating earnings (EBITDA). The broker incorporates lower costs into the medium term, partially offset by reduced price realisations.

Nickel Mines is expected to almost triple production over the next several years and, supported by the impressive cost performance, the broker upgrades to Outperform from Neutral. Target is raised to $1.50 from $1.30.

PILBARA MINERALS LIMITED ((PLS)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/0/0

March quarter production results have underscored the continued momentum in price. Credit Suisse believes there is further upside to the current industry average contract prices that management signalling are ranged between US$4300-4700/dmt.

The broker notes the share price has declined along with the global macro sell-off and upgrades to Outperform from Neutral on valuation grounds.

The prospect for dividends in the next 12 months has been flagged which the broker suggests could attract yield investors onto the register. Target is reduced to $3.70 from $3.90.

PERSEUS MINING LIMITED ((PRU)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/1/0

Macquarie upgrades to Outperform from Neutral on recent weakness in the share price. The March quarter was better than anticipated with strength at Yaoure outweighing a soft performance at Edikan.

The broker also expects the successful completion of the Orca Gold acquisition, which is not yet in its base case, has potential to affect the longer-term growth outlook. Target is $2.

UNITED MALT GROUP LIMITED ((UMG)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 4/1/0

The FY22 update disappointed Credit Suisse yet now is considered time to take an overweight exposure to United Malt as the industry enters a period of tight supply and increasing malt prices.

Tight supply also implies margin expansion. The broker is aware that an increase in software implementation costs and the deferral of transformation benefits may signal the project is not progressing as expected.

The broker downgrades estimates to reflect costs that were disclosed in the trading update while FY23 estimates are largely unchanged and FY24 is upgraded.

Rating is upgraded to Outperform from Neutral and the target is raised to $4.62 from $4.52.

See also UMG downgrade.

Downgrade

29METALS LIMITED ((29M)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/2/0

One-off impacts have contributed to weak production in the March quarter and full year production is now anticipated at the lower end of guidance, for 39-46,000t copper, 27-34,000 ozs gold, 55-65,000 ozs zinc and 1.37-1.64m ozs silver.

Morgan Stanley downgrades to Equal-weight from Overweight on valuation yet continues to believe the stock is a good zinc/copper exposure. Target is reduced to $3.20 from $3.40. Industry view: Attractive.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED ((ANZ)) Downgrade to Hold from Add by Morgans .B/H/S: 5/2/0

While rising interest rates will benefit net interest margins, Morgans adopts a more cautious stance on the banking sector as the new environment will also introduce some risks. These include detiorating asset quality and reduced attractiviness of dividend yields.

In addition, rising interest rates will mean term deposit rates normalise and Term Funding Facility (TFF) drawdowns are refinanced with conventional sources of funding, explains the analyst. It's thought deposits in general may also flow out of the banking sysyem.

The broker downgrades its rating for ANZ Bank to Hold from Add as growth in home lending continues to disappoint mainly due to lower margin loans. The target price falls to $26 from $30.

National Australia Bank ((NAB)) is now Morgans preferred big four bank exposure.

BEACH ENERGY LIMITED ((BPT)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S:

5/0/2

March quarter production was weaker than Morgan Stanley expected. The broker notes the conservative balance sheet provides for the ability to increase shareholder returns over time, yet the annual dividend is very small and this is not helped by the projected heavy investment phase.

The broker believes Beach Energy could consider using its balance sheet to increase shareholder returns via on-market buybacks or a larger dividend but acknowledges this may be too early to consider given the large capital investment phase.

Relative to other energy stocks, the broker downgrades to Underweight from Equal-weight. Target is reduced to $1.70 from $1.80. Industry view is Attractive.

DEXUS CONVENIENCE RETAIL REIT ((DXC)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 1/1/0

Ord Minnett believes the main risk to service station A-REITs is softening capitalisation rates. The company is well-positioned in this regard, the broker adds, because of the location of assets. as well-located assets with exposure to high vehicle traffic continue to be well bid.

Still, taking a more conservative stance in light of current market conditions the broker downgrades Dexus Convenience Retail REIT to Hold from Accumulate. Target is reduced to $3.73 from $3.90.

GWA GROUP LIMITED ((GWA)) Downgrade to Hold from Add by Morgans .B/H/S: 1/2/0

Lower valuation multiples mean Morgans reduces its estimates for EBITDA, lowering the target to $2.40 from $3.13. The broker downgrades to Hold from Add pending further detail on growth strategies.

Morgans acknowledges the stock is trading near its historically low PE multiples and the dividend yield remains attractive yet believes longer-term investors wanting exposure to the building materials sector can find more compelling value in alternatives to GWA Group, such as Reliance Worldwide ((RWC)) and Reece ((REH)).

SIGMA HEALTHCARE LIMITED ((SIG)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 0/3/1

Morgan Stanley points out the FY22 result reflected material benefit from testing throughout the pandemic and this masks the underlying challenges for Sigma Pharmaceuticals.

A deterioration in operating performance was also coupled with the resignations of both the CEO and the CFO.

The new ERP system has been singled out as the key reason for the material disruption and Morgan Stanley believes FY23 will now be the true test for new management to restore profitability levels.

The broker downgrades to Underweight from Equal-weight. Target is reduced to $0.43 from $0.48. Industry view is In-Line.

UNITED MALT GROUP LIMITED ((UMG)) Downgrade to Hold from Add by Morgans .B/H/S: 4/1/0

Following United Malt's materially weaker than expected 1H guidance, Morgans lowers its FY22 earnings (EBITDA) forecast by -27.1%.

Meanwhile, the broker's FY23 earnings forecast is lowered by -9% due to inflationary pressures, a lower contribution from the new Scottish plants and lower transformation benefits. The rating is reduced to Hold from Add.

The target price falls to $4.27 from $4.97 after Morgans allows for earnings downgrades and applies a -10% discount given the potential for earnings downside and execution risks.

See also UMG upgrade.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Hold from Add by Morgans .B/H/S: 2/5/0

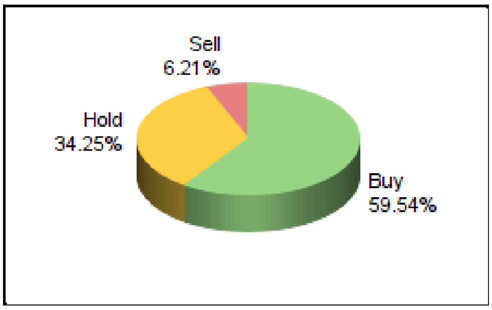
While rising interest rates will benefit net interest margins, Morgans adopts a more cautious stance on the banking sector as the new environment will also introduce some risks. These include detiorating asset quality and reduced attractiviness of dividend yields.

In addition, rising interest rates will mean term deposit rates normalise and Term Funding Facility (TFF) drawdowns are refinanced with conventional sources of funding, explains the analyst. It's thought deposits in general may also flow out of the banking sysyem.

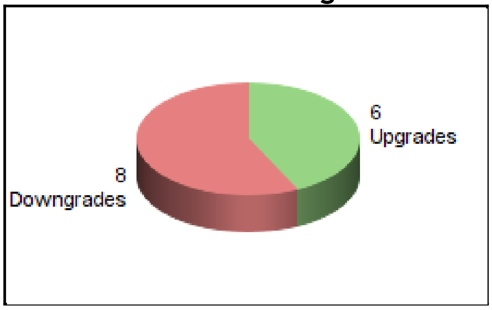
Morgans lowers its rating for Westpac to Hold from Add. Remediation issues are thought to be crimping the bank's Australian business loan growth (high-margin loans), and generally distracting the business bankers.

The target price is reduced to $23.90 from $29.50. National Australia Bank ((NAB)) is now Morgans preferred big four bank exposure.

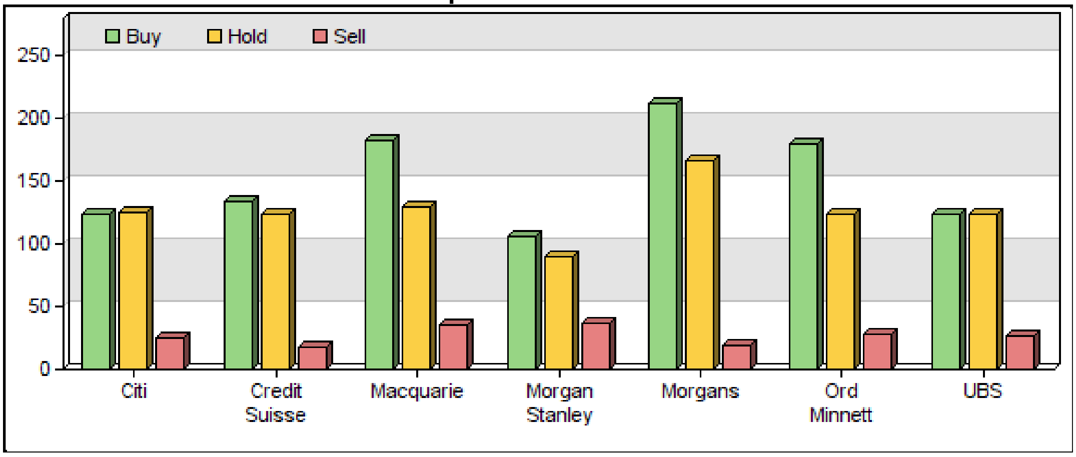
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ILUKA RESOURCES LIMITED	Buy	Neutral	Credit Suisse
2	NICKEL MINES LIMITED	Buy	Neutral	Macquarie
3	NICKEL MINES LIMITED	Buy	Neutral	Credit Suisse
4	PERSEUS MINING LIMITED	Buy	Neutral	Macquarie
5	PILBARA MINERALS LIMITED	Buy	Neutral	Credit Suisse
6	UNITED MALT GROUP LIMITED	Buy	Neutral	Credit Suisse
Downgrade				
7	29METALS LIMITED	Neutral	Buy	Morgan Stanley
8	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Neutral	Buy	Morgans
9	BEACH ENERGY LIMITED	Sell	Neutral	Morgan Stanley
10	DEXUS CONVENIENCE RETAIL REIT	Neutral	N/A	Ord Minnett
11	GWA GROUP LIMITED	Neutral	Buy	Morgans
12	SIGMA HEALTHCARE LIMITED	Sell	Neutral	Morgan Stanley
13	UNITED MALT GROUP LIMITED	Neutral	Buy	Morgans
14	WESTPAC BANKING CORPORATION	Neutral	Buy	Morgans

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	NIC	NICKEL MINES LIMITED	1.625	1.538	5.66%	4
2	BHP	BHP GROUP LIMITED	52.260	49.560	5.45%	5
3	DXS	DEXUS	12.285	12.024	2.17%	4
4	PPT	PERPETUAL LIMITED	40.390	39.608	1.97%	5
5	PRU	PERSEUS MINING LIMITED	2.100	2.067	1.60%	3

6	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	99.114	98.967	0.15%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	Z1P	ZIP CO LIMITED	1.342	2.588	-48.15%	5
2	GWA	GWA GROUP LIMITED	2.800	3.043	-7.99%	3
3	WBC	WESTPAC BANKING CORPORATION	24.643	25.443	-3.14%	7
4	29M	29METALS LIMITED	3.213	3.300	-2.64%	4
5	EVN	EVOLUTION MINING LIMITED	4.333	4.420	-1.97%	7
6	ANZ	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	29.450	30.021	-1.90%	7
7	PLS	PILBARA MINERALS LIMITED	3.888	3.938	-1.27%	4
8	BPT	BEACH ENERGY LIMITED	1.780	1.790	-0.56%	7

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	CRN	CORONADO GLOBAL RESOURCES INC	78.956	36.037	119.10%	3
2	NUF	NUFARM LIMITED	32.204	27.227	18.28%	7
3	NIC	NICKEL MINES LIMITED	13.538	11.850	14.24%	4
4	AX1	ACCENT GROUP LIMITED	9.425	8.675	8.65%	4
5	STO	SANTOS LIMITED	114.697	105.920	8.29%	6
6	VEA	VIVA ENERGY GROUP LIMITED	19.130	17.713	8.00%	6
7	ALD	AMPOL LIMITED	204.000	189.940	7.40%	4
8	MP1	MEGAPORT LIMITED	-23.400	-25.020	6.47%	5
9	WPL	WOODSIDE PETROLEUM LIMITED	401.965	377.747	6.41%	5
10	Z1P	ZIP CO LIMITED	-44.380	-47.240	6.05%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	RBL	REDBUBBLE LIMITED	-7.333	-1.667	-339.89%	3
2	AWC	ALUMINA LIMITED	17.146	25.753	-33.42%	5
3	UMG	UNITED MALT GROUP LIMITED	13.900	19.860	-30.01%	5
4	29M	29METALS LIMITED	10.878	15.200	-28.43%	4
5	RRL	REGIS RESOURCES LIMITED	9.016	11.440	-21.19%	5
6	SFR	SANDFIRE RESOURCES LIMITED	65.078	79.496	-18.14%	7
7	EVN	EVOLUTION MINING LIMITED	18.340	20.714	-11.46%	7
8	NST	NORTHERN STAR RESOURCES LIMITED	27.848	31.083	-10.41%	6
9	RMS	RAMELIUS RESOURCES LIMITED	8.733	9.733	-10.27%	3
10	AMP	AMP LIMITED	6.950	7.450	-6.71%	5

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WEEKLY REPORTS

Uranium Week: Volatility And Uncertainty

General financial market volatility continues to impact on the spot uranium market as utilities concentrate on securing term market supply.

-Financial markets remain volatile
-Uranium stocks swept up in sell-offs
-Utilities careful in securing supply amidst uncertainty

By Greg Peel

The spot uranium market continues to be drawn into the gravitation pull of financial markets in general, which are currently undergoing extensive volatility, now being seen as much as a financial investment product as a physical commodity.

This is most evident in the impact on the share prices of uranium producers, industry consultant TradeTech notes, which have continued to be sold down in line with equity markets as a whole. The uranium price now exhibits greater sensitivity to trends and developments that impact investor sentiment consistent with other commodities.

The escalating war in Ukraine has further created concern about possible Russian export sanctions and the uncertainty of future nuclear fuel deliveries being made. In addition, transportation and insurance surrounding delivery of nuclear fuel is growing increasingly costly.

Spot market activity was particularly slow last week, as is typically the case when market participants attend one of the many annual nuclear industry forums – in this case the World Nuclear Fuel Cycle 2022 forum in London. There major producers such as Cameco and Kazatomprom addressed the above uncertainties the market is facing.

Only three transactions were concluded in the spot market last week, totalling 300,000lbs U3O8 equivalent. TradeTech’s weekly spot price indicator fell -US50c to US$53.00/lb.

In contrast to supply-side issues, promising developments on the demand front continue to emerge almost daily, TradeTech reports. Last week the State of California said it would seek federal government funding to support extended operation of the Diablo Canyon Nuclear Power Plant, where two units are scheduled for closure in 2024 and 2025.

Meanwhile, escalation of the war, and now Germany’s agreement to ban Russian oil exports to the EU, suggest sanctions on Russian uranium exports may not be far away.

<u>For the Month</u>

A total of 40 spot transactions representing 4.7mlbs U3O8 were concluded over the course of April. Prices in the first half of the month reached a high of US$63.75/lb, however, as inflation fears gripped and global financial markets fell, investment into the Sprott Physical Uranium Trust stalled, resulting in less buying by the fund in the second half of the month.

Utilities have all but abandoned the spot market due to the volatility, choosing to secure supply amidst uncertainty in the uranium terms markets. April saw five transactions totalling 5mlbs U3O8 across mid- and long-term delivery windows.

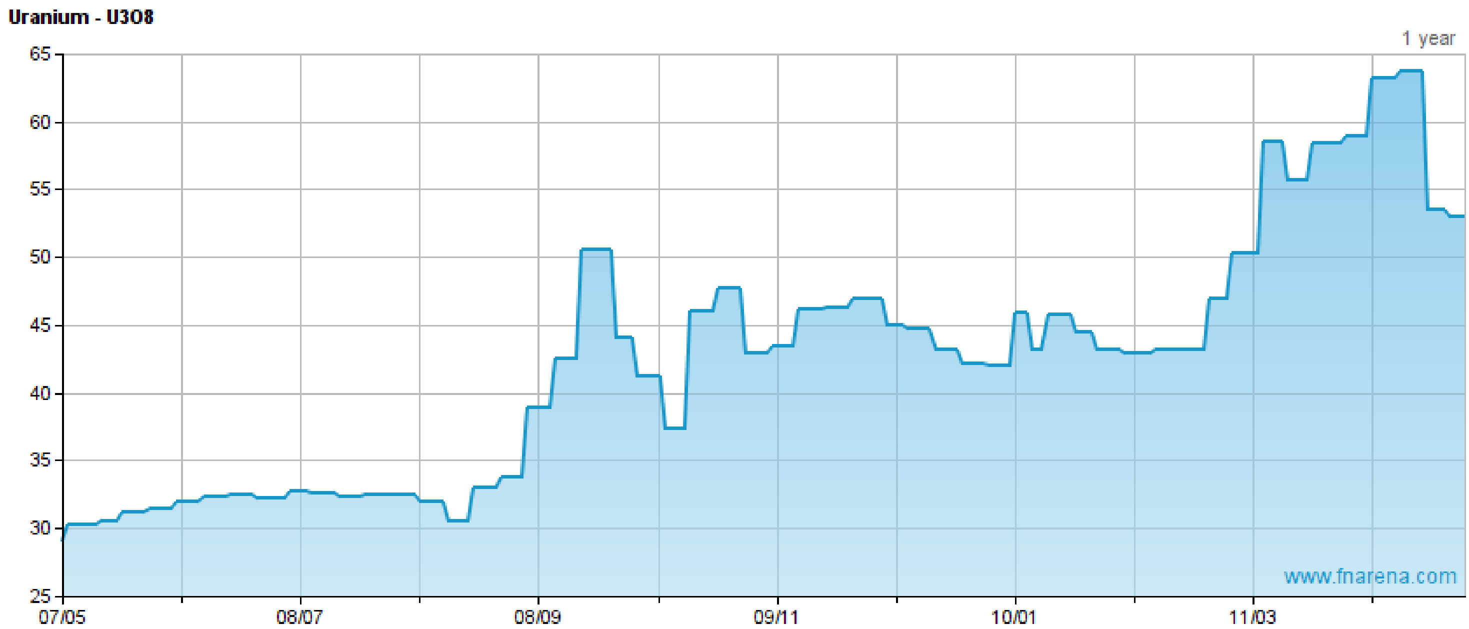
But utilities are not barrelling in willy-nilly. They are continuing to take a moderated approach, TradeTech reports, strongly vetting potential suppliers based not only on the base price but an evaluated price that includes an exhaustive consideration of factors such as jurisdictional risk and ESG compliance, as well as the supplier’s ability to deliver material on time, along with terms and conditions related to escalation and quantity flexibility.

TradeTech’s spot price indicator fell -US$5.20 over the month to US$53.00/lb.

The consultant's mid-term price indicator has risen to US$61.00/lb from US$58.00/lb at end-March, and the long-term price indicator to US$52.00/lb from US$50.00/lb.

Uranium companies listed on the ASX:

ASX CODE	LAST PRICE	% MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
BKY	0.4200	0.00%	$0.64	$0.00			
BMN	0.2300	0.00%	$0.44	$0.00			
BOE	2.5700	▲ 1.18%	$3.10	$0.00			
ERA	0.3200	0.00%	$0.58	$0.00			
PDN	0.7900	0.00%	$1.12	$0.00	-84.2	$1.000	▲26.6%
PEN	0.2300	0.00%	$0.35	$0.00			
VMY	0.2400	0.00%	$0.33	$0.00		$0.210	▼-12.5%



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WEEKLY REPORTS

The Short Report - 05 May 2022

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

Summary:

By Greg Peel

Week Ending April 28, 2022.

Last week saw the ASX200 tip over violently on April 22 as resources stocks were crushed, largely on China's lockdowns.

It looks like the ASIC data returned to normal last week.

EML Payments ((EML)) plunged over -40% in smart fashion last week after issuing a guidance downgrade. This only steeled the shorters' resolve, with EML shorts rising to 10.4% from 8.9% the week before.

A uranium miner by the name of Laramide Resources ((LAM)) leapt into the table last week from oblivion to 7.4% shorted. There has been no recent news on Laramide, suggesting this is not the result of a capital raise, but as the company is Canadian-based and dual-listed we may have another example of cross-border arbitrage.

Temple & Webster ((TPW)) shares have been on the slide all year as its lockdown glow fades and inflation bites discretionary retailers. The share price did not much last week but Temple & Webster fell out of the 5%-plus table from 6.1% the week before.

Those were the notably "big" moves in shorts last week. Otherwise we welcome two newbies to the bottom end of the table in the form of Dubber Corp ((DUB)) on 5.6% shorted and Imugene ((IMU)) on 5.0%.

Dubber provides cloud-based audio recording services for businesses. The stock has lost more than half its value this year, and given no new news of late, has likely followed down not-yet-profitable stocks on the Nasdaq, along with other Australian tech names.

Biotech Imugene develops a range of immunotherapies to activate the immune system of cancer patients. The stock is not covered by FNArena database brokers but is another not-yet-profitable company, and such biotechs have also copped it on Wall Street this year. Imugene is down close to -60% year to date.

Weekly short positions as a percentage of market cap:

10%+
FLT 17.4
BET 13.3
NAN 12.4
EML 10.4

In: EML Out: WEB, PNV

9.0-9.9

APX, AMA, PNV, KGN, WEB

In: WEB, PNV Out: Z1P

8.0-8.9%

APX, AMA, Z1P, MSB

In: Z1P, APX Out: EML

7.0-7.9%

PBH, RRL, OBL, ING, LAM

In: LAM Out: APX, TYR

6.0-6.9%

TYR, CUV, SQ2, VUL, NEA

In: TYR, SQ2, VUL, NEA Out: TPW

5.0-5.9%

MP1, IEL, DUB, ADH, MFG, PDN, BRG, RBL, IMU, NHC

In: DUB, IMU

Out: NEA, VUL, SQ2, CCX

Movers & Shakers

Nothing this week not already noted.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	NAB	0.7	0.7
ANZ	0.7	0.6	NCM	1.1	1.2
BHP	0.3	0.3	RIO	0.5	0.6
CBA	0.6	0.6	STO	0.1	0.2
COL	0.5	0.5	TCL	0.8	0.7
CSL	0.2	0.2	TLS	0.2	0.2
FMG	1.7	1.3	WBC	1.3	1.3
GMG	0.2	0.2	WES	0.3	0.3
JHX	0.5	0.5	WOW	0.4	0.5
MQG	0.3	0.4	WPL	1.8	2.1

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

Guide:

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

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

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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WEEKLY REPORTS

In Brief: House Pricing, Construction, Inflation

Weekly Broker Wrap: house prices set to soften, construction faces further collapse, inflation impacts grocery prices.

-House prices remain steady as the rental market further tightens
-Experts warn to watch for warning signs of further collapses in the construction industry
-Inflation hits grocery shelves in the quarter, grocery retailers likely to gain margin improvement

By Danielle Austin

House prices to soften as rate hikes take hold

While house prices largely remained steady through April, increasing just 0.3% nationally for a third consecutive month, ahead of the cash rate rise announced this week the Morgan Stanley experts warned rate hikes would accelerate softening in house pricing.

The soft month sees the annual price growth slide to 14.6%, while geographically, growth was strongest in Brisbane at 1.7%, while the Sydney market slipped -0.2% during the month. On surveying the market, Morgan Stanley found the sentiment that now is the right time to buy has declined to a 14-year low.

Comparatively, not only does the rental market remain tight, but vacancies fell to 2.8% during the month, the lowest level seen post-covid, while half of the capital cities retain vacancy rates below 1%. The tight market is encouraging the continuation of rental price rises, with asking rents up 14% nationally compared to a year ago, and Morgan Stanley analysts expect the rental market to remain strong as immigration recovers.

Threat of construction insolvencies looms

The combination of labour constraints and cost inflation is proving untenable for a number of high-profile Australian construction companies as the industry attempts to recover from covid, and industry experts warn not only that further insolvencies in the sector are likely in the coming year, but that collapses in the construction sector could have widespread flow-on impacts. The cash rate hike announced just this week could cause further pain, with construction companies inevitably exposed to lending rates.

Experts from CreditorWatch have warned of the importance of the domestic construction industry to the Australian economy in the wake of covid, noted that employing 9% of all Australian workers the industry is behind only healthcare, retail and professional services in employment numbers, and accounts for 7.5% of the national gross domestic product.

As noted by CreditorWatch, construction has the worst late payment record of any industry, with more than 12% of construction businesses more than 60 days in arrears on payments to suppliers, which leaves a long chain of risk should construction businesses collapse.

The flow on impacts of issues within the construction industry therefore have the potential to reach broader corners of the economy. Further, CreditorWatch highlighted that smaller contractors, or those without strong balance sheets, are at a great risk of financial stress, with previously profitable companies already proven to report losses in the current environment, while commercial builders face increased difficulty in collecting receivables compared to those in residential construction.

Inflation hits grocery shelves, majors retain momentum

Data from the fast-moving consumer goods sector in the third quarter has demonstrated the impact to date of the inflationary environment, and experts warn a further step up should be expected. In good news for Australian grocers, Jarden analysts noted grocers have typically outperformed the ASX during periods of upper quartile inflation, as the broker anticipates prices to increase 12.1% year-on-year in 2022.

Driving the expected pricing increase is commentary from suppliers that a second price increase is likely to be accepted by grocers this year, with fewer retailers negotiating for better terms than in January and 12% of suppliers saying all price increases are being accepted compared to 4% just four months ago.

66% of suppliers have already reported negotiating price increases, while a further 20% are reportedly in negotiations. With an average increase of 8.6%, price increases have been larger than anticipated by Jarden. Notably, the broker does expect retailers will benefit from margin expansion thanks to price creep and reduced promotions.

In the quarter, grocery retailer Woolworths Group ((WOW)) reported 2.7% inflation and Coles Group ((COL)) reported 3.3% inflation. Following the third quarter, experts from Jarden also noted that while Woolworths looks set to report the top year-on-year sales growth in the grocer segment, the majors more widely have gained momentum with Coles Group and Aldi rounding out the top three.

Notably, while the market has been less optimistic on Metcash ((MTS)) it remains Jarden's preferred sector pick, followed by Woolworths and then Coles.

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RUDI'S VIEWS

Rudi's View: A Bear Market Anomaly That Confuses

In this week's Weekly Insights:

-A Bear Market Anomaly That Confuses
-Australia; The Peak Is in!
-The World Is Changing
-June Index Changes
-Rudi Talks

By Rudi Filapek-Vandyck, Editor

A Bear Market Anomaly That Confuses

2022 is not your garden variety share market, but the weirdest anomaly surely must be in stockbrokers' recommendations for individual ASX-listed companies.

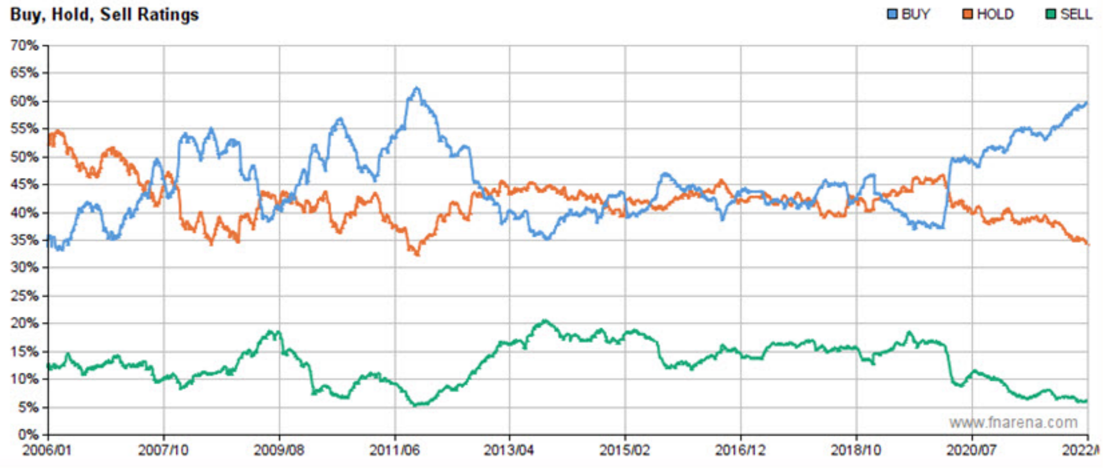
As at the end of April, and with the ASX200 still within reach of its all-time high, total recommendations for the seven stockbrokers monitored daily by FNArena on 437 individual stocks comprise of 60% Buys (and equivalents) versus less than 35% in Hold/Neutral ratings and Sell ratings close to 5%.

What makes this set-up so unusual is that, historically, such a large percentage in Buy ratings, and respective low percentages for Hold and Sell recommendations, points to bear market conditions for the local share market.

The numbers are well out-of-whack with long term averages since FNArena started compiling these data back in 2006. The only precedent over the past 16 years occurred in 2011 when financial markets were gripped by anxiety that debt-laden Greece might turn into the bombshell that would cause the implosion of the European Union.

That scenario ultimately did not happen, but until that confidence-fueling declaration made by ECB president Mario Draghi in July 2012, financial markets could not shake off the threat of a worst case outcome. Thus share markets didn't go anywhere. Stockbrokers in Australia responded by issuing ever more Buy ratings, which at that time peaked above 60% of all recommendations. Sell ratings, similar to today, bottomed at 5% - the lowest percentage recorded throughout the 16 year period.

Note that during the GFC, the total percentage of Buy ratings peaked closer to 55%, as occurred again post-GFC in 2010. Both in 2008 as again in 2010-2011 such extreme readings in broker recommendations ultimately provided a positive signal for favourable entry-points for investors, though in both cases a healthy dose of patience was still required.



If we assume today's signal will equally prove as positive as back in 2011 and 2008, how then can we explain the key difference in price action? Back in 2008 shares were going through the worst bear market in living memory and in 2011 investors had to bide their time until the ECB president inspired a strong rally that quickly closed the gap between moribund share prices and intrinsic valuations.

If we are in a bear market in 2022, the typical pattern thus far in Australia is predominantly showing up through extreme volatility. The past four months have seen a number of sharp sell-offs, but equally of sharp recovery rallies. Year-to-date, and after a mildly negative April performance, the ASX200 is close to unchanged for the calendar year thus far. Over the past twelve months its performance stands at a positive 8.40%.

But the ASX has been outperforming most of its peers globally. Global equities, as per the S&P Global BMI proxy, are now down -11.55% calendar-year-to-date and compared with twelve months ago the performance is a negative -5.37%. The S&P500 in the US is down -9.65% since the start of 2022, and holding on to a narrow 3.94% gain left for the twelve months past. The tech-laden Nasdaq has lost more than -21% to date in 2022.

Underneath the resilience shown by the ASX200, there are plenty of negative experiences to report upon. Former BNPL runner up in Australia, Zip Co ((Z1P)) is now down -70% in three months and down -86% over the past year. Once popular fintech EML Payments ((EML)) is down -48% in three months and -72% over the past twelve. The once universally held in high esteem, Platinum Asset Management ((PTM)) has lost -60% in value over the year past, and is now at risk of being booted out of the ASX200.

Shares in online retailer Kogan ((KGN)) tanked more than -15% over successive days since its latest market update revealed yet more disappointment. Less than one year ago, Kogan shares changed hands for $13 a piece, today they are trading at around $3.80 for a fall of close to -70%. Top50 member ResMed ((RMD)) has equally failed to meet market expectations and the result, including post-quarterly update disappointment, is for a loss of -30% since September last year.

The experience has been equally disheartening for the likes of Aristocrat Leisure ((ALL)), Life360 ((360)), Tyro Payments ((TYR)), Domino's Pizza ((DMP)), Codan ((CDA)), and many others, while the likes of Whitehaven Coal ((WHC)), Sims Group ((SGM)), Nufarm ((NUF)), GrainCorp ((GNC)), Allkem ((AKE)), Perseus Mining ((PRU)) and Flight Centre ((FLT)) offset with stellar gains.

Maybe it is this extreme polarisation that is fundamentally responsible for why stockbroker ratings are signalling bear market conditions while the index is not reflecting it?

Taking an optimistic view, this would make sense if prices for commodities -both bulk and industrial as well as agricultural- continue to surprise on the upside over the year ahead. Note, for example, recent market updates for the likes of Nufarm and GrainCorp provided upside surprises, while dividend expectations are only growing for miners such as Whitehaven Coal and -even- Allkem.

On the other hand, there's equally an argument to be made that many of the non-cyclicals on the ASX are looking firmly over-sold, similar to what was the general situation back in 2011 and in 2008. Investor appetite for companies such as Aristocrat Leisure, Dominio's Pizza and ResMed is currently close to non-existent, but that doesn't tell us anything about the future outlook or intrinsic valuations.

The statistics concerning broker valuations and price targets compared to where share prices are trading today are showing an even rosier picture than the ratings do. Consider, for example, only 65 of the 437 ASX-listed shares covered by the seven stockbrokers are currently trading above their consensus price target.

If we raise our benchmark to a gap between share price and consensus target of at least -10%, this only removes 150 of the 437 stocks, leaving 287 (circa 66%) that look undervalued-by-a-margin. More than 100 stocks are currently trading -33% or more below their target.

Sure, there will be more than the occasional blooper that turns out very-cheap-for-a-very-good-reason, but I also suspect these numbers are so heavily skewed because underneath the local share market's optical resilience, there has been a lot more pain inflicted and damage done than is widely reported or given credit for.

So what might reinvigorate market sentiment towards share prices for, say, City Chic Collective ((CCX)), James Hardie Industries ((JHX)), Nine Entertainment ((NEC)), NextDC ((NXT)), and Netwealth Group ((NWL))?

A positive result before or in August might be a great starting point as targets and valuations are but a mathematical outcome of what is currently being projected for the year(s) ahead. However, similar to 2011, it remains a genuine possibility that macro threats and considerations will continue to weigh on overall market sentiment.

We've now had the bond market reset and the inflation scare; next up will be global growth slowing plus the unknown consequences of liquidity withdrawal. For the above signals to provide the same positive message to investors as they have done in the past, corporate earnings in Australia must show resilience in the face of ongoing operational challenges.

Having said so, and as shown by ResMed last week, operational disappointment is not something that is solely reserved for small cap companies of lesser quality. In which case it becomes all-important for investors to consider whether it is worth holding on for the longer term (maybe even purchasing additional shares on weakness).

A worst case scenario will be a repeat of the 2008 experience, when, as shown on the graphic above, total Buy recommendations consistently floated between 50% and 55% of the total but, as became increasingly apparent throughout that year, the forecasts supporting those ratings and price targets were too rosy, upon which the bear market unfolded.

Which is why the macro picture remains all-important in 2022. Plus, I'd keep on arguing, a more conservative portfolio approach because we'd want to avoid profit warnings as much as we can.

Australia; The Peak Is in!

Australia has joined the high inflation club, as one commentator put it recently, and the result will be sooner and faster RBA rate hikes, likely starting with a 15bp lift this week, to 25bp.

Economists at Westpac have taken their time, but they too have now joined the sooner & faster forecast for RBA tightening this year.

The more important message, however, is that fast forwarding by the RBA will instill an impact on the domestic economy. First up, consumer spending will be hit, but Westpac thinks consumer spending shall remain healthy on the back of previous policy stimulus.

A larger impact is expected on property prices. Westpac is now forecasting Australian dwelling prices to decline for three years in a row, starting with a decline of -2% this year, followed by a further -8% in 2023, and a further -1% decline in 2024.

The end result, points out Westpac, is that dwelling prices, when adjusted for inflation, will see no net change over five years to 2024.

And while the outlook for household spending remains positive, Westpac is equally resolute in that "Both higher prices and higher interest rates will be a significant squeeze on household incomes."

Housing markets in Sydney, Melbourne and Hobart are expected to experience the worst falls, as these three capital centres have been the major beneficiaries from low interest rates in recent years.

The obvious risk: "if significant pockets of financial stress start to emerge in the household and business sectors".

Raising its prior forecast by 25bp, Bill Evans and Matthew Hassan project the RBA will stop lifting its cash rate at 2%.

The World Is Changing

The most appropriate way to view the world is probably through the adage that change is the sole certainty an investor can rely upon, in particular post Western sanctions on Russia as the country remains at war with the Ukraine.

But change has consequences, including for financial markets.

Analysts at Danske Bank have tried to assess the most plausible scenarios for the decade(s) ahead, as well as their macro impacts.

Under a scenario whereby the world is moving towards another Cold War between the USA and allies on one side and Russia-China and allies on the opposite side, investors should brace for structurally slower growth and higher inflation, suggests the research.

A second scenario whereby globalisation is reduced, but not to the same extreme as in scenario one, sees reduced growth and a rather mixed outlook for inflationary pressures.

A return to the prior globalisation trend, scenario number three, would be the most preferable outcome as it reinstates higher trend growth while lowering underlying inflation.

Under scenario number one the US dollar would lose its global currency status, with the renminbi developing as its key counterpart on the opposing side, while spending on defense will rise significantly, commodity prices will stay higher-for-longer, but the transition towards greener forms of energy will accelerate too. Slower growth in combination with higher interest rates will impact many, including housing markets generally.

It probably won't surprise anyone that scenario number two is seen as the most likely, with some de-coupling occurring between the USA and China and with smaller 'blocs' forming across the globe. Governments will once again become an important driver for R&D and most changes relate to specific countries and sectors.

Overall, the pros and cons very much look similar to scenario one, but less pronounced and potentially for shorter times. One prime example is inflation with Danske Bank intimating current global tensions can potentially keep supply side problems in place for longer, but eventually, assuming the world is not steering towards another Cold War, these will be resolved, and thus inflationary pressures shall diminish.

It goes without saying the same principles apply to scenario number three which would ultimately reinstate all the major trends apparent pre-2020, including exceptionally low inflation and bond yields. This scenario is probably the most unlikely of the three.

June Index Changes

Changes to local share market indices can -at least temporarily- have a noticeable impact on share prices as small cap stocks can be swooped higher by even the slightest attention from institutions, while the same impact can be felt in case companies are being dropped from the ASX200.

Historically, the heaviest impact is usually felt by stocks leaving the ASX200, while any changes to the ASX20, ASX50 or even the ASX100 usually remain without noticeable consequences.

Looking forward towards the June index rebalancing by Standard & Poor's, and taking into account the latest announcements regarding spin-offs and acquisitions, analysts at Wilsons suggest the June announcement from S&P might be a rather short one.

It is very likely, on Wilsons' pre-assessment, there will be no changes announced for the ASX20, ASX50 and the ASX100. Sure, the analysts have lined up a small number of potential changes, but they are all being labelled as "unlikely".

Which leaves us with the ASX200, historically the most important influence on small cap share prices.

Wilsons thinks it's probable S&P will announce Polynovo ((PNV)) is to be dropped from the index in June, along with Tyro Payments ((TYR)), Platinum Asset Management ((PTM)), Appen ((APX)) and Codan ((CDA)), while it is also seen as possible that Clinuvel Pharmaceuticals ((CUV)) and St Barbara ((SBM)) will be removed too.

Wilsons analysis suggests the vacancies will be filled through the inclusion of Core Lithium ((CXO)), Johns Lyng Group ((JLG)), Brainchip Holdings ((BRN)), New Hope Coal ((NHC)) and Coronado Global Resources ((CRN)), with Charter Hall Social Infrastructure REIT ((CQE)) and West African Resources ((WAF)) nominated as "possible" additions.

In the run up to the June rebalancing, a demerger at Tabcorp Holdings ((TAH)) and the full acquisition of Link Administration ((LNK)) are expected to cancel each other out, leaving the ASX200 with 200 members.

S&P is scheduled to announce any changes on Friday June 3rd, which will subsequently be implemented after the market close on Friday June 17th.

Rudi Talks

My first ever interview by James Whelan for the BIP podcast (35 minutes):

https://play.acast.com/s/the-bip-show/aussie-equities-when-is-too-many-buy-recos-too-many-w-rudi-f

(This story was written on Monday 2nd May, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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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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