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Stories To Read From FNArena

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Christmas Comes Early For Rio Tinto Shareholders

Christmas has come early for shareholders of Rio Tinto, which will increase the purchases of its shares by US$2.5bn, taking the total being bought back in 2017 to US$4.0bn.

-Makes good on promise to return sale proceeds of Coal & Allied assets -After-tax benefit could be as high 17% for a non-taxpaying shareholder -Upside risks to spot commodity prices suggest significant investment case

By Eva Brocklehurst

Christmas has come early for shareholders of Rio Tinto ((RIO)), which will increase the purchases of its shares by US$2.5bn. The total now being bought back in 2017 amounts to US$4.0bn. Along with US$4.9bn in forecast dividends, Ord Minnett calculates this represents cash returns to shareholders in 2017 equivalent to 10.3% of market capitalisation.

A US$1.9bn on-market portion in plc (London-listed) shares will commence December 27 and be completed by the end of 2018. In addition to increasing and extending the UK buyback, a purchase of $700m (US$560m) worth of ASX-listed (Ltd) stock will also occur. The split between on-market and off-market reflects the split in the share register, 78% for the plc stock and 22% for the Ltd stock.

Brokers suggest the company has made good on a promise to return the sale proceeds from the Coal & Allied assets and UBS particularly commends the company for not sitting on the cash. The announcement, earlier the many brokers expected, is in addition to on-market buybacks in the UK of US$500m and US$1.0bn announced in February and August 2017, respectively.

Citi observes previous off-market buybacks (2015) achieved a -14% discount and typically were up-sized because of strong demand. Companies are able to achieve these discounts through off-market buybacks in Australia, as some of the proceeds are deemed to be a return of capital, with the balance as fully franked dividends that allow franking credits for those that can use them.

The broker's example cites an investor with a 15% tax rate that would be able to tender into the buyback at a -14% discount and still receive a premium of around 10% to the current share price, after taking into account the dividend and value of the capital loss.

Depending on the individual tax rate, the after-tax benefit could be as high 17% for a non-tax paying shareholder, UBS estimates. The broker does not see why the off-market proportion could not have been increased further. The decision to buy in the ratio of the share register when there is an opportunity to buy at 14% does not make sense, although the broker acknowledges it could be for liquidity concerns in the Ltd stock.

Additional Returns

Nevertheless, UBS is not complaining too much, as a strong balance sheet should deliver additional returns upwards of US$3-4bn, inclusive of US$3bn in dividends in February 2018. The broker's worked examples show that the off-market buyback would be most attractive for those on a low income tax bracket. In Australia the majority of super funds are in the 15% bracket and, as such, the buyback may be attractive although there are other considerations to be taken into account.

The off-market portion on the ASX surprised Macquarie, in a positive way. Should the company be successful in selling the remaining Queensland Coal assets and/or Pacific Aluminium, which the broker estimates could raise US$5-7bn, further buybacks are considered likely in 2018.

Recent rises in aluminium and alumina prices and iron ore lump premium suggest a spot commodity price scenario for the stock that offers considerable upside to the broker's base case. Macquarie makes modest changes to forecasts, with estimates rising 2 -3% for 2018-20. The broker upgrades its price target by 1% for the Ltd stock while the UK target falls -4% to GBP43, after incorporating recent moves in the GBP/USD exchange rate.

Credit Suisse observes the iron ore price took a hit in the past week and pressure is expected in the December quarter, when demand in China falls as production is curtailed throughout the winter months.

While the broker is forecasting weakness in the iron ore price the same is not expected for steel, which is expected to remain tight throughout the winter, as strong premiums for higher grade products are expected to continue.

Couple the upside risks to spot prices with a strong balance sheet and desire to return cash and the stock is considered a risk-adjusted investment case of significance.

Citi calculates full completion of the buybacks will drive 3.6% accretion to 2019 estimates for earnings per share although, in the context of the large upside risk from spot prices in 2018/19, considers the continued discipline of returning excess cash to shareholders the more important message.

ASX Buy-Back Detail

Eligible Australian and NZ shareholders will be able to tender shares at an -8-14% discount to the prevailing market price. The ASX buyback price will include a capital component of $9.44, with the remainder being a fully franked dividend. The shares will trade ex the buyback on September 27, with the tender running from October 10 to November 11.

FNArena's database shows seven Buy ratings and one Hold (Morgans, yet to comment on the increased buyback). The consensus target is $72.75, suggesting 9.3% upside to the last share price. Targets range from $61.99 (Morgans) to $83.00 (Macquarie). The dividend yield on 2017 and 2018 forecasts is 5.0% and 4.3% respectively.

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Smiggle Performs For Premier Investments

A resilient Premier Investments has highlighted for brokers how high-growth new brands can compensate for the weakness prevailing in apparel retail.

-Womenswear store sales decline by average -5% in FY17 -Smiggle & Peter Alexander become the lead brands -Strong online growth seen mitigating store-based risks

By Eva Brocklehurst

A resilient Premier Investments ((PMV)) has highlighted for brokers how high-growth new brands can compensate for the weakness prevailing in apparel retail.

FY17 operating earnings (EBIT) were up 7.4% and sales up 5.7%. Smiggle and Peter Alexander, the highest margin and highest growth brands, now account for 39% of the company's retail sales and and the UK became Smiggle's largest market in the second half.

Sales per store declined by an average of -5% for the company's core womenswear brands in FY17. The most significant were Portman's, Jacqui E and Dotti, with sales down -8.6%, -6.2% and -3.6% respectively. A weaker fashion cycle was blamed. Gross margins also contracted, with FX hedge rates cited as the key driver.

Citi's industry feedback suggests discounting intensity also increased, as fashion retailers sought to stimulate weak sales. The company is considered to be comparatively better placed to defend against the threat from Amazon, particularly as it is focused on increasing its online capability, although will still need to invest to remain competitive.

The cash performance was below UBS expectations, affected by higher cash taxes and higher inventories as a result of growth across Smiggle and Peter Alexander. Sourcing changes were also made during the year, to Bangladesh from China.

Credit Suisse suggests strong online growth continues to mitigate the store-based risks in retailing. The broker is quietly confident in a strong uplift in profit in FY18, backed by the additional 38 Smiggle stores that are to open in the UK and the potential improvement in gross margins from the marking down that affected FY17.

Morgan Stanley finds it hard to get past the fact that core brands are under structural pressure and the consumer environment is challenging. The broker acknowledges these make up a reducing portion of sales and earnings but the risks are intensifying. International retailers are expanding into regional Australia and Amazon is setting up direct retailing in the country, with apparel a category that is very susceptible.

While there are more reasons to like Smiggle and Peter Alexander the persistence of such negatives, and even assigning a 20% premium for the stock versus the average multiple of listed retailers, leads the broker to set a price target roughly in line with the current share price. Hence, an Equal-weight rating is maintained.

Smiggle & Peter Alexander

Smiggle has announced its expansion into Belgium and the Netherlands in 2018, targeting total global sales for the brand of $400m by FY20. Citi considers this a conservative forecast, and calculates that for every 100 new stores Smiggle opens $1.70 per share is added to the Premier Investments valuation.

Smiggle UK performed strongly and Citi notes differences in the margin structure between Australia and the UK may be driving better profits. Citi believes the Smiggle stores in Australasia have matured and offshore markets will provide the best source of growth in the future.

Smiggle and Peter Alexander have become so significant to the company that they are expected to drive double-digit growth in earnings per share out to FY20. This should more than offset the core brands, which Citi expects to stagnate over the next four years.

Citi suggests strength that Peter Alexander is often overshadowed by Smiggle. The company has previously stated it will consider international expansion for Peter Alexander but appears to be not pursuing the option at this stage. Peter Alexander reported sales growth of 14% and Citi forecasts a compound growth rate of 10% for the next three years. This will come from both new stores and product additions.

Myer

UBS observes Myer ((MYR)) is trading around all-time lows and well below the level where Premier Investments accumulated a 10.8% stake. The company has previously stated it did not intend to make a takeover bid.

UBS estimates a potential takeover could be more than 17% accretive to earnings per share, but remains wary of Myer's long lease tail (average tenure is over 12 years) and the significant pressure being placed on department stores globally from online competition. Macquarie, too, considers the stake strategic and does not expect the company to increase its position above 20%.

Costs

The company delivered savings in operating costs, emanating from staff and rent, and Citi suspects the savings related to staff are tied to weak sales trends in the core brands. Rent-to-sales ratios are expected to fall in FY18, given a better sales mix and some store closures. While praising the cost reductions achieved in FY17, Morgan Stanley now cautions that some brands are being run too lean.

The company is targeting reduced rent and/or incentives from landlords and has stated that as a direct result of unrealistic rent expectations Just Jeans and Portman's in Melbourne's Bourke Street will close in October, as part of an ongoing program to close unprofitable stores.

Macquarie expects the lease profile will support the company's ability to manage store profitability and estimates average lease duration declining to around 1.5 years, excluding new Smiggle and Peter Alexander stores.

FNArena's database shows five Buy ratings and one Hold (Morgan Stanley). The consensus target is $15.14, suggesting 12.9% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 4.3% and 4.9% respectively.

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Will Acquisitions Provide Impetus For Nufarm?

Brokers accept the outlook for Nufarm is improving on several fronts but many suggest the stock is fairly valued. Will acquisitions provide more impetus?

-Continuing challenges amid soft commodity prices, volatile seasons and price competition -Improved mix of higher margin product should help in FY18 -May be difficult to undertake an acquisition of size

By Eva Brocklehurst

Nufarm ((NUF)) is expected to continue showing the benefits from lower costs and market share gains, having reported a robust FY17 result. Risks heading into FY18 are largely centred on seasonal conditions in Australasia and North America, as well as turning around the business in Argentina.

The company reported an underlying net profit of $136m for FY17, up 25%. Growth was driven by the performance improvement program that provided a net incremental benefit of $26m, and more than $15m in net incremental benefits are expected in the current year. Double-digit sales growth occurred across all divisions except Europe, while earnings were strong with the exception of a decline in Argentina.

In the absence of an acquisition, brokers believe the company will continue to confront challenges in crop protection in the form of soft commodity prices, volatile seasonal conditions and competition on price.

Citi found a lot to like in the latest results but considers the stock fairly valued, despite the guidance for further growth in FY18. The company has guided to improvements from a combination of growing revenue, margin expansion and cost savings.

Commodity prices are expected to remain soft. In Australia, the weather is the usual caveat, and spring/summer rains in northern NSW and Queensland are needed to generate demand for crop production products.

Despite this, Citi suggests an improved mix of higher margin products, with the merger of the Nufarm and Crop Care marketing arms, should help. In the US the company expects to benefit from new products and in Brazil the volume of crop protection inputs is also expected to rise.

Nufarm is also on track to start its first commercial production of Omega-3 canola in FY18-19, targeting positive earnings by 2021. Macquarie acknowledges that Argentina was the main reason Latin American margins were dragged down in FY17 and better leverage from higher margin products is envisaged in the future.

A modest recovery in Argentina and new seed product launches are expected to be the key contributors to the growth outlook in FY18 and underpin the broker's Outperform rating.

Morgans found the FY17 result credible, given challenging market conditions, and particularly as peers reported weak results. Market share gains and the performance improvement benefits make it evident to the broker that the company is doing a good job managing factors within its control.

Acquisitions

The company is looking at opportunities that may arise from divestments following industry consolidation among the global operators. Nufarm plans to strengthen its product portfolio in key crops and across core geographies. Citi considers the stock an “event play” given this potential, while Macquarie suggests the northern hemisphere would be of more interest to the company from a strategic perspective.

Even in the absence of acquisitions, the broker considers the company able to deliver growth, as it rationalises and improves its business. The company has stated it will remain disciplined on acquisitions, looking at the returns on funds employed and growth in earnings per share as key metrics. Nevertheless, any sizeable opportunity will require a large capital raising, Morgans suggests, given the state of the balance sheet.

This aspect also concerns Deutsche Bank, which believes it will be difficult to undertake an acquisition of size. The company has made good progress with its improvement strategy, although the broker believes this is incorporated into the current share price.

Deutsche Bank remains of the view that Nufarm is not likely to participate in the current round of crop protection consolidation, as Sumitomo has a 23% shareholding and any divestments available are likely to be sizeable and vigorously contested. Press reports have suggested the company is interested in acquiring either The Century Group assets in Europe or Albaugh, a private generic operator in North and South America.

Bell Potter currently assumes no material acquisitions in its forecasts. The broker downgrades FY18 estimates by -0.7% and raises forecasts by 1.4% for FY19. The downgrades in FY18 principally reflect a lower summer crop forecast for Australia, offset in part by better operating results.

Upgrades in FY19 reflect the benefit of more normal summer and winter crop assumptions for Australia. The broker, not one of the eight monitored daily on the FNArena database, retains a Hold rating and $9.47 target.

FNArena's database shows two Buy ratings, four Hold and one Sell (Deutsche Bank). The consensus target is $9.16, suggesting 4.5% upside to the last share price. Targets range from $6.75 (Deutsche Bank) to $10.75 (UBS, yet to comment on the results).

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Total Vehicle Management The Goal For EclipX

EclipX is leveraging its capabilities in corporate fleet leasing to provide a platform for customers to completely manage motor vehicle requirements.

-FY18 a pivotal year for delivering on Grays revenue synergies -Less than 20% of consumers currently aware of their right to vehicle replacement -Opportunity to partner with insurers

By Eva Brocklehurst

EclipX ((ECX)) has convinced brokers of its ability to grow its corporate fleet, equipment leasing and platforms such as Right2Drive and Grays eCommerce. The fleet business gained market share in the Australian commercial segment in FY17 and, having recently acquired Grays, the company has conducted a cost rationalisation program, quickly disposing of loss-making consumer categories. Wine logistics has been outsourced and the corporate entity integrated into EclipX.

An investor briefing outlined the company's vision for leveraging core capabilities to offer customers the ability to purchase, finance, manage, renew and dispose of motor vehicles, as well as an accident replacement plan. EclipX also upgrades FY17 net profit guidance to the upper end of the $66.3-68.0m range.

There is significant opportunity from a low base to grow the accident replacement market through Right2Drive, Morgan Stanley attests, and via Grays to internalise the disposal of vehicles and grow the equipment financing book.

The company may be transforming into a diversified financial services business but Citi cites increased complexity and reduced visibility as the downside. The broker acknowledges the merit in owning multiple points across the customer chain, while envisaging FY18 will be a pivotal year for delivering on the Grays revenue synergies.

On the other hand, UBS suggests visibility is good, as around 70% of earnings are already generated from the current book. The broker expects organic growth will be driven by new business in fleet and calculates 21-23% growth from the upgraded guidance, including the contribution from Grays.

Growth should also come from equipment finance, Right2Drive and Grays. The main risk to the earnings profile, UBS contends, is any potential change to the Right2Drive operations as the industry matures.

Grays

Grays is the largest online auctioneer in Australia, selling over 100,000 assets per month. Management expects Grays to generate $23-25m in operating earnings (EBITDA) in FY18. The company specialises in the valuation and sale of industrial and commercial assets, plant and equipment. Its automotive marketplace auctioned around 30,000 vehicles in FY17 with a clearance rate of 87%.

Morgan Stanley believes the benefits of the company's actions in aligning the Grays strategy will be realised this year and there is a significant opportunity to dispose of leased vehicle through the vehicle auction site, cross-sell products and drive organic growth in automotive auctions.

The equipment finance book can also be grown by leveraging relationships in the equipment auction business. Macquarie suggests part of the strategic appeal of Grays is the improving monetisation from end-of-term leased vehicles.

Right2Drive

The company operates in a large market that benefits from growing awareness of vehicle replacement. Right2Drive branches are to be expanded over the next six months to over 40 from the current 30. Right2Drive is also on track to deliver its operating earnings at the top end of guidance of $12-14m. The national footprint is increasing and the company is diversifying its sources of business.

Right2Drive has a large market opportunity which management estimates is worth over $700m per annum, with less than 20% of consumers currently aware of their entitlement to vehicle replacement when they are not at fault in a motor vehicle accident.

Morgan Stanley is bullish about the opportunity and believes the accident replacement market is increasingly relevant based on experience in the UK. The market is expected to double in the next five years. The broker also envisages an opportunity to form a partnership with insurers as a catalyst for more growth.

Although Right2Drive makes up only 14% of FY17 earnings the broker believes it will contribute growth of 3-5% over FY18-20. Macquarie forecasts double-digit growth for Right2Drive in FY18, supported by the branch expansion and improved customer awareness.

The target on FNArena's database is $4.42, suggesting 11.5% upside to the last share price. There are five Buy ratings and one Hold (Citi). The dividend yield on 2017 and 2018 forecasts is 4.0% and 4.5% respectively.

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AGL Reaps, But Sows Change In Oz Power

AGL is at the centre of a political storm, intending to close the coal-fired Liddell power station by 2022, while benefitting from the surge in electricity and gas prices.

-Maintaining Liddell coal-fired power station beyond 2022 considered costly and unlikely -AGL's market power considered intact and, perhaps enhanced, despite government confrontation -Retail electricity margins may come under further scrutiny, providing some potential negative for AGL

By Eva Brocklehurst

French company Engie closed Victoria's ageing Hazelwood brown coal-fired power station earlier this year, triggering a debate on electricity supply across the country amid surging prices at both the wholesale and retail levels.

The announcement of Hazelwood's definite closure, just six months before it occurred, opened up a hornet's nest in political circles, while power shortages last summer across the grid in Victoria/South Australia underscored a lack of government planning to ensure reliable electricity supply across the country.

Australia's coal-fired power stations, which generate the bulk of electricity, are old and in need of substantial maintenance to reliably provide power into the future.

Enter AGL ((AGL)), owner of the Liddell coal-fired power station in the Hunter Valley, which has been slated for closure in 2022. After Hazelwood's closure seared political nerves, AGL is now confronting a federal government which is calling for Liddell's operations to be extended beyond 2022, or for the plant to be sold to those who will. The company, at its recent AGM, highlighted the costs associated with making the power station reliable and the issues associated with selling the asset.

Liddell

The company has indicated that additional generation capacity can be obtained to offset the closure of the plant, including new renewable energy infrastructure that is already being built. As well, a 100MW upgrade to the adjacent Bayswater power station, a 250MW battery at Liddell and up to 750MW of potential new gas capacity (similar to the company's new 210MW gas-fired peaker under construction in South Australia) are to be brought on line from 2019.

Ord Minnett notes Liddell had improved since the company bought the asset in 2014 partly because it was downgraded by 15% to 1700MW. Now, as the plant gets to the end of its life, this has become an issue, as it is more likely to experience unanticipated outages.

AGL has stated that while it is not impossible to extend operations beyond 2022, the costs to ensure the plant is reliable are likely to be substantial, revealing a 2013 desktop study on extending Liddell’s life to 2032 which found it would cost an estimated $900m. Moreover, sale to another party would be complex and require that party to stump up considerable costs.

Liddell is linked to AGL's other NSW coal assets and physically to Bayswater. AGL is preparing a report for the federal government regarding the options for Liddell by October 12. Brokers suspect AGL is unlikely to suggest the plant continue to operate beyond 2022.

Gas Shortage

As Australia's electricity prices soar, the country is also facing a gas shortage, as the bulk of LNG production is directed towards exports and the federal government is forced to find a way to ensure domestic supply. Recently, the government announced an Australian Domestic Gas Security Mechanism (ADGSM), whereby exporters would be forced to divert gas for domestic consumption if a shortfall ensues.

Credit Suisse suggests the domestic gas & electricity industry is at a point of "peak risk" but, as there is limited change to the market structure, AGL's market power remains intact and arguably enhanced in the long run. The broker takes this opportunity to upgrade AGL to Outperform from Neutral.

Overall, the risk from gas export restrictions and electricity retail regulation in Victoria remain real and the broker does not dismiss the potential impact but, rather, suggests the downside risk is contained. Credit Suisse considers both measures will serve to suppress prices even if the mechanisms are not triggered.

Moreover, barring an incident in operations, the broker expects electricity market to avoid the blackouts of the previous summer because the market and the Australian Electricity Market Operator are better prepared.

Aside from the existing electricity market, Credit Suisse also notes the threat of oversupply in generation, as new wind/solar and storage projects are developed, has been reduced with the federal government's lower priority for carbon reduction targets. This has enhanced incumbents in the renewables industry, such as AGL.

Deutsche Bank believes potential re-regulation of retail electricity prices in Victoria and the tighter scrutiny of the gas market will have minimal implications for AGL's FY18 earnings. The 2018 wholesale electricity forward curves in Victoria and NSW have been flat since August and point to tightness in the market, particularly as the summer gets underway.

Deutsche Bank continues to believe FY18 will mark the first year that AGL delivers earnings growth above 25%, from the rise of over 100% in the Victorian wholesale electricity forward curve that occurred from mid-2016 to March 2017. This reflects AGL's lagged exposure to rising wholesale electricity prices.

The ACCC is on the verge of releasing its preliminary report into the electricity market. Macquarie acknowledges retail margins will come under further scrutiny and this carries some negative potential for AGL.

The broker believes the company's reiteration of guidance at its AGM confirms confidence in the outlook. Growth year-on-year reflects an absence of cash issues as well as the ongoing re-pricing of higher energy prices. This is mitigated slightly by retail margin pressure and normalised eco-market earnings.

At this stage, with the company expected to generate $6m of surplus cash, Macquarie considers it has ample flexibility to fund its expenditure on maintenance works and upgrades, and still support a 100% pay-out policy.

FNArena's database shows four Buy ratings and three Hold for AGL. The consensus target is $27.10, suggesting 16.0% upside to the last share price. The dividend yield on FY18 and FY19 forecasts is 5.0% and 5.7% respectively.

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Confusion Still Reigns In Oz Gas Market

Confusion reigns in Australia's gas market and brokers try to make sense of the outlook for gas supply and prices from the official rumblings.

-Lack of clarity over how any domestic shortfall will actually be handled -Brokers also question a forecast decline in supply in Gippsland Basin -ADGSM may mean gas prices won't surge above $10/GJ, but unlikely to fall

By Eva Brocklehurst

Investors could be excused from being vexed over the current machinations in the east coast gas debate and the impact of the Australian government's gas security mechanism (ADGSM). Brokers believe they should, after themselves attempting to unravel the myriad reports from government agencies and trying to ascertain the extent of any gas shortage, or whether one actually exists.

Australia's gas market has changed, with the large export-linked ventures established in Queensland over recent years – QCLNG, APLNG and GLNG. The source of this gas emanates from CSG and, relatively small, conventional fields in western Queensland.

Older fields that provide the gas to the industrial heartlands of Victoria and NSW are traditional LNG producers in Victoria's Gippsland Basin (Bass Strait), delivered via the lengthy pipelines that run north up the east coast.

As Morgan Stanley describes: the east coast gas market has transitioned from a closed market that was priced off long-run conventional extraction costs (legacy pricing) to an unconventional, export-linked market with substantial transport constraints between Queensland and southern markets.

Reports from the market monitors, the Australian Energy Market Operator (AEMO) and the Australian Competition and Consumer Commission (ACCC), now forecast shortfalls for domestic gas in 2018, citing reduced LNG production from Victoria's Gippsland Basin, and higher consumption from increasing use of gas for power generation.

Overlay these reports with speculation about how the government might action its ADGSM, and whether it will spread the obligation to all LNG producers or just those that are short on domestic supply, and confusion mounts.

The government has recently come to an agreement with Queensland gas producers suggesting it will not restrict LNG exports from Queensland in 2018, provided they supply sufficient gas to cover a forecast 54PJ domestic shortfall in eastern Australia.

UBS still expects the ADGSM to be triggered, but all three Queensland LNG producers may be asked to provide the gas. The broker then considers the legislation unclear on what happens if all three are net contributors domestically and are then asked to address a deficit caused by declining Gippsland Basin supplies and higher demand from gas-fired power stations.

Goldman Sachs finds it hard to envisage anything positive in a potential government decision to restrict LNG exports or enforce increased production, and is also unsure exactly how any shortfall burden would be treated.

Despite most gas players forecasting an increase in drilling and stable production, AEMO/ACCC have cut expected production by 47PJ in 2018 and 64PJ in 2019. The AEMO forecasts factor in a 26% decline in Gippsland Basin production, which is considerably greater than Goldman Sachs had expected (and finds difficult to believe).

Macquarie concurs, questioning how the Gippsland Basin JV - Esso and BHP Billiton ((BHP)) - the largest producer in the south, will drop to 244PJ from a record 330PJ in 2017. The broker suspects that GBJV has only reported the volumes already contracted for 2018, and a rise in production and reduction in exports has essentially gone unnoticed by the ACCC.

Credit Suisse suggests, while the validity of the regulators' shortfall conclusion will be debated, the industry cannot be said to have provided evidence it is collectively responding to the market's concerns by lifting output.

Players

How does this affect the listed players in the market? If the obligation were spread evenly across exporters, Morgan Stanley suggests APLNG, 37.5% owned by Origin Energy ((ORG)), would need to produce or divert an additional 18-36PJ, not difficult as Origin has multiple routes to market.

Goldman observes that based on recent share price performance, the market is not viewing a broadening of the burden beyond GLNG to the other two projects as positive for GLNG's major player, Santos ((STO)), and negative for Origin Energy.

As a result, the broker believes Santos is now pricing in an oil price of US$59/bbl and looks expensive versus its sector peers. Goldman Sachs prefers to avoid the unpredictability of east coast gas policy and retains a preference for Oil Search ((OSH)) and Woodside Petroleum ((WPL)) in the sector.

Pricing

Okay, supply sorted – sort of. Now the question becomes the price at which this gas is sold into the domestic market. UBS reiterates a view that the intervention in gas markets will not bring down gas prices to less than $6/GJ.

The broker expects the gas price for this 54PJ will be higher than the ACCC's recently released benchmark price of $5.87/GJ in Queensland. The broker also expects Origin Energy to purchase APLNG gas and use existing capacity in the pipelines between Queensland and NSW to ship additional gas south. Shell, as primary owner and operator of QCLNG, is also expected to sell more gas into the domestic market.

However, heightened scrutiny suggests to the broker there will be less gas on offer materially above $10/GJ. Credit Suisse is also comfortable that wholesale prices will remain in the $7-10/GJ range and, importantly, that the periods of scarcity which have pushed received prices well above this range will be eliminated.

The ACCC's version of “reasonable” prices when compared to the exporters are two very different sets of numbers and, after doing the maths, Macquarie queries whether the “benchmark price” is a benchmark at all.

Morgan Stanley suggests domestic gas buyers may even be holding off obtaining contracts, in the hope of government intervention, and does not believe the medium-term pricing of gas to the domestic market will be resolved any time soon.

For gas pipeline owners, such as APA Group ((APA)), Macquarie suggests the latest AEMO and ACCC reports are a “shot across the bow”. Morgan Stanley also envisages some risks to earnings from amendments to the national gas law. The ACCC may release a further interim gas inquiry report this year to address gas transportation and storage arrangements. And that will be another story.

Material Matters: Gas, Coal & Metals

A glance through the latest expert views and predictions about commodities. East coast gas; thermal coal; oil; base metals; precious metals.

-Difficult to ascertain state of Australian east coast gas supply -Thermal coal may be approaching a tipping point -Fundamentals for base metals set to improve, zinc retains the best outlook -Citi expects gold prices to hold above US$1300/oz in the short term

By Eva Brocklehurst

East Coast Gas

Credit Suisse contends that without information which the Australian consumer regulator, the ACCC, has (hopefully) acquired, it is hard to know how many of the recent gas supply deals are illusions, and how much is already committed to the domestic market.

In reality, larger shortages should impact later in the decade. The broker continues to believe that given federal powers only extend to export controls and there is no control over how that gas is then sold or priced domestically, the Australian domestic gas security mechanism (ADGSM) is unlikely to have any real impact other than to remove "crazy" $20-plus/gigajoule prices.

It appears prices are falling a little, even for 2019 volumes. The ACCC should have the power to acquire knowledge of the bids being received in order to to deduce the real picture of the 2019 market. Nevertheless, Credit Suisse suggests it won't be until this time next year that the 2019 market is addressed.

The broker contends the only situation in which the ADGSM will have an impact on gas producers is if an outrageously large shortfall is declared, and the GLNG-diverted gas cannot find a home domestically. Even in such a case, GLNG can drill fewer wells and/or put gas in storage. The end result is that operating expenditure will rise more for gas consumers and earnings will go up more for anyone with uncontracted gas to sell.

Thermal Coal

Citi expects 2017 thermal coal prices to average US$84/t, with short-term strength sustained because of Chinese safety and environmental inspections as well as robust coal-fired power generation. China's thermal coal market may experience tight balances for longer because of a combination of soft supply, strong demand and re-stocking. Longer term the broker is bearish, as coal-fired power struggles to grow and supply remains adequate.

Macquarie suggests thermal coal is approaching a tipping point. Disruption to Chinese suppliers has been a key theme, the broker agrees, but the recent leg-up in prices has been driven by demand. Traders have stepped up their buying in the past two weeks, hoarding material and betting on utilities needing to re-stock ahead of the winter. Meanwhile, power plants have sat back and waited for prices to fall before increasing inventories.

Macquarie notes the Chinese government domestic coal supply remains tight and the Chinese government has decided to take some action, issueing a notice urging miners to speed up new coal capacity additions and increasing tonnage for long-term contracts. The broker believes this may mark the turning point in the cycle and a correction in thermal coal prices.

Looking into the December quarter the broker suggests demand is not supporting a sustained price uptick. Lower Chinese prices should eventually feed through to seaborne prices via the Chinese arbitrage. Some upside may be available from India but the broker counters this with an expected sequential improvement in exports from Australia and Indonesia.

Base Metals

CIBC World Markets expects fundamentals for base metals are set to improve, highlighted by a reversing of easier monetary policies around the world. Zinc has the best outlook. The analysts expect an incentive price for zinc of US$1.50/lb will be required by the March quarter of 2019 to encourage re-starts and construction of new projects. Zinc prices are expected to remain at these levels until new production comes on stream in 2020.

Citi also suggests the fundamentals are holding steady for zinc. China's domestic zinc output has continued to fall while the much speculated issue of re-starts at Glencore's mines hinge on demand stability, particularly from China.

Citi modestly upgrades 2017 average price estimates for zinc to US$2830/t.

A copper incentive price of US$3.70/lb is needed to encourage new projects, and the CIBC analysts expect prices to rise to that level as the market tightens. Citi notes end-user copper demand has outperformed against market expectations so far this year. The broker continues to expect Chinese copper demand to grow at 3-4% in 2017. Citi revises near-term copper prices higher and now expects 2018 prices to average US$6415/t.

Meanwhile, CIBC analysts expect nickel to be in structural deficit over the next five years, as years of oversupply of low-quality nickel pig iron caps the upside. Citi considers the stainless steel market the real short-term swing factor. Concerns about stainless steel price stagnation are observed to be growing, despite a recent drawdown on inventories. Hence, the forecast market deficit of 34,000 tonnes may only deepen this year if demand remains robust.

Citi suspects the aluminium market may be even tighter in the December quarter as the government in China has not yet specified the definition of total capacity in terms of the winter reductions. Chinese smelters are currently running at maximum capacity and inventory is building, despite robust demand.

Nevertheless, Citi retains a neutral view on the medium-term prices. Ongoing capacity cuts in the sector may cause major concerns regarding inflation. Furthermore, there is also a lack of rationale in continuing to reduce supply. Citi modestly revises aluminium price forecasts higher for the next 12 months.

CIBC analysts also expect molybdenum to be oversupplied, with secondary production coming from copper mine by-products.

Oil

Citi expects oil inventories will continue to fall and physical markets tighten in the near term, but the broker becomes bearish about oil prices going into 2019, given a likely surge in OPEC and non-OPEC production in response to the current market environment.

Hurricane Harvey has disrupted oil markets, altering supply, demand and product from refiners as well as end-user demand. Citi expects this will put downward pressure on US crude pricing but be supportive for Brent, with the net effect on global oil difficult to gauge.

While the US Gulf Coast and Latin America need to import additional petroleum products, surplus ex-US refinery capacity is in short supply, Citi contends. Almost all of the new additions to refineries in the second half of 2017 will be in China, yet product export quotas may limit the ability of China to increase its exports of product.

Precious Metals

Citi observes geopolitical tensions have shifted gold into a higher price range for longer. Moreover steady US interest rates coupled with a softer US dollar should keep gold supported for the remainder of this year. Any correction in asset markets would also favour gold. The broker's base case calls for COMEX gold prices to hold above US$1300/oz in the short term, perhaps declining -5-6% by the second half of 2018. Gold is expected to average US$1270/oz for 2018.

On the upside, record equity prices and low volumes are capping gold and the broker's US and global equity strategists do not expect a sharp unwinding of the long equity trade. Meanwhile, there has finally been a modest improvement in the lacklustre Asian jewellery trade. Indian demand is expected to recover into the end of the year with the wedding season underway and Chinese demand is also is expected to gain ground on seasonal effects.

Citi suggests, given the dual role of silver as both a precious and industrial metal, its price trajectory may resemble copper and aluminium, and a resurgence of industrial scrap could pose headwinds in light of the double digit price gains in the year-to-date. A decline in mine supply this year has exacerbated the trend, with primary output registering only nominal growth.

A recovery of by-product supply may mean total silver output stabilises over the medium term. Citi cites improved output of Chilean copper and Mexican zinc/lead mines that may boost silver supply within the next year.

Citi notes the sizable surplus for platinum in the current year and takes a view that global mine supply growth will remain roughly consistent with previous years. Limited demand from both jewellery and industrial end use suggests the market surplus in 2017 may increase rather than decrease.

Meanwhile, the broker expects the deficit in palladium to deepen in the December quarter and a better-than-expected recovery in the global economy would translate to higher industrial consumption of the metal.

Lithium: Some Realities

Brokers warn that lithium demand may not grow as quickly as assumed while short term the market remains oversupplied.

- The impending death of the internal combustion engine - Some realities about EV adoption - The issue of infrastructure - Impending supply response

By Greg Peel

Over recent months, France, the UK, Norway and India have laid out plans to ban the sale of internal combustion-powered vehicles by dates ranging from 2025 to 2040. The Netherlands and Germany are thinking about it, although in Germany's case the benefits are largely offset by the country's major source of power generation being coal.

At the corporate level, British Telecom (BT) has declared it will replace its fleet of thousands of service vehicles with electric or hybrid vehicles, while France's PSA Group, which owns Citroen and Peugeot, plans to electrify 80% of its range by 2023.

As these announcements have rolled out, the price of lithium has enjoyed a renewed surge. And while their share prices remain highly volatile on a daily basis, Australian lithium miners such as Orocobre ((ORE)), Galaxy Resources ((GXY)), Mineral Resources ((MIN)) and Pilbara Minerals ((PLS)) have ridden the wave.

The clincher came earlier this month when China announced that it, too, will ban fossil fuel vehicles, with a timetable now being determined. China is the world's biggest auto market. The lithium price had another leg up.

The lithium story is the latest bandwagon for excitable investors to jump on, as we've seen for the likes of rare earth metals and uranium in past years. The lithium story is not new – the price has had more than one burst over recent years on the same theme – but from humble beginnings it now appears electric vehicles (EV) are set to pretty quickly take over the world.

But is this really the case?

Of Chickens and Eggs

Most of the EVs being produced today are of the plug-in variety. Were Australia to make a similar announcement regarding an ultimate ban on fossil fuel power, which of course would never happen under the current government, the next step would be to begin rolling out the infrastructure – plug-in points. Otherwise EV owners are restricted to out-and-back trips from home where their vehicles can be recharged.

Is it worth Australians investing in a plug-in EV when they are reliant on the government rolling out highly extensive infrastructure? Is it worth the government spending billions on such a rollout when EV sales remain in their infancy?

One solution is the EV with modular battery array, such that batteries can be swapped at the service station a la barbeque gas bottles when flat. This would require very little in the way of infrastructure retrofit, one assumes, yet all talk seems to be of plug-ins.

Other cities in the world are moving to install plug-in infrastructure but as one can imagine, the scale of the exercise is substantial.

A lot of the focus is on cars, but what about commercial vehicles?

Resource analysts at Citi cite the example of bus fleets. Many fleets across the world are currently undertaking "pilot programs", the analysts note, typically involving only 8-10 electric buses. To build out the charging infrastructure for a typical fleet of 500 buses would add some 500MW of charging demand, or about as much as a midtown New York City skyscraper.

As a commercial enterprise, and being of an out-and-back nature, bus companies would need to build their own depot infrastructure. This cannot be done on a modular basis, Citi notes, but rather full scale capacity would have to be installed prior to a fully electric fleet being rolled out. It would not be a matter of slowly converting to EVs over time.

Which bus companies can afford it?

Now take trucks. Clearly, if all road transport was converted to electric from diesel, the climate would be much the better for it. But a big semi-trailer needs a big battery.

The current estimate is that a 200 mile Class 8 truck would require a 400kWh battery, weighing 6,000lbs. After having spoken to experts in the field, Citi estimates that once one takes into account a five-year operating period, additional power needs such as air conditioning, and the natural discharge and degradation of a battery over time, a more realistic battery needs to be at least 1300kWh, which would weigh 19,000lbs.

In other words around 600kg as opposed to 180kg.

Now let's look at it from the other side: electricity generation.

Any Australian can imagine that if we all went out and bought an EV tomorrow and plugged it in that night, the whole country would black out. That's just Australia.

Despite the obvious need for more electricity to charge the world's EVs (net, one assumes, of the electricity required to bring crude oil to the pump as petrol/diesel), there are benefits to be had from longer term large scale EV adoption, Citi notes. The grid would benefit from flattening the daily net load (smoothing out peak/off-peak demand).

But this would require adapting completely new dynamic rate structures alongside significant investment in public charging infrastructure. Again, which government is going to undertake that investment?

Citi's overall conclusion is such:

"While we acknowledge the fast-moving nature of the industry and technology, our early feedback highlights a number of roadblocks that are standing in the way of rapid adoption rates over the next decade, at least."

Citi also acknowledges that its scepticism could be overturned were new electricity grid rate structures adopted faster than assumed, making full scale commercial fleet conversion more viable. Or if breakthroughs in battery technology led to significant improvements in the energy density and longevity of batteries which reduce weight and cost. Or if improvements in battery recovery technology, such as regenerative braking, made their mark.

But for now, Citi is effectively warning not to get too caught up in the hype just yet.

On Lithium Supply

The lithium price jumped 80% in 2016, Macquarie notes, sending project developers scrambling to accelerate mine production. The pace of price increase has been relatively more sedate in 2017, and indeed lithium hydroxide export prices out of China have actually fallen amid signs of overcapacity at the converter stage.

However, lithium is again all the rage since the aforementioned announcements were made by various countries/companies regarding target dates for full EV conversion. Thus the broker has recently assessed its EV demand forecasts and, subsequently, lithium demand forecasts.

Macquarie sees global demand for EVs, plug-in EVs and hybrid vehicles growing at a compound annual rate of 44% between 2017 and 2022. That translates into a 27% rate of growth in lithium demand. On that basis the lithium demand/supply equation should be tight from 2020 on.

But over the next three years the broker still sees an oversupplied market due to new mine projects coming on line. A case in point is Mineral Resources' Wodgina mine. Prior to the first direct shipment ore flowing from Wodgina, the price of lithium into China was $600/t. It then fell to $200/t.

The recent ramp-up of Australian lithium projects means Australia is set to topple Chile as the world's largest supplier. Macquarie forecasts supply growth of 20% per annum over the next three years. On that basis, the broker remains near term bearish on lithium prices.

Goldman Sach's view is not dissimilar to that of Macquarie, but differs in timing. Goldman forecasts lithium demand to grow fourfold from 2016 to 2025 and for the demand/supply equation to remain tight until 2020 before slipping in 2020-22 when a series of global greenfield and brownfield expansion projects come on line.

However, Goldman can also see tightness continuing after 2020 for two reasons.

On the demand side, the broker notes EVs dominate underlying assumptions as penetration grows, battery sizes continue growing, and lithium content per kWh increases. On the demand side, Goldman highlights the historical challenges of bringing lithium projects on line.

The conclusion can only be that nothing can ever be cut and dried where a Brave New World is involved. Investors nevertheless need to be cautious.

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Material Matters: Oil, Miners & Comet Ridge

A glance through the latest expert views and predictions about commodities. Oil; miners; gold miners; and Comet Ridge.

-More balanced oil market probable in 2018 -Potential for miners to reintroduce a growth agenda -Yet, question of value-adding M&A remains -Mid-tier gold producers positioned to return cash

By Eva Brocklehurst

Oil

Crude markets appear to be more balanced heading into 2018 and Morgan Stanley modestly raises forecasts for oil prices. The main winners in the current market are refiners and the broker envisages value in margins and crack spreads. As seasonal demand accelerates and the northern winter gains traction the broker suspects the middle distillate balance could become even tighter.

Refiners are responding with higher runs and this is spilling over into demand for crude. Meanwhile, the market remains well supplied and, the broker observes, in absolute terms inventories remain high. Morgan Stanley expects West Texas Intermediate in a range of US$48-52/bbl will stabilise US rig count and balance the market in 2018.

An improving macro backdrop should help growth in demand over the next couple of quarters, although ANZ analysts suggest a rebalancing of the market may only occur if OPEC increases its adherence to production reductions. The analysts expect OPEC will extend its current agreement for at least six months and that oil prices will test higher levels by the end of this year.

The analysts acknowledge supply-side issues can still make a difference and a combination of restraint by OPEC and a gradual increase in US shale may mean the market does tighten substantially in coming months. OECD inventories are expected to fall to their five-year average by the end of the second quarter 2018.

Miners

Mining equities have performed strongly since June, as profitability and cash flow is strong. Morgan Stanley expects this will ensure an acceleration in capital management and the potential for reintroducing a growth agenda. Nevertheless, there are heightened risks and the broker adopts a more defensive stance while retaining a positive view on the industry.

The risks centre on geopolitical tensions and the imminent unwinding of the US Federal Reserve's balance sheet. Moreover, commodity prices are, on average, 14% above the broker's forecasts for 2018.

Morgan Stanley downgrades Fortescue Metals ((FMG)) and Whitehaven Coal ((WHC)) to Underweight, from Equal-weight and Overweight respectively, as both appear at risk of commodity price corrections by the end of this year. Moreover, there are specific concerns for the elevated 58% grade discount in the case of Fortescue.

The broker also downgrades Evolution Mining ((EVN)) to Underweight from Overweight on valuation grounds while on the same basis lifts Sandfire Resources ((SFR)) to Equal-weight from Underweight. Morgan Stanley retains a preference for South32 ((S32)), BHP Billiton ((BHP)) and Rio Tinto ((RIO)).

Gold Miners

Robust gold prices, stable costs and limited reinvestment or growth commitments mean the balance sheets for most gold miners continue to strengthen. UBS notes dividends have been lifted and the market is now pondering whether acquisitions and mergers may be the next focus. Nevertheless, the reply the broker most often comes across is: what value can we add to justify a premium offer?

Hence, M&A activity may remain subdued for longer and capital returns continue to come to shareholders. The broker suggests benign interest rates, a softer US dollar and macro uncertainty supports a case for retaining gold exposure within a diversified portfolio.

Company-specific risk factors among Australia's gold miners have also improved and the broker believes upside can be found. Newcrest's ((NCM)) Cadia is in the final stages of returning to nameplate production, Northern Star¶

((NST)) is expected to secure third-party tolling and Regis Resources ((RRL)) should deliver a definitive feasibility study for McPhillamys.

Deutsche Bank agrees the ASX gold sector is in a healthy position and the mid-tier producers are positioned to return cash, in addition to re-investing in the business. Evolution Mining presents a streamlined portfolio now, given the sale of Edna May, and management is focused on lifting asset quality and extending mine life.

The broker observes OceanaGold ((OGC)) demonstrates attractive production growth from the Haile development on top of the portfolio of high-quality producing assets. At the smaller end, Gold Road ((GOR)) is intent on further discoveries at Yamarna tenements and Breaker Resources ((BRB)) is in the early stages of exploration at Lake Roe in Western Australia. Similarly, Catalyst Metals ((CYL)) is pursuing greenfield targets in Victoria.

Comet Ridge

Canaccord Genuity believes Comet Ridge ((COI)) is a promising gas developer on Australia's east coast, through its 40% equity interest in the Mahalo CSG project. The company has replaced Santos ((STO)) as the operator of the exploration/appraisal phase, providing a far greater level of control and influence within the joint venture.

The broker envisages re-rating potential as an active appraisal program is underway and there is a successful proof-of-concept well. This is underpinned by an extremely tight gas market. A final investment decision is targeted in 2018. The broker initiates research coverage with a Speculative Buy rating and a $0.19 target.

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

The FNArena database tabulates the views of eight major Australian and international stock brokers: Citi, Credit Suisse, Deutsche Bank, 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 September 18 to Friday September 22, 2017 Total Upgrades: 6 Total Downgrades: 6 Net Ratings Breakdown: Buy 41.90%; Hold 42.11%; Sell 15.99%

The local share market remains in desperate need of a positive catalyst, but it isn't coming from the domestic stockbroking fraternity. Sell-side analysts simply cannot see enough reason to upgrade their recommendations for ASX-listed stocks, while downgrades continue to either outnumber or match the few upgrades that are being issued.

The week ending on Friday, 22nd September 2017 saw upgrades and downgrades matching each other with six on either side. That's a relatively good week in 2017.

Four upgrades moved to Buy, while four downgrades moved to Neutral. Commbank, BT Investment and Domino's Pizza were amongst the upgrades, while Synlait Milk received two downgrades.

Monadelphous experienced the week's largest increase in price target (+11%), at arm's length followed by Boral and Downer EDI. There were larger adjustments on the negative side, with TPG Telecom the biggest loser, ahead of Myer, Virgin Australia and Greencross.

New Hope and Macquarie Atlas Group both enjoyed meaty upgrades to profit estimates, but Brickworks and TPG telecom each suffered double-digit cuts post their respective financial report releases. All in all, it would seem the best scenario for a local company is to not release financial results this time around.

The out-of-season trickle of company results continues this week with Premier Investment, Kathmandu and Nufarm.

Upgrade

BT INVESTMENT MANAGEMENT LIMITED ((BTT)) Upgrade to Add from Hold by Morgans .B/H/S: 3/3/0

The company has announced it expects direct costs of GBP5m for external research services. The cost will be directly absorbed by JO Hambro.

Factoring in these costs, and reviewing underlying assumptions, leads Morgans to downgrade forecasts for earnings per share by -4-7% in the outer years. Nevertheless, the broker considers the outlook solid and JO Hambro should continue to deliver solid performance fees over the medium term.

Rating is upgraded to Add from Hold. Target is reduced to $11.96 from $12.54.

BRAMBLES LIMITED ((BXB)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 2/5/0

While there are challenges ahead, Credit Suisse believes much of the downside risk is now priced into the shares. Rating is upgraded to Neutral from Underperform. Target is $8.90.

Competition in the US remains of concern to the broker, and there are not yet signs the whitewood pallet market is improving. While underlying demand for consumer staples is weak, the comparables are expected to get easier in November.

COMMONWEALTH BANK OF AUSTRALIA ((CBA)) Upgrade to Add from Hold by Morgans .B/H/S: 1/5/2

Morgans believes the agreement to sell the life businesses in Australasia is a positive for shareholders. The broker calculates it will provide a 30 basis points uplift to the group return on tangible equity. The transaction is also expected to result in a pro--forma uplift to the FY17 CET1 capital ratio of around 70 basis points.

Morgans adjusts forecasts for the expected sale, assuming a completion date of September 2018. Given the increased risk of a loss of market share following the announcement of APRA's prudential inquiry into the bank the broker factors in a higher risk premium to valuation.

This results in a lowering of the target to $80 from $83. Rating is upgraded to Add from Hold.

DOMINO'S PIZZA ENTERPRISES LIMITED ((DMP)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/2

Morgans suspects the AGM trading update and first half results will show softer growth in Australasia, given the exceptionally strong base being cycled, but Europe should be accelerating.

Morgans takes a more positive view based on a re-jigging of the valuation rather than any specific upcoming catalysts.

Rating is upgraded to Add from Hold. Target is $47.21.

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Upgrade to Neutral from Underperform by Macquarie .B/H/S: 2/6/0

Macquarie upgrades to Neutral from Underperform as management has signalled an intention to participate in further quota share reinsurance deals.

Macquarie notes, being more of a distributor means that, while earnings per share may decrease slightly, this should be more than offset by any multiple re-rating and thus deliver value to investors. Target increases to $5.90 from $5.50.

MACQUARIE ATLAS ROADS GROUP ((MQA)) Upgrade to Add from Hold by Morgans .B/H/S: 1/4/0

Morgans considers the EUR440m price paid for an additional 44.86% interest in APRR is reasonable but suspects the market may continue to view the stock as cum capital raising.

The broker believes it's worth taking up the non-renounceable entitlement offer of 1-for-6.62 at $5.12 per security. The FY18 distribution guidance of 23.5c implies 4.6% cash yield on this offer price.

Morgans upgrades to Add from Hold and reduces the target to $5.76 from $5.96.

Downgrade

CARSALES.COM LIMITED ((CAR)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/5/0

As the stock now offers a return of just 2% (see gap between share price and target) and appears to be racing ahead of earnings, Citi downgrades to Neutral from Buy. The broker considers the stock fully valued and now trading on FY18 price/earnings ratio of 25.6x.

Citi maintains a positive view of the earnings outlook and suspects that, with growth in earnings per share in the teens, it will not take long for earnings to catch up. Target is raised to $14.05 from $13.75.

EVOLUTION MINING LIMITED ((EVN)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 4/3/0

The company will sell Edna May for $40m plus a contingent future payment of up to $50m. Credit Suisse observes the transaction structure demonstrates the differential pricing that is applied to mature and challenging assets versus high-quality assets.

The divestment is consistent with the company's articulated strategy to improve the quality of its portfolio. The broker downgrades to Neutral from Outperform. Target is reduced to $2.22 from $2.30.

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/2/1

UBS observes the share price is up 30% since the FY17 result in May. The broker suggests that the risk is skewed to the downside, especially if OSA patent disputes or NAFTA negotiations do not go to plan and growth slows.

Accordingly, UBS lowers the rating to Sell from Neutral. The broker's market model points to a slowing in global revenue growth in OSA markets to around 7% and 6% in 2017 and 2018 respectively, from around 8% in 2016.

Target is raised to NZ$11.35 from NZ$9.85.

SYNLAIT MILK LIMITED ((SM1)) Downgrade to Underperform from Neutral by Credit Suisse and Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 0/2/1

FY17 forecasts were delivered and the company has upgraded FY18 guidance slightly. Credit Suisse observes the company is in a stronger place than it was a year ago, but still subject to the same risks.

With the share price increasing significantly over the last year, Credit Suisse believes the market is focused more on the medium-term prospects rather than on the broader risks to the investment case.

Rating is downgraded to Underperform from Neutral on the perception of risk/reward. Target increases to NZ$4.74 from NZ$4.22.

Deutsche Bank saw a "solid" FY17 performance while guidance implies a "material step up" in profit for the year ahead. The majority of the good news story can be traced back to canned infant formula, a2 Milk ((A2M)) in particular.

Alas, the analysts also believe most of the good news is already in the price, hence their downgrade to Hold from Buy. Price target gains 5% to NZ$5.80.

TPG TELECOM LIMITED ((TPM)) Downgrade to Hold from Buy by Deutsche Bank .B/H/S: 1/4/2

TPG's FY17 result showed good operational execution, Deutsche Bank suggests, providing for a guidance beat. But that's where the good news ends.

FY18 guidance was weaker than expected. Deutsche believes the stock could offer longer term appeal if it can deliver on its Aust and Singapore mobile plans but ahead of that the company faces two years of declining earnings growth and a lower dividend to preserve capital for investment.

The broker now expects a slower rate of FTTB subscriber growth and higher NBN and electricity costs. Target slashed to $5.80 from $8.20. Downgrade to Hold.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 BRAMBLES LIMITED Neutral Sell Credit Suisse 2 BT INVESTMENT MANAGEMENT LIMITED Buy Neutral Morgans 3 COMMONWEALTH BANK OF AUSTRALIA Buy Neutral Morgans 4 DOMINO'S PIZZA ENTERPRISES LIMITED Buy Neutral Morgans 5 INSURANCE AUSTRALIA GROUP LIMITED Neutral Sell Macquarie 6 MACQUARIE ATLAS ROADS GROUP Buy Neutral Morgans Downgrade 7 CARSALES.COM LIMITED Neutral Buy Citi 8 EVOLUTION MINING LIMITED Neutral Buy Credit Suisse 9 FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED Sell Neutral UBS 10 SYNLAIT MILK LIMITED Neutral N/A Deutsche Bank 11 SYNLAIT MILK LIMITED Sell N/A Credit Suisse 12 TPG TELECOM LIMITED Neutral Buy Deutsche Bank Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 BTT BT INVESTMENT MANAGEMENT LIMITED 50.0% 33.0% 17.0% 6 2 BXB BRAMBLES LIMITED 29.0% 13.0% 16.0% 7 3 DOW DOWNER EDI LIMITED 8.0% -8.0% 16.0% 6 4 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP -20.0% -33.0% 13.0% 5 5 CQR CHARTER HALL RETAIL REIT -20.0% -33.0% 13.0% 5 6 CBA COMMONWEALTH BANK OF AUSTRALIA -13.0% -25.0% 12.0% 8 7 IAG INSURANCE AUSTRALIA GROUP LIMITED 25.0% 13.0% 12.0% 8 8 CMW CROMWELL PROPERTY GROUP -50.0% -60.0% 10.0% 4 9 BLD BORAL LIMITED 50.0% 43.0% 7.0% 6 10 TCL TRANSURBAN GROUP 57.0% 50.0% 7.0% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 VAH VIRGIN AUSTRALIA HOLDINGS LIMITED -63.0% -42.0% -21.0% 4 2 FPH FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED 20.0% 40.0% -20.0% 5 3 MYR MYER HOLDINGS LIMITED -21.0% -7.0% -14.0% 7 4 EVN EVOLUTION MINING LIMITED 57.0% 71.0% -14.0% 7 5 TPM TPG TELECOM LIMITED -19.0% -6.0% -13.0% 8 6 NHF NIB HOLDINGS LIMITED -33.0% -21.0% -12.0% 6 7 CAR CARSALES.COM LIMITED 38.0% 50.0% -12.0% 8 8 GXL GREENCROSS LIMITED 25.0% 33.0% -8.0% 4 9 BSL BLUESCOPE STEEL LIMITED 75.0% 79.0% -4.0% 6 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 MND MONADELPHOUS GROUP LIMITED 12.252 11.021 11.17% 5 2 BLD BORAL LIMITED 7.142 6.907 3.40% 6 3 DOW DOWNER EDI LIMITED 6.713 6.575 2.10% 6 4 NHF NIB HOLDINGS LIMITED 5.670 5.583 1.56% 6 5 BWP BWP TRUST 2.808 2.776 1.15% 4 6 TCL TRANSURBAN GROUP 12.699 12.580 0.95% 7 7 IAG INSURANCE AUSTRALIA GROUP LIMITED 6.324 6.274 0.80% 8 8 CMW CROMWELL PROPERTY GROUP 0.933 0.926 0.76% 4 9 BXB BRAMBLES LIMITED 10.383 10.316 0.65% 7 10 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP 2.226 2.213 0.59% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 TPM TPG TELECOM LIMITED 5.588 6.510 -14.16% 8 2 MYR MYER HOLDINGS LIMITED 0.733 0.840 -12.74% 7 3 VAH VIRGIN AUSTRALIA HOLDINGS LIMITED 0.173 0.187 -7.49% 4 4 GXL GREENCROSS LIMITED 6.200 6.367 -2.62% 4 5 EVN EVOLUTION MINING LIMITED 2.520 2.553 -1.29% 7 6 BTT BT INVESTMENT MANAGEMENT LIMITED 11.702 11.798 -0.81% 6 7 CBA COMMONWEALTH BANK OF AUSTRALIA 78.163 78.538 -0.48% 8 8 CQR CHARTER HALL RETAIL REIT 4.164 4.170 -0.14% 5 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 NHC NEW HOPE CORPORATION LIMITED 23.950 18.013 32.96% 3 2 MQA MACQUARIE ATLAS ROADS GROUP 55.474 44.094 25.81% 5 3 SYR SYRAH RESOURCES LIMITED -8.690 -9.019 3.65%

5 4 SIG SIGMA HEALTHCARE LIMITED 5.828 5.628 3.55% 4 5 BLD BORAL LIMITED 35.720 35.149 1.62% 6 6 XRO XERO LIMITED -15.725 -15.978 1.58% 4 7 CMW CROMWELL PROPERTY GROUP 7.560 7.480 1.07% 4 8 GEM G8 EDUCATION LIMITED 24.975 24.725 1.01% 4 9 IAG INSURANCE AUSTRALIA GROUP LIMITED 36.850 36.563 0.78% 8 10 NHF NIB HOLDINGS LIMITED 26.386 26.214 0.66% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 2 BKW BRICKWORKS LIMITED 105.500 124.600 -15.33% 4 3 TPM TPG TELECOM LIMITED 39.641 46.416 -14.60% 8 4 TCL TRANSURBAN GROUP 25.101 26.118 -3.89% 7 5 EVN EVOLUTION MINING LIMITED 17.417 17.857 -2.46% 7 6 ANN ANSELL LIMITED 178.370 180.752 -1.32% 6 7 FPH FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED 31.087 31.477 -1.24% 5 8 GMG GOODMAN GROUP 45.814 46.243 -0.93% 7 9 IPL INCITEC PIVOT LIMITED 18.349 18.511 -0.88% 8 10 SCP SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP 14.950 15.050 -0.66% 5 Technical limitations

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

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Uranium Week: Head Fake

After four consecutive weeks of painfully grafting higher, the uranium spot price dropped back below US$20/lb last week.

By Greg Peel

Who put Sisyphus in charge of the global uranium market? After four weeks of incrementally grinding higher – trying to escape the gravitational pull of US$20/lb – last week saw industry consultant TradeTech's weekly spot price indicator fall -US90c to US$19.85/lb.

The consultant blames the prior week's annual World Nuclear Association Symposium in Washington. In better times, the uranium spot price used to pop after these symposiums given participants would gather round the bar and all talk each other up. Not so anymore. This year featured pessimistic price forecasts from some analysts.

Not all in the market agree with such pessimism but it was enough to encourage sellers to change their stance from backing off to higher prices to selling quickly at ever lower prices as the week progressed. Volume was sizeable in four transactions totalling 1.2mlbs U3O8 equivalent.

What we do know is that utilities are still prepared to buy under US$20/lb. They were active on the buy-side last week for both U3O8 and UF6. Producers featured on the sell-side and speculators played both sides.

Uncertainty In The USA

Hot on the heels of the WNA Symposium came the International Atomic Energy Agency general conference in Vienna last week. There the agency director general played the climate change card in urging member states to consider nuclear in their low-carbon energy mix plans given innovations in nuclear technology can significantly help global climate efforts.

It was not enough to spark any enthusiasm. Over in the US it is still unclear what path the domestic nuclear power industry will take. The State of Georgia is set for a round of hearings to determine whether it's worth allowing the two-unit extension at Plant Vogtle to continue following delays and cost overruns. Meanwhile, South Carolina is similarly trying to reach a decision on the currently abandoned two-unit extension at the VC Summer Station.

There was some life in uranium term markets last week, although no new transactions. New demand merged and a number of utilities are considering contract proposals or are expected enter the market in current weeks.

As they (almost) always are. TradeTech's term price indicators remain unchanged at US$24.30/lb (mid) and US$31.00/lb (long).

[U3O8]

The Short Report

Guide:

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

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

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

Summary:

Week ending September 21, 2017

Last week saw the ASX200 track a choppy downward trajectory, hitting lower lows and lower highs. The close at 5652 on September 21 marked the lowest point since the April peak.

This is probably why we see quite a bit of green in the table below amongst the smattering of red, particularly towards the bottom of the table. The 5-6% bracket has much reduced in number. Market weakness has provided shorters with profit-taking opportunities.

In last week's Report I noted:

"Hospital owner Healthscope ((HSO)) is not quite a Mover & Shaker this week despite an increase to 10.4% shorted from 9.4% shorted because the stock has been rising steadily up the table for weeks, particularly since a poor earnings result, given a very challenging environment."

Last week Healthscope shorts rose to 11.5% from 10.4%. This officially makes it a Mover & Shaker but there is nothing more to add.

Independence Group ((IGO)) has moved in to second most shorted position with a rise to 16.3% from 15.1%. It's all about the nickel price, and uncertainty surrounding the impact Beijing's forced closure of smelters due to environmental reasons will have.

There does not appear to have been any news emanating from IVF specialist Virtus Health ((VRT)) since the company's result release in late August, but the stock began a rally last week that has since amounted to 6% since the prior low. Virtus shorts fell to 5.5% from 7.1% last week.

Chicken or egg? Did the rally prompt the short covering or did short-covering cause the rally?

Finally, Myer's ((MYR)) share price has been soggy since yet another weak earnings result, delivered mid-month, up until yesterday when suspicions were raised Premier Investments ((PMV)) might be about to move from 10.8% stake to full takeover offer. Myer shares jumped 10%.

Last week Myer shorts fell to 14.3% from 15.3%. Watch this space.

Nothing more to add in Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

SYR 20.3 IGO 16.3 ORE 15.7 WSA 14.9 MYR 14.3 DMP 14.0 JBH 13.9 RFG 13.8 SHV 13.5 HSO 11.5 ACX 11.3 GXY 10.7 AAD 10.3 HVN 10.1

Out: MTS

9.0-9.9%

APO, MTS In: MTS Out: ISD

8.0-8.9%

MYX, GTY, ISD, QIN, NXT, RIO

In: ISD

7.0-7.9%

AHG, BKL, NWS, SAR, FLT

In: NWS, SAR Out: VOC, TPM, VRT

6.0-6.9%

VOC, SEK, TPM, GXL, JHC, MND, NSR, IPD, SDA, BEN, AAC, TAH, NEC, PRU, HT1, BAP

In: VOC, TPM, JHC, SDA, PRU, BAP Out: NWS, SAR

5.0-5.9%

BWX, KAR, VRT, GMA, ING, BAL, QUB, CSR, OFX, A2M, MSB

In: VRT, BAL

Out: JHC, SDA, PRU, BAP, IPH, CCP, CSV, RCG, OSH, MQA, AWE, CTD, WOW

Movers and Shakers

See above.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

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

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

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

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

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

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

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

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

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The Wrap: Catalysts, A-REITs & Supermarkets

Weekly Broker Wrap: Market catalysts; online classifieds; A-REITs; supermarkets; Medicare statistics.

-Fundamentals and stock-specific catalysts should provide a source for investors -Residential listings weaken, job market listings strong -Risks seen skewed to the downside for retail-exposed A-REITs -Major supermarkets still expected to invest in price -Data suggests solid growth for GPs, IVF but pathology weaker

By Eva Brocklehurst

Catalysts

Morgans suggests the Australian share market reflects an economy that has failed to break decisively out of its post-mining slump. Yet low volatility and a range-bound market can hide opportunities as well as threats. Without the necessary ingredients for another broad-based rally, the fundamentals and stock-specific catalysts should provide a source for investors over the next few months.

The fact that small cap stocks fared better in terms of absolute performance in the recent results suggest to the broker a change in leadership, and investors may again see growth outside of the market leaders.

Morgans nominates 36 upcoming stock-specific catalysts to either watch or avoid. These include potential positives for BHP Billiton ((BHP)), Commonwealth Bank ((CBA)), Suncorp ((SUN)), Orora ((ORA)), Wesfarmers ((WES)) Kina Securities ((KSL)), Domino's Pizza ((DMP)), Lovisa ((LOV)), Adairs ((ADH)), APN Outdoor ((APO)), Bapcor ((BAP)) and Elders ((ELD)).

Potential negative catalysts are in sight for Incitec Pivot ((IPL)), Orica ((ORI)), Coca-Cola Amatil ((CCL)) Thorn ((TGA)), Amcor ((AMC)), QBE ((QBE)), Origin Energy ((ORG)) and Santos ((STO)).

Online Classifieds

Residential listings have weakened given tougher previous comparables. Nationally, new listings are down -7.2% for the four weeks to September 24, while capital city new listings are down -4.3% year-on-year. UBS observes home unit growth is healthy, up 2.3%, but house volumes have fallen -5.2% and land volumes are particularly weak, down -39% year-on-year.

The broker notes land sales have historically shown a correlation to building starts, which in turn lead REA Group's ((REA)) media/developer revenues. Sydney remains robust, up 4.9%, but the broker observes both Melbourne, down -7.8%, and Brisbane, down -6.3%, volumes are weaker.

In the job market, domestic volumes continue to be strong for Seek ((SEK)) and the company has noted an increase in mining exploration activities, particularly in Western Australia. Mining/gas/oil listings appear to be the key contributor to the strong growth in listings.

Meanwhile, Carsales.com ((CAR)) private inventory volumes appear to have softened. UBS cautions that there is no visibility regarding any increased penetration of depth products and the extent of the yield/mix offset with the introduction of new private pricing tiers in July.

A-REITs

Citi observes that post FY17 results, only retail-exposed A-REITs experienced negative FY18 earnings revisions, while all those with office and industrial exposure experienced positive revisions. This outcome, the broker suggests, is a key indication of a stock's potential relative performance.

Moreover, Citi is not convinced that retail earnings per share have bottomed. Several factors such as low-wage growth, a declining savings ratio, rising mortgage rates, store closures and fixed rental bumps that are greater than sales growth, continue to signal the risk is to the downside.

Westfield ((WFD)) is the stock considered to have the greatest downside risk versus consensus expectations. Citi prefers Goodman Group ((GMG)), Investa Office ((IOF)) and Charter Hall ((CHC)) for office and industrial exposure, and Vicinity Centres ((VCX)) and Stockland ((SGP)) as protection against a tactical rally in retail A-REITs.

Supermarkets

Morgan Stanley believes life will become harder for Woolworths ((WOW)), as the company's food business is about to lap the single biggest improvement in like-for-like sales growth the supermarket has ever experienced. The broker's analysis of Aldi's roll-out and refurbishment process provides greater conviction that growth will slow.

Also, Morgan Stanley believes Coles will either improve its performance following significant price investment or invest even further in price, forcing Woolworths to match. The broker contends that Woolworths is trading at its highest one-year forward price/earnings multiple in a decade and by any standard this is an expensive supermarket, especially when compared with global operators.

The market is considered too optimistic about a recovery and, if the business disappoints expectations, shares are expected fall. Wesfarmers ((WES)) also appears expensive but earnings have proven resilient because of its exposure to coal prices and the Bunnings Australasian business. Morgan Stanley retains an Overweight rating for Metcash ((MTS)), despite the pressure on its food business, believing the hardware and capital management/acquisition opportunity offsets this pressure.

Aldi has stated that its annualised run rate of price investment is running at 0.9% of sales. Given Aldi effectively sets the supermarket pricing agenda, Morgan Stanley believes Coles and Woolworths will need to continue to incrementally invest in price.

Medicare Stats

UBS observes Medicare data for August has shown solid growth for GPs, IVF and surgery although pathology was weaker. IVF industry growth has rebounded so far in FY18, albeit there were some particularly weak comparables. Geographically, Queensland was the strongest performer in August, recording total cycles growth of 26.0%.

While acknowledging the sector valuations are undemanding, the broker continues to envisage the Australian IVF industry as a two-speed market, in which the bulk bill/low-cost segment is driving the majority of growth. In the absence of a rebound in full-service volumes the broker finds it hard to get worked up about Virtus Health's ((VRT)) growth outlook.

Benefits paid to GPs were up 6% in August while pathology benefits were flat, Citi notes. FY18 guidance from Sonic Healthcare ((SHL)) assumes no regulatory changes. Yet risks loom, including the proposed fee cut just announced by US Medicare, and the broker does not believe the stock represents a favourable risk/reward for potential investors. The main upside risks would be accretive acquisitions and potential industry-initiated pullback in Australia pathology collection centre rents.

Primary Health Care ((PRY)) has provided no FY18 guidance, yet changes in the GP compensation model are creating revenue and margin headwinds for its medical centres division. Citi suggests these headwinds are likely to continue, given the greater proportion of billings paid to GPs and the continued challenges in recruiting.

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Computershare In Uptrend

By Michael Gable

The S&P/ASX 200 Index suffered a deep fall last Thursday, closing at its lowest level since February. It now appears as though the Index itself is starting to break down from the recent trading range. As we've been saying since the market peaked on 1 May, there are still opportunities in stocks below the top 20, despite the top 20 leading the market lower for the time being. Today's report takes a technical look at Computershare ((CPU)),

The other thing worth highlighting is the trend in the gold price. After breaking out a few weeks ago, it has now eased back to that breakout zone near US$1290/ounce and then found support. That, quite simply, is a buy signal.

CPU has done remarkably well in the last year and it seems poised to resume that uptrend. After peaking in May, the shares eased back in a flag formation, sitting on top of the 2015 high. After testing that level a few times in the last month, they have now bounced off that and the shares now look like breaking above the flag. This means that as long as CPU can hold here, it should be able to resume the uptrend and head to a new high.

Content included in this article is not by association the view of FNArena (see our disclaimer). Michael Gable is managing Director of Fairmont Equities (www.fairmontequities.com)

Fairmont Equities is a share advisory firm assisting Private Clients with the professional management of their share portfolio. We are based in the Sydney CBD but provide services to private clients across Australia. We believe that the concepts of fundamental analysis and technical analysis of stocks are not mutually exclusive. Regardless of whether you are a trader or long term investor, combining both methods is crucial to success. As a result, the unique analysis of Fairmont Equities is featured regularly in the media such as Sky News Business, CNBC, The Australian Financial Review, and the ASX newsletter. Contact us for a free trial of our research and information on our portfolio management services.

Michael is RG146 Accredited and holds the following formal qualifications:

• Bachelor of Engineering, Hons. (University of Sydney) • Bachelor of Commerce (University of Sydney) • Diploma of Mortgage Lending (Finsia) • Diploma of Financial Services [Financial Planning] (Finsia) • Completion of ASX Accredited Derivatives Adviser Levels 1 & 2

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Be Mindful Of The Aussie Twist

In this week's Weekly Insights (published in two separate parts):

-Be Mindful Of The Aussie Twist -Resources Stocks: Follow The Money? -Conviction Calls: Morgans, CS, UBS And Citi -Rudi On BoardRoomRadio -Hotel Operators: A Tale Of Two -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appear in part two on the website on Thursday]

Be Mindful Of The Aussie Twist

By Rudi Filapek-Vandyck, Editor FNArena

What if I told you one of the key barriers preventing the Australian share market to move significantly higher from its narrow trading range post May is the stronger-for-longer Aussie dollar?

I imagine many among you, readers of this story, would look at your investment portfolio and notice, yes indeed, the likes of Aristocrat Leisure ((ALL)), Amcor ((AMC)) and Ansell ((ANN)) -industrial companies with a big chunk of their revenues coming from overseas- clearly have found the going tougher, especially in August and September.

But the Australian dollar is not only weighing upon the short term outlook for exporters and multinationals, it is equally eroding further upside potential for local energy producers and miners.

Look no further than Citi's latest update on global commodity markets, with the analysts now forecasting commodity prices are likely to remain robust in the final quarter and moving into calendar 2018, with global growth momentum synchronised and strong and Chinese authorities accommodative, but also that the Australian dollar is likely to rally higher after a brief dip below US80c.

This implies the usual benefits from rising prices are not automatically flowing through to the bottom line of producers in Australia, or to their shareholders. In particular producers with significant operations in Australia will take a hit as their operational costs rise in a relative sense while revenues shrink through the translation back into local dollars.

(The latter only applies if companies report in AUD).

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Citi's revised outlook for the commodities sector in Australia now assumes AUD/USD will remain above 80c for the next three years (2018/20); this change in trajectory signals a break from prior projections by a double-digit percentage, in particular for the first two years ahead.

No wonder thus, one of the reports published carries the subtitle "EPS downgrades as strong AUD bites".

Yes, that's right, even with the outlook for most commodities having improved near term, a number of Australian producers is actually facing a reduction in profit forecasts, thanks to the Australian dollar.

Citi's update on base and precious metals producers contains 15 ASX-listed stocks. For ten of these stocks the broker's valuation/price target either declined or remained unchanged.

For Australian investors, investing in the resources sector has instantaneously become a tad more complicated as the local currency is increasingly poised to divide between winners and losers, on top of all other influences such as China policies, cash flow projections, production achievements and geopolitical risks.

Out-of-favour gold producer Perseus Mining ((PRU)) is the only one to receive an upgrade in recommendation from Citi, to Buy/High Risk, while nickel/gold producer Independence Group ((IGO)) is downgraded to Neutral and popular gold producer Regis Resources ((RRL)) is downgraded to Sell.

Citi's favourites are OZ Minerals ((OZL)) for base metals exposure and Evolution Mining ((EVN)) among gold producers.

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In a general sense, many an analyst is now anticipating further upside momentum for crude oil prices, while preferring base metals above bulks. Thermal coal in particular is being singled out as probably having run way too high in the short term, as concerns about the price for iron ore continue building.

Citi's forecasts imply a relatively steady outlook for crude oil in the year ahead, with only slightly lower prices for base metals one year out. Bulks are expected to deflate, while silver should outperform sideways moving gold. (You can blame the Fed for the latter). The analysts label themselves "neutral-to-bullish" with absolute preferences for cobalt and sugar. Among base metals, copper seems to have the most sustainable potential.

Analysts at CIBC in Canada also are bullish copper in anticipation of market deficits by 2023. They think zinc has the superior market fundamentals, in a generally positive setting for base metals, while oversupply in the molybdenum market should keep a firm grip on the price.

Deutsche Bank's favourites among local gold producers are OceanaGold ((OGC)) and St Barbara ((SBM)) on cheap valuations and Alacer Gold ((AQG)) and Dacian Gold ((DCN)) for development exposure. Analysts at UBS agree with Deutsche Bank the risk profile overall for gold producers in Australia has improved noticeably in years past with capital returns rather than M&A potentially the sector's new modus operandi.

UBS's sector favourite is Evolution Mining, while Alacer Gold is also rated Buy.

See also "USD And Energy August Report Card" from 31st August 2017 for an earlier take on energy stocks and the strong Aussie dollar.

In addition, paid subscribers can download "The AUD And The Australian Share Market" via the Special Reports section on the website.

Resources Stocks: Follow The Money?

If anything has become more obvious post the August reporting season in Australia it is that resources companies are now carrying the mantel of providing shareholders with extra cash benefits, thanks to higher-for-longer commodity prices and a remarkably disciplined supply response to date. The combination means the likes of Rio Tinto ((RIO)) are swimming in cash.

The fact has again been highlighted by Rio Tinto lifting its share buyback to US$4bn for this financial year. Analysts at Ord Minnett pointed out, combined with the US$4.9bn shareholders are likely to see coming their way in the form of dividends, total cash returns this year are poised to exceed 10% of the company's total market cap.

And analysts are anticipating more of the same next year.

Morgan Stanley noted a while ago how resources stocks have turned into cash cows with implied yields threatening, if not exceeding those of traditional sources of income for investors, not to mention the potential for share buybacks on top of elevated looking dividends (see Rio Tinto). FNArena's Sentiment Indicator, which ranks all stocks on forward looking implied dividend yields, now shows Fortescue Metals ((FMG)) is offering the highest yield on the ASX, at 7.75%.

Who would have guessed this one? In particular since share prices for the banks and insurers have not been particularly strong either in recent months. Fortescue is the only miner in the yield top twenty, but even so, Rio Tinto shares are yielding 5.29% and New Hope Corp ((NHC)) is seen offering 5.23%. Why are these share prices not substantially higher?

Morgan Stanley thinks it's because investors do not believe the current tsunami of cash that is being generated is sustainable, while history also shows mining companies are not that good in deriving healthy returns after spending peak-cycle profits. On both accounts, it is hard to argue with the evidence that has been accumulated over many decades, but for now, financial disciple throughout the sector has been restored, and investors won't say no to the extra benefits coming their way.

A quote from a recent sector report by UBS: "If the miners stick to their capital allocation guns then we believe the sector could yield 5-10% in capital returns (in addition to dividends) by end-2018; 10-20% in additional returns at spot prices."

Those UBS analysts, in early September, predicted the current cash bonanza for shareholders in the sector could well last for another 18 months or so. Depending on whether current prices can be sustained for much longer, companies including Whitehaven Coal ((WHC)), South32 ((S32)) and Fortescue Metals should be generating cash in excess of 20% of respective market capitalisations, calculated the analysts.

UBS's sector preference lies with Rio Tinto, BHP ((BHP)) and South32, for their cash generation and potential to return significant surpluses to shareholders.

Rudi On BoardRoomRadio

Audio interview from last week:

https://boardroom.media/broadcast/?eid=59c0972724704206917147eb

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- I will be presenting in Adelaide on November 14th to members of Australian Investors Association and other investors, 7pm inside the Fullarton Community Centre, 411 Fullarton Rd, Fullarton. Title of presentation: Investing In A Slow Growing World - An Update

(This story was written on Monday 25th September, 2017. It was published on the day in the form of an email to paying subscribers at FNArena. This is part one. The second part will be published on the website as a separate story on Thursday).

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Rudi's View: Ansell, Transurban And Mantra

In this week's Weekly Insights (published in two separate parts):

-Be Mindful Of The Aussie Twist -Resources Stocks: Follow The Money? -Conviction Calls: Morgans, CS, UBS And Citi -Rudi On BoardRoomRadio (Updated) -Hotel Operators: A Tale Of Two -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appeared in part one on the website on Wednesday]

Conviction Calls: Morgans, CS, UBS And Citi

By Rudi Filapek-Vandyck, Editor FNArena

There is a healthy dose of irony in the fact that healthcare analysts at stockbroker Morgans have now made Ansell ((ANN)) their most preferred stock for the year ahead. Ansell hasn't been a healthcare stock for many years now as clients for the company's gloves and other protective products spread out over the globe and into new sectors like the oil and gas industry.

There is even a fair argument to be made that now the sexual wellness operations have been sold, Ansell is even less healthcare than it was before. Although, is preventing babies really a form of healthcare? I'll leave that thought with you for the time being.

Following the divestment of condoms and lubricants and the like, the company is merging its "single use" operations with the "medical" business unit and this should split the group in two units of similar size, Industrial and Healthcare. This debate can thus remain undecided for much longer.

For what it's worth: I think investors best consider Ansell an industrial conglomerate a la Amcor, servicing supermarkets, drilling platforms, military forces and hospitals across many countries, predominantly across Europe and North America, with multiple currencies to account for, as well as commodity input prices.

The current restructuring includes cost cutting and Morgans, clearly, sees strong growth for the three years ahead at a relatively cheap valuation. Not everyone agrees though, see Stock Analysis on the website.

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Share market strategists at Credit Suisse have added APA Group ((APA)), Graincorp ((GNC)) and Insurance Australia Group ((IAG)) to their list of Top Picks for Australia. ALS Ltd ((ALQ)) and Brambles ((BXB)) have been removed.

Note Credit Suisse incorporates both Short (negative) as well as Long (positive) ideas into the Top Picks list. APA Group was added as a short, alongside IDP Education ((IEL)).

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Market strategists at UBS note how small cap stocks, as a group, have started to outperform the large caps, which are facing a number of headwinds, including the stronger-for-longer Aussie dollar. However, UBS doesn't think the domestic economy is strong enough to favour small cap companies in general.

Hence their advice to investors: you'll have to be choosy.

On the basis of the August reporting season, UBS analysts are pointing into the direction of AMA Group ((AMA)), Autosports Group ((ASG)), Bapcor ((BAP)), Infomedia ((IFM)), G8 Education ((GEM)), NextDC ((NXT)), Premier Investments ((PMV)), Tassal Group ((TGR)) and Tox Free Solutions ((TOX)).

UBS has only one key Sell call: Ardent Leisure ((AAD)).

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Last week I wrote about the diverging dynamics between a deflating bubble in the building of high density units and a significant pick-up in governments' spending on infrastructure throughout Australia. See "Oz Construction Cycle: The Impact Is Now", 18th September 2017.

Analysts at Citi have since released an in-depth assessment of what it means for investors in the share market. Their underlying thesis is similar to the broad themes I highlighted last week with the emphasis on the conclusion that infrastructure cannot fully compensate for the loss of momentum in private dwellings, plus spending by governments is poised to peak inside the two years ahead.

Again, there won't be a fall-of-cliff experience next, but the strong upward momentum from recent years cannot go on indefinitely either.

On Citi's assessment, Transurban ((TCL)) is best positioned to benefit the most, either from a strong pipeline of growth opportunities coming its way, or because the development of infrastructure projects like Moorebank IMEX terminal and the second airport at Badgerys Creek will benefit the company's existing network in Sydney.

As transport via train is poised to become more important, Citi points at Qube ((QUB)) as potentially the largest beneficiary of this future development. The company is developing a new intermodal terminal at Moorebank.

In terms of contractors set to benefit from increased government spending on domestic infrastructure; Citi highlights both Cimic ((CIM)) and Lend Lease ((LLC)). The analysts are not so enthusiastic about Boral ((BLD)) and Adelaide Brighton ((ABC)) with share prices already fully priced, while future benefits are likely to be countered by rising energy costs.

Note to paying subscribers: updates on Conviction Calls have been a regular feature in my Weekly Insights stories since early February this year, with only a rare exception. For past updates: see Rudi's Views on the FNArena website.

Rudi On BoardRoomRadio (Updated)

Audio interview from Tuesday (not to be confused with last week's):

https://boardroom.media/broadcast/?eid=59c9c28543412343aeab2905

Hotel Operators: A Tale Of Two

Analysts at Citi were the first to highlight the risks to Australian hotel operators from AirBNB and other competitors from the emerging global sharing economy, as well as from online travel operators, at a time when the local share market remained in awe with growth potential for freshly listed Mantra Group ((MTR)).

That has changed quite dramatically since.

Those same Citi analysts recently published an update on the theme and things are not looking prettier from the viewpoint of the global hotel operators. Citi doesn't think their loyalty programs will prevent AirBNB and the OTAs (read: online travel operators) to further encroach upon the hotel owners' domain.

The analysts believe recent data from the US provide the first signals revenue per available room (RevPAR in industry lingo) is starting to be impacted. There is also the threat industry cycles might shorten while hotels won't enjoy the same spoils during peak times as they did in the past.

In Sydney and Melbourne, note the analysts, occupancy at AirBNB listings is still circa -30% lower than for hotel operators, suggesting there remains plenty of potential for catch-up.

In terms of the local share market, Citi is happy to retain a Buy rating for Mantra, because the valuation is now much lower (-28% discount versus offshore peers) and there seems to be potential for upside surprise from the Art Series integration, as well as from the Melbourne operations.

Event Hospitality and Management ((EVT)), however, retains a Sell rating. Not only remains Citi concerned about its hotel assets, there are also "material risks" faced by the company's cinema business in Australia. Citi believes these risks are not likely to be overcome in the short term.

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P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

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