Week 17

Stories To Read From FNArena

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Weekly Analysis

Coca-Cola Amatil Under Pressure

Coca-Cola Amatil has signalled a decline in first half underlying net profit is likely. The Australian business is under pressure as consumption of carbonated soft drinks declines.

-FY17 net profit expected to be in line with FY16, below prior guidance for low single-digit growth -Downgrade reinforces structural problems and the power of major customers -Is the company too reliant on cola drinks still?

By Eva Brocklehurst

Coca-Cola Amatil ((CCL)) is under pressure as consumers move away from carbonated soft drinks, discounting ramps up and purchases are being made more via grocery channels. The company has downgraded its outlook as a result of weakness in the Australian beverages sector. Underlying net profit is expected to decline in the first half and FY17 net profit to be in line with FY16, which is below guidance for medium-term low single-digit growth.

Brokers suspect the trends are relentless and may be accelerating. Consumers are drinking fewer sugar-based drinks and the company did not receive the anticipated uptick in trade over Easter. Meanwhile, management has signalled trade across the smaller business units such as New Zealand, Fiji, alcohol & coffee, SPC and Indonesia/PNG is in line with expectations.

The downgrade reinforces the company's structural problems and the power of its major customers, Morgans believes, and new guidance is also not without risk, depending on the extent of the first half decline, which is yet to be quantified.

An on-market share buy-back, which resumes in coming days, should provide some support for the share price. For this reason, Morgans maintains a Hold rating. The broker did not find the downgrade a surprise and suspects the share price reaction may have been too harsh. Still, the share price had rallied beyond fair value estimates since the on-market share buy-back was first announced along with further cost reduction opportunities.

Macquarie was already expecting weaker results but steps up its forecasts for a decline and, while the sell-off has taken some of the unwarranted pep from the share price, considers the medium-term outlook still lacklustre. The stock is of interest from a dividend yield perspective but the broker believes the tough underlying trends are hard to offset, despite restructuring programs.

Morgan Stanley agrees the stock's defensive traits are now in question. Growth businesses may be performing but there is cause for concern over the Australian beverage segment. The broker has less confidence in the outlook now and expects first half declines of -11% in operating earnings (EBIT) for Australian beverages.

A soft consumer environment, poor weather, pressure on input costs and the probability that Woolworths ((WOW)) expects greater promotional support have all likely contributed to the warning, in the broker's opinion. Moreover, Morgan Stanley believes the company is still too reliant on cola drinks when consumption continues to decline. As demand for the category slips the company's bargaining power with supermarkets also diminishes.

UBS does not believe the declining carbonated soft drink market volumes can be arrested over the next three years as these are structural, not cyclical headwinds.

The broker also believes guidance from over the next few years is unlikely to be achieved. Carbonated soft drinks consumption is falling at an accelerating rate and competition is increasing. UBS believes the market is not adequately incorporating the structural issues, with 23% of the share price being attributable to growth beyond the next three years.

Cost Inflation

The company had previously noted that cost inflation was likely to be 2-3% this year, driven by sugar and FX. The original plan was to offset this with higher prices but in Deutsche Bank's view this would have been challenging given the tough trading conditions in Australia. The broker notes this is the first year for some time the company has had to deal with cost inflation and cost savings are insufficient to offset the structural headwinds.

UBS suggests cost reductions have been better-than-expected but the opportunities are diminishing and the top line is not improving. Hence, UBS downgrades to Sell.

Indonesia

UBS also believes Indonesia has been soft and competitive pressures will increase despite a couple of years of market share gains in the cola market. Indonesia stood out in FY16 as the company gained around 200 basis points of market share, largely at the expense of its main competitor because of that company's mis-steps.

Cola is a small market in Indonesia and UBS suspects the company's biggest opportunities are in water, ready-to-drink tea and juice and expanding its channels. Competition is also expected to increase across Indonesia. Nonetheless, the broker continues to believe a material opportunity exists in the country expecting FY17-20 earnings growth of 10% for Indonesia/PNG.

Similarly, Morgans believes the trends in the NZ & Fiji business should continue to hold up. Growth in volumes is expected to result from an expanded product portfolio and the newly upgraded juice and sports drink manufacturing facility in New Zealand should deliver further operating efficiencies. Coffee is expected to benefit from the upgrade and re-positioning of the Grinders brand.

There are six Hold ratings on FNArena's database and two Sell. The consensus target is $9.69, suggesting 2.1% upside to the last share price. This compares with $10.21 ahead of the update. Targets range from $9.00 (UBS) to $10.40 (Credit Suisse, yet to comment on the update).

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Can OZ Minerals Bank On Carrapateena?

Copper-gold miner OZ Minerals maintains guidance for 2017, despite heavy rain adversely affecting production in the March quarter. A delay has been flagged to the bankable feasibility study for the Carrapateena project.

-Change of consultant delays completion of Carrapateena feasibility studies. -Is there a change in view on Carrapateena concentrate? -Is the concentrate treatment plant at Carrapateena no longer needed?

By Eva Brocklehurst

OZ Minerals ((OZL)) reports March quarter production was soft, adversely affected by heavy rain at Prominent Hill and scheduled plant maintenance. Milled tonnage disappointed brokers but guidance for both production and costs is uncompromised. Production was -11% below Deutsche Bank's forecast, attributed to the heavy rainfall. Production also missed Morgan Stanley's forecasts but a catch-up in the second half is expected to deliver on guidance.

The company has indicated the Carrapateena project is on track, although the bankable feasibility study has been delayed, and aims to have critical work completed by the next quarter. The project requires federal and state government approvals plus the native title agreement to be finalised before an investment decision is made by the end of the year.

The greatest near-term opportunity appears to be optimising Prominent Hill underground to progressively include additional resources, Credit Suisse asserts. The opportunity is yet to be examined in detail, the broker acknowledges, to determine if a lower cost mining method can be applied without risk of material establishment capital.

Carrapateena

Critical threats identified in the pre-feasibility study such as power and water have all been significantly reduced or resolved, Citi notes. Overall, the company has indicated the market should rely on assumptions in the pre-feasibility study for operating metrics, costs and timing and proposes commercial operations from the second half of FY19.

Credit Suisse believes confusion has increased, as the relative certainty and definitive nature of the pre-feasibility in November appears to have turned into an incomplete bankable feasibility study. A key underground study will now not be completed until the end of the year.

The delay appears to be because the original study was not considered satisfactory and could not be audited. As a result a new consultant has been appointed. Credit Suisse is sceptical. Management presented the update on Carrapateena as a de-risking of key factors but to the broker this exposed previously unknown risks and materially increased uncertainty.

Some positive surprises actually add to the broker's confusion, such that the expectation that Carrapateena concentrate will be cleaner than Prominent Hill concentrate and readily saleable without processing through the concentrate treatment plant.

The broker's understanding was that Carrapateena contained more uranium than Prominent Hill, suggesting larger penalties and restricting offtake partners. All up, until the underground study is delivered and there is greater clarity on the uranium issue, Credit Suisse believes the project retains elevated risks and lacks certainty on budget and schedule.

Macquarie gleans more confidence as a result of the update, in contrast, believing the move to twin declines accelerates the start date for the project. The broker accepts the concentrate treatment plant is no longer on the critical approval path, as metallurgical test work suggests saleable concentrates can be produced without it, but suspects approval will eventuate regardless, as the plant improves medium-term marketability of both Carrapateena and Prominent Hill concentrates.

Technical concerns continue to hamper Deutsche Bank's view on the project yet the broker carries Carrapateena at 100% in its discounted cash flow valuation. As the stock is now trading closer to fair value Deutsche Bank upgrades to Hold from Sell.

On the known inputs, given the two-year lead time for production as well as technical risks, Morgan Stanley considers it prudent to only attribute $380m in value to Carrapateena. The discount is expected to unwind as a project advances. Canaccord Genuity also retains a cautious view of the development, given the various challenges.

The broker considers Carrapateena one of rare but more challenging Australian long-life scalable base metals projects, and its outcome will depend on the company's ability to execute as well as the prevailing copper price. The broker, not one of the eight monitored daily on the FNArena database, has a Sell rating and $7.20 target.

Citi remains upbeat, maintaining a Buy call and reducing its target to $10.30 from $11.50 because of accounting rather than softening a bullish view. The broker was initially concerned about the change to an early contractor involvement (ECI) model at Carrapateena but believes it should, in the end, make the project easier to manage and is a prudent way to lock in contractor and procurement prices.

FNArena's database shows three Buy recommendations, three Hold and two Sell. The consensus target is $8.73, signalling 21.9% upside to the last share price. Targets range from $7.00 (Deutsche Bank) to $10.40 (UBS).

Negative News Inundates Village Roadshow

Gold Coast theme parks have been inundated with negatives from the Dreamworld tragedy to the weather and Village Roadshow downgrades earnings expectations for its attractions.

-Weakness in international and interstate markets also noted -Significant level of gearing but poor earnings momentum observed -Brokers require evidence of progress on promise of asset sales

By Eva Brocklehurst

The tragedy at Ardent Leisure's ((AAD)) Dreamworld theme park has had ramifications for rival Village Roadshow's ((VRL)) Queensland parks. Coupled with unfavourable weather stemming from Cyclone Debbie, this has led to a sharp reduction in attendance.

Total attendance at the Gold Coast parks is down -9.4% for the nine months to March 31, with an acceleration observed in the rate of decline over March and April. Operating earnings (EBITDA) guidance of $55-65m has been issued for the theme parks in FY17. The company did not provide trading updates on its other divisions.

Village Roadshow also noted a decline in membership renewals over March. Membership passes were recently introduced as an alternative to VIP passes and are skewed towards the local market. Moreover, the company expects the Sydney Wet'n'Wild park to underperform in the second half. Village intends to use the introduction of new attractions and marketing to return visits to its theme parks to normal levels.

While the company has signalled weakness in the local market, which makes up 50% of visitors, Citi also envisages risk to the international and interstate markets, as Gold Coast hotel occupancy has now declined for six months.

Citi expects theme parks will report a loss of -$8m in the second half, down -138% on the second half of FY16. The upcoming Commonwealth Games may provide some optimism about the FY18 outlook but this could still be affected by membership cancellations and disappointing VIP pass pre-sales.

In terms of the company's box office, second half sales are up 5% so far and Citi expects this to accelerate throughout the June quarter, driven by a number of major releases. The broker considers Village is the cheapest stock in the leisure set, trading on undemanding multiples but remains concerned about increased risks around cinema exhibition, theme parks and film distribution segments.

Needs To Improve Confidence

The reduced earnings outlook increases the pressure on the company to successfully execute on asset sales to meet its net debt/operating earnings target of under 3.0. After three downgrades to earnings estimates since November's AGM, Citi believes increased disclosure around bank covenants is required to improve investor confidence.

The broker envisages potential for the stock to re-rate should the company successfully execute on its asset sales and deliver on cost savings. Deutsche Bank follows a similar theme, noting the weakness in the core local visitor market, particularly at the end of the summer holidays, and reduces its forecast for operating earnings to the low point of guidance, which results in a reduction to FY17 estimates of -13%.

The broker highlights a significant level of gearing, especially in a business with poor earnings momentum. Management has said it is pursuing asset sales but, the broker asserts, progress is yet to be communicated to the market.

Macquarie does not believe valuation alone is a catalyst to buy the stock, retaining a Neutral rating, and considers the focus on reducing gearing, stated at the first half result, is an overdue positive. The company has nominated to undertake this via a dividend reduction and asset sales but no further detail has been provided and this broker also wants a detailed plan around asset sales and cost savings.

FNArena's database shows one Buy rating and three Hold. The consensus target is $3.83, suggesting 2.1% upside to the last share price. Targets range from $3.38 (Macquarie) to $4.63 (Ord Minnett, yet to comment on the update).

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Neutral Study Limits Sirtex Medical Outlook

The Sirtex Medical SARAH study has not met its primary end-point and disappointment is reflected in some brokers re-evaluating the stock.

-27% of patients assigned the therapy in the study did not receive it -Diverse views on the implications for subsequent trials/studies -Key issue of what patient population finds SIR-Spheres most useful

By Eva Brocklehurst

Sirtex Medical ((SRX)) has not delivered on the primary end point in its SARAH study, as overall survival was not superior to competing product Sorafenib. The company's SIR-Spheres product resulted in an overall median survival rate of 8.0 months versus the 9.9 months for Sorafenib in patients with advanced and inoperable hepatocellular carcinoma (HCC).

The company has pointed to, with the benefit a sub-group analysis, the 27% of the patients assigned to receive the company's therapy that did not receive it, despite an intention-to-treat. Referencing preceding trials, where per-protocol population (PP) is the accepted data set, has convinced the company that it can begin marketing and gain label guidance using that data set.

The population that did get the company's treatment showed equivalent overall survival in primary liver cancer to Sorafenib and Sirtex Medical believes using the PP data is made more compelling by the better quality-of-life data for SIR-Spheres versus the significant adverse effects with Sorafenib.

Either way, UBS has not taken a view on the outcome of the study and maintains a Buy rating on the stock. Secondary end-points and sub-segment data may indeed be favourable and the broker expects the company will be required to explain the SARAH PP data. UBS also finds no logical implications for subsequent studies such as FOXFIRE, which is embargoed until June 5-17.

CLSA, not one of the eight stockbrokers monitored daily on the FNArena database, downgrades the stock to Sell and has removed the upside from the SARAH clinical studies from its target price, reducing that to $16.00 from $25.10. The broker believes there are an increasing number of reasons to be negative about the upcoming FOXFIRE global combined study, given previously announced results were not significant, and these outweigh the reasons to be positive.

Morgans was not surprised by the failure of the SARAH study to show a survival advantage in advanced primary liver cancer. While the broker believes SIR-Spheres is a viable option in those patients that are intolerant of Sorafenib, and the base business is unlikely to be affected by the result, the means to drive strong uptake ahead of Sorafenib is challenged without knowing which patients are most amenable.

The reliance on PP analysis may better reflect the effects of treatment but also provides a lower level of evidence as it reflects optimal treatment and, coupled with a wide variation in treatment characteristics, fails to address the factors which will drive significant uptake, the broker adds. Morgans incorporates a negligible impact from SARAH in estimates and makes no changes to forecasts.

There are three Buy ratings (Morgan Stanley and Macquarie yet to update on the latest information) and one Hold (Morgans) on FNArena's database. The consensus target is $25.65, suggesting 71.0% upside to the last share price. Targets range from $15.60 (Morgans) to $30.30 (UBS).

Nickel View Dominates Independence Group

Nickel production is increasingly dominating the outlook for Independence Group as development enters the final stages at Nova and production winds down at Long.

-Jaguar output sharply down in March quarter but no long-term issues -Tropicana shifts focus to Long Island study -Nova commercial production expected by end FY17

By Eva Brocklehurst

Nickel production is increasingly dominating the outlook for Independence Group ((IGO)) as development enters the final stages at Nova and production winds down at Long. March quarter production, overall, was soft, brokers observe. Gold ounces from Tropicana were down -10% versus Macquarie's forecasts on lower average milled grades. while zinc and copper production at Jaguar was down -35% and -44% respectively.

Deutsche Bank notes there are no balance-sheet concerns and the nickel price premium that was ascribed by the market previously has disappeared, with the stock now appearing cheaper than it has done for some time.

Jaguar

The main contributor to the quarterly weakness was Jaguar and Deutsche Bank observes this was the worst production quarter at the mine in four years. The result stemmed from reduced ore being milled and lower head grades and the company attributed this to ventilation problems underground, which restricted access to higher grade stopes.

While Jaguar will no longer meet FY17 zinc output guidance it does not pose any longer-term concerns, in Deutsche Bank's opinion. Nevertheless, this contributes to Macquarie's -6% reduction to FY17 earnings estimates and FY18 earnings estimates fall on lower output at Jaguar and higher depreciation at Long.

Long

Macquarie shortens Long mine life assumptions by a year to reflect the increased risk the mine may close next year if capital commitments are not made, which drives an -11% reduction to FY20 estimates.

Argonaut envisages Long reverting to an exploration asset with a focus on both near-mine mineralisation and regional prospectivity. Long's current reserves are expected to be depleted by the March quarter 2018, after which the broker believes the asset will enter care and maintenance.

Tropicana (30% IGO)

Deutsche Bank observes the Tropicana mine plan has clearly shifted towards establishing the waste stripping that is required for the Long Island study. and mining rates are expected to increase towards 90mtpa throughout this year. The Long Island study is expected to be released in late July or early August and the broker already assumes a 50% increase to reserves in its valuation.

UBS had expected the study to be ready a little earlier and believes it will target increased material movement that should help to unlock additional resources and reserves and thereby extend mine life.

Nevertheless, with recent concerns around staffing, the broker expects the market to be cautious about the ramp up in activity, although factors in increased volumes to its estimates. The broker takes a Neutral stance, believing the ramp up to nameplate at Nova and increased material movements at Tropicana mean investors will sit on the sidelines for the short term.

Citi is more assertive, welcoming the chance to buy the stock after a recent pull back in the share price and upgrades to Buy from Neutral. The broker expects Nova to reach commercial production in the June quarter and ramp up to nameplate through the September quarter, which should be a catalyst for the share price. The broker notes nickel will dominate the portfolio once the Nova-Bollinger project is in full production.

Highest production and lowest costs at Tropicana are due to coincide with the end of major development capital expenditure and the mining of high-grade stopes at Nova in 2019, in Argonaut's estimates. Tropicana is expected to produce in excess of 550,000 ounces of gold in 2019 before a campaign is a mounted to access the deeper ore under the Long Island project.

Argonaut forecasts group operating earnings (EBITDA) to expand significantly, increasing to $522m in FY19 from $167m in FY17, and strong cash flow should put the company in a position to pursue growth opportunities and increase dividends. Argonaut, not one of the eight brokers monitored daily on the FNArena database, maintains a Buy recommendation with a $4.00 target.

Nova

The underground mining contractor has improved its performance, taking on crew, after falling behind in late 2016. Development rates have increased by 43% as a number of improvements have been implemented.

Macquarie takes a cautious approach to forecasts but believes the main catalyst is the ramp-up at Nova, which is expected to generate $150m per annum in cash flow at spot prices and $230m per annum on Macquarie's forecasts once in full production.

The broker expects net debt to peak at $170m in the June quarter ahead of the ramp-up. Deutsche Bank notes plant commissioning is progressing and mining rates have increased but lost development is affecting the mine plan and expects the company will downgrade FY18 guidance with the June report. Commercial production is now expected to be declared at the end of FY17.

There are five Buy recommendations on the database and one Hold (UBS). The consensus target is $4.06, suggesting 28.9% upside to the last share price.

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Brokers To Focus On Bank Margins

Bank sector earnings are expected to be more stable in the upcoming reporting season and margins will be the key area of focus for brokers going forward.

-Potential for modest upgrades, given benign provisioning -Ability to re-price mortgages could be fading and volume growth slowing -Asset quality and capital consistent but drivers of growth unlikely to be uniform

By Eva Brocklehurst

The upcoming bank sector earnings season is expected to be more stable than the previous year. Ord Minnett expects a benign provisioning environment should provide opportunities for modest upgrades. Nevertheless, the broker believes consensus estimates are too optimistic on the outlook for margins, given the ongoing drag from elevated term deposit pricing.

Macquarie considers the banks well situated, with near-term earnings to be well supported by mortgage re-pricing benefits, investor-led credit growth, a benign credit environment and solid trading income.

Still, the broker estimates banks are now trading 5% above their long-term price/earnings ratios, suggesting that the market is already priced in the improved expectations.

The longer term outlook is challenging for the sector, in Maquarie's opinion, as the ongoing ability to re-price mortgages is fading while mortgage volume growth is probably slowing.

Net interest margins are expected to be the main focus in the upcoming reporting season. Macquarie expects a full-year tailwind of 6-10 basis points. Further clarity is unlikely on bank capital, as an announcement from the Australian Prudential Regulation Authority is due mid year. Volume growth is expected to be firm in the near term, supported by strong investor lending.

Deutsche Bank agrees margin commentary and productivity programs are likely to be the major areas for the market to focus on. The broker expects solid half-on-half revenue growth and seasonally strong markets income.

The main areas of consistency are expected to be asset quality and capital, while drivers of growth are not expected to be uniform amongst the banks, with National Australia Bank ((NAB)) and Westpac ((WBC)) likely to witness the strongest trends in net interest margins. The broker expects ANZ Bank ((ANZ)) and Westpac to stand out on non-interest income, while National Australia Bank is likely to lag in cost control.

Australia And New Zealand Banking Group

Deutsche Bank expects a 2c per share lift in ANZ's dividend to 82c per share for the first half and believes the main issue to watch will be the run-off of institutional loans and the capital being generated from this strategy.

ANZ reports on May 2 and Ord Minnett is forecasting first half earnings of $3.34bn and a flat interim dividend of 80c per share. The broker suspects deciphering the underlying performance will be one of the main challenges in ANZ's results.

The headline March quarter update was strong but revenue growth was assisted by lower quality items and Macquarie does not expect this to be repeated in the second quarter. The broker envisages scope for the bank to positively surprise, with lower impairment charges to offset a weaker underlying result.

Credit Suisse will be scrutinising revenue quality and cost discipline. as well as the plans for deploying surplus capital as it emerges. The broker will also be looking for an update on the remaining business divestments.

National Australia Bank

Ord Minnett expects headwinds that have impeded the bank's revenue growth over the past five years or so would have carried through into the first half. The bank reports on May 4 and is expected to struggle to replicate the second half FY16 performance.

Mortgage re-pricing benefits and more rational competition should benefit the bank in the first half, in Macquarie's opinion, and net interest margins should be broadly stable.

Credit Suisse will be looking for a deconsolidation of divested earnings in FY17, and raises the issue of dividend sustainability, given the bank's relatively high pay-out ratio.

Deutsche Bank forecasts first half cash net profit of $3.23bn and a 99c dividend. The broker will be looking for whether net interest margin trends in the newly created Business & Private Banking division remain resilient and also the cost outlook, given elevated growth in costs in the first quarter.

Westpac

Macquarie expects an improved revenue performance when the bank reports on May 8. Credit Suisse will again be on the watch for dividend sustainability and cost efficiency initiatives.

Ord Minnett is forecasting first half cash earnings of $4.03bn and a flat interim dividend of 94c, equating to a pay-out ratio of 79%. The broker suspects the bank is facing a challenging margin environment from higher term deposit pricing.

Deutsche Bank will be noting margin commentary, given significant mortgage re-pricing across the industry in recent months. Non-interest income trends are also under scrutiny, given this item has disappointed the broker over several prior half-year reports.

Macquarie Group

Ord Minnett is forecasting FY17 cash earnings of $2.09bn and a 40% franked final dividend of $2.50 when Macquarie Group ((MQG)) reports on May 5, equating to a pay-out ratio of 72%. The broker expects Macquarie will have sustained a high run rate of asset realisations, assisted by modest underlying earnings growth.

Credit Suisse expects earnings for the full year to be driven by lower impairments and higher investment gains. Compositionally, earnings are expected to be incrementally driven more by commodities & global markets and Macquarie Capital and less by Macquarie Asset Management. Macquarie has guided to FY17 reported profit to be broadly in line with FY16.

Commonwealth Bank

Credit Suisse expects Commonwealth Bank ((CBA)) will post cash earnings for the March quarter of $2.52bn. The broker sits above consensus in its estimate by 3%, attributable to higher forecasts on each of revenue, costs and bad debt charges.

CYBG

CYBG ((CYB)) reiterated near-term guidance at its first quarter trading update but suggested that the cost profile was likely to be better in the second half than the first half. Credit Suisse will look for the inaugural dividend and a pathway to fulfilling the bank's dividend policy, which is for a modest inaugural dividend in FY17 and, in time, around a 50% pay-out.

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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 April 17 to Friday April 21, 2017 Total Upgrades: 5 Total Downgrades: 7 Net Ratings Breakdown: Buy 43.70%; Hold 42.62%; Sell 13.69%

For the week ending Friday, 21st April 2017, FNArena registered five stockbroker upgrades for ASX-listed stocks and seven downgrades.

Amongst those receiving upgrades we find Telstra, National Australia Bank and Rio Tinto. On the other side we find ResMed, Sydney Airport, Newcrest Mining and CSR.

Remarkable is that all upgrades moved to Buy while only one downgrade moved to Sell. Receiver of the sole Sell downgrade was Whitehaven Coal. Iluka received a double whammy upgrade to Buy from Sell.

National Australia Bank commands top position in an otherwise quiet environment for valuations and target prices. TPG Telecom saw the largest decline; -3.30%.

Iluka's 51% upgrade to consensus forecast for the present financial year stands out, with Rio Tinto (+2%) a far distant second. There was more action on the negative side with Aurizon, Fortescue Metals, Santos, Newcrest Mining and Whitehaven Coal all suffering reductions between -11 and -4%.

Upgrade

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Accumulate from Lighten by Ord Minnett .B/H/S: 3/3/1

March quarter sales and revenue beat Ord Minnett forecasts by around 60%. Zircon sales were much better than expected, despite what is usually a seasonally weak quarter.

The broker updates price forecasts on the back of an improved outlook for demand. This leads to a hike in the recommendation to Accumulate from Lighten. Target rises to $8.80 from $6.40.

See also ILU downgrade.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Add from Hold by Morgans .B/H/S: 4/3/1

Morgans believes the outlook for the major banks is improving and remains cautiously optimistic about the share prices, because of a low cost of equity being factored into current prices.

The broker upgrades National Australia Bank to Add from Hold. Target is raised to $35.00 from $29.50.

RIO TINTO LIMITED ((RIO)) Upgrade to Buy from Neutral by Citi .B/H/S: 8/0/0

Despite a weak March quarter, Citi upgrades to Buy from Neutral, because of the share price correction on the back of recent iron ore weakness.

Incorporating the broker's latest commodity price changes drives upgrades to earnings in FY17 and FY18 estimates of 2% and 12% respectively.

The broker envisages further upside for capital management after strong cash flow. Target is $70.

TELSTRA CORPORATION LIMITED ((TLS)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 2/3/3

Despite the negative impact from a new mobile entrant, Deutsche Bank believes Telstra is now an appealing investment, given a sustainable dividend yield of 6.6%, potential capital return and a 39% price/earnings discount to the market.

The broker upgrades to Buy from Hold. Deutsche Bank believes the negative impact of the entry of TPG Telecom ((TPM)) as a mobile network operator will be mitigated by Telstra's superior network and its incumbent position. Target is reduced to $4.51 from $4.87.

TPG TELECOM LIMITED ((TPM)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/2/2

UBS has decided it is time to buy the stock and upgrades to Buy from Neutral. Target is steady at $6.70.

The broker believes the decline in the share price suggests the market could be valuing the company's foray into mobiles as destroying around $900m of value. This is also possibly implying that the market is factoring in a long-term mobile market share of around 4-5%.

The broker believes the market's reaction is excessive. The stock is now the broker is preferred pick, given the strong free cash flow in its underlying business.

Downgrade

CSR LIMITED ((CSR)) Downgrade to Neutral from Buy by Citi .B/H/S: 0/5/1

Citi reviews aluminium and FX forecasts and maintains FY17 EBIT estimates unchanged. FY18 and FY19 EBIT estimates rise by 13% and 8% respectively.

The target is raised to $4.32 from $4.30, as the broker observes the company has been inactive in its share buy-back since September.

Due to this inactivity, and despite a 6.2% dividend yield, the broker's recommendation is downgraded to Neutral from Buy.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Neutral from Buy by Citi .B/H/S: 3/3/1

Sales volumes were much stronger in the March quarter and Citi increases forecasts, which drive earnings upgrades and raise the target to $8.50 from $8.10.

The broker believes the major challenge that remains is the integration of Sierra Rutile after further unplanned outages in the quarter, although a raft of issues have largely been addressed.

The broker downgrades to Neutral from Buy because of the share price appreciation.

See also ILU upgrade.

MYER HOLDINGS LIMITED ((MYR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/5/0

Macquarie finds industry feedback in the apparel sector of concern. The company and a number of its peers report weak sales post Christmas.

The broker believes Myer remains one of the most sensitive retail businesses to a change in sales and cost reductions remain a key factor in supporting earnings over the short term.

Ongoing sales weakness in the industry is an increasing risk and the broker downgrades to Neutral from Outperform. $1.21 target retained.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Hold from Add by Morgans .B/H/S: 1/3/3

The company has reported an earthquake occurred near its Cadia East mine. Cadia comprises 31% of total production.

No major damage is apparent and the company only expects a small impact on the FY17 result, although it will take more time to assess the damage fully. At this stage Morgans factors in a two-month interruption to production.

After recent share price strength and, with the expected earnings impact from Cadia, the broker downgrades the rating to Hold from Add. Target is reduced to $25.78 from $26.10.

RESMED INC ((RMD)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 5/2/0

Ord Minnett expects mask sales growth to be subdued in the March quarter, despite the release of the new AirFit range, as manufacturing challenges have caused supply to lag demand.

The broker reduces revenue forecasts to reflect this issue. Rating is downgraded to Hold from Accumulate. Target is reduced to $9.45 from $9.50. New masks are still expected to boost FY18 earnings growth.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Downgrade to Hold from Add by Morgans .B/H/S: 3/3/1

On the surface, the growth rate in March for international passengers of 2.3% appears below trend but Morgan notes the busy Easter period fell in April this year compared with March last year, meaning the company was cycling a stronger comparables.

Year-to-date trends are expected to be clearer once the April data is published and captures the Easter impact. Given the share price has passed the broker's target, the rating is reduced to Hold from Add. Target is $6.77.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 3/4/1

March quarter operations were broadly in line with expectations, although sales were slightly lower than Macquarie expected. The broker observes the company has been the beneficiary of a strong rally in coal prices as well as its own operating success.

Nevertheless, it appears the company has to offer larger discounts to be able to increase semi-soft sales in the market. Hence, although Macquarie acknowledges the company will re-gain some revenue from emptying inventories in the fourth quarter, significantly higher prices are not expected.

Rating is downgraded to Underperform from Neutral. Target is reduced to $2.70 from $2.80.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ILUKA RESOURCES LIMITED Buy Sell Ord Minnett 2 NATIONAL AUSTRALIA BANK LIMITED Buy Neutral Morgans 3 RIO TINTO LIMITED Buy Neutral Citi 4 TELSTRA CORPORATION LIMITED Buy Neutral Deutsche Bank 5 TPG TELECOM LIMITED Buy Neutral UBS Downgrade 6 CSR LIMITED Neutral Buy Citi 7 ILUKA RESOURCES LIMITED Neutral Buy Citi 8 MYER HOLDINGS LIMITED Neutral Buy Macquarie 9 NEWCREST MINING LIMITED Neutral Buy Morgans 10 RESMED INC Neutral Buy Ord Minnett 11 SYDNEY AIRPORT HOLDINGS LIMITED Neutral Buy Morgans 12 WHITEHAVEN COAL LIMITED Sell Neutral Macquarie Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 NAB NATIONAL AUSTRALIA BANK LIMITED 38.0% 25.0% 13.0% 8 2 RIO RIO TINTO LIMITED 94.0% 81.0% 13.0% 8 3 TLS TELSTRA CORPORATION LIMITED -13.0% -25.0% 12.0% 8 4 TPM TPG TELECOM LIMITED 6.0% -6.0% 12.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MYR MYER HOLDINGS LIMITED 29.0% 43.0% -14.0% 7 2 SYD SYDNEY AIRPORT HOLDINGS LIMITED 29.0% 43.0% -14.0% 7 3 WHC WHITEHAVEN COAL LIMITED 19.0% 31.0% -12.0% 8 4 NCM NEWCREST MINING LIMITED -31.0% -19.0% -12.0% 8 5 AZJ AURIZON HOLDINGS LIMITED -50.0% -38.0% -12.0% 8 6 RMD RESMED INC 71.0% 79.0% -8.0% 7 7 MPL MEDIBANK PRIVATE LIMITED -29.0% -25.0% -4.0% 7 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 NAB NATIONAL AUSTRALIA BANK LIMITED 31.988 31.300 2.20% 8 2 AZJ AURIZON HOLDINGS LIMITED 4.856 4.801 1.15% 8 3 NCM NEWCREST MINING LIMITED 21.325 21.240 0.40% 8 4 RIO RIO TINTO LIMITED 71.884 71.781 0.14% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 TPM TPG TELECOM LIMITED 7.113 7.356 -3.30% 8 2 TLS TELSTRA CORPORATION LIMITED 4.540 4.629 -1.92% 8 3 WHC WHITEHAVEN COAL LIMITED 3.209 3.246 -1.14% 8 4 RMD RESMED INC 9.546 9.556 -0.10% 7 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 ILU ILUKA RESOURCES LIMITED 12.070 7.982 51.22% 7 2 RIO RIO TINTO LIMITED 701.765 683.506 2.67% 8 3 SBM ST BARBARA LIMITED 31.770 31.413 1.14% 4 4 OSH OIL SEARCH LIMITED 27.576 27.440 0.50% 8 5 ANZ AUSTRALIA & NEW ZEALAND BANKING GROUP 236.425 235.775 0.28% 8 6 BXB BRAMBLES LIMITED 51.703 51.603 0.19% 8 7 DXS DEXUS PROPERTY GROUP 59.400 59.300 0.17% 6 8 BEN BENDIGO AND ADELAIDE BANK LIMITED 88.314 88.171 0.16% 7 9 CBA COMMONWEALTH BANK OF AUSTRALIA 556.888 556.225 0.12% 8 10 NAB NATIONAL AUSTRALIA BANK LIMITED 238.450 238.200 0.10% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AZJ AURIZON HOLDINGS LIMITED 22.131 24.894 -11.10% 8 2 FMG FORTESCUE METALS GROUP LTD 109.192 115.342 -5.33% 8 3 STO SANTOS LIMITED 18.100 19.078 -5.13% 8 4 NCM NEWCREST MINING LIMITED 75.587 79.270 -4.65% 8 5 WHC WHITEHAVEN COAL LIMITED 41.911 43.824 -4.37% 8 6 WPL WOODSIDE PETROLEUM LIMITED 169.929 173.442 -2.03% 8 7 TPM TPG TELECOM LIMITED

47.066 47.815 -1.57% 8 8 CGF CHALLENGER LIMITED 65.563 66.038 -0.72% 7 9 S32 SOUTH32 LIMITED 31.383 31.484 -0.32% 7 10 PPT PERPETUAL LIMITED 283.700 284.213 -0.18% 7 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: Waiting Game

Sellers of spot uranium are convinced substantial buying is just around the corner.

By Greg Peel

Last week was punctuated by Easter but the uranium spot market was destined to be quiet nonetheless. Spot demand has been slow to develop throughout 2017 to date, with utilities postponing buying due to market uncertainty. This week sees market participants gather in Toronto for the annual World Nuclear Fuel Cycle conference, providing another reason to avoid the market last week.

Sellers are nevertheless working on the basis of the longer buyers stay out of the market, the greater the likelihood of substantial demand suddenly hitting the market around the same time. They were hence reluctant to lower prices last week to meet any bids.

Only three transactions totalling 300,000lbs U3O8 were subsequently concluded, industry consultant TradeTech reports. TradeTech's weekly spot price indicator has fallen all of -US5c to US$23.20/lb.

The consultant reports several utilities are indeed currently evaluating potential spot purchases. One is seeking 750,000lbs U3O8 contained in UF6 and two others are seeking 500,000lbs and 200,000lbs U3O8 respectively.

The greater interest from utilities nevertheless remains in term markets, where longer term contract demand is now being pushed out beyond 2025 in order to lock in historically low prices. There are currently offers being sought by a number of buyers for amounts between 850,000lbs and 3.6mlbs of U3O8 for delivery periods ranging from 2019 to 2029.

TradeTech's term price indicators remain unchanged at US$28.00lb (mid) and US$35.00/lb (long).

Uranium market participants have been awaiting the outcome of the French presidential election, given the impact the result could have on the French nuclear power industry. The far left candidate would have exited nuclear power but is now out of the race. The far right candidate is pro-nuclear but will likely be trounced in the run-off by centrist Emmanuel Macron, who wants to stick with the current government's policy of reducing France's electricity mix to 50% nuclear from a current 75%.

Attention will then turn to South Korea next month, where the candidates in that country's election have all pointed to public concern over pollution and safety issues with regard coal-fired and nuclear energy production.

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 April 20, 2017

Last week saw the ASX200 bounce off 5800, led by the French election result and strength on Wall Street and aided by some stability in the iron ore price. The week prior saw commodity price weakness and the great telco upheaval.

To the latter point, we note TPG Telecom ((TPM)) has appeared at the bottom of the table for the first time at 5.3% shorted.

Last “week” consisted of only three trading days thanks to Easter. This is reflected in a lack of much movement in short positions as evident in the table below. However there were a couple movements of note.

In noted in last week’s report shorts in WorleyParsons ((WOR)) had leapt from under 5% to 11.2% on no new news regarding takeover speculation or anything else. I was suspicious of the accuracy of the data.

Sure enough, Worley has dropped out of the 10% club this week but only as far as 7.7%. So, either there’s a lot of sudden shifting around in Worley positions, for reasons unknown, or the ASIC data is still questionable.

It is also worth noting the arrival of two other newbies into the bottom of the table last week to join TPG, being Automotive Holdings Group ((AHG)) and Saracen Mineral Holdings ((SAR)), at 5.2% and 5.1% shorted respectively.

Weekly short positions as a percentage of market cap:

10%+

ORE 21.6 WSA 16.7 SYR 16.2 ACX 15.3 MYR 12.9 VOC 12.6 QIN 11.8 NEC 11.2 DMP 11.0 MYX 10.5

Out: WOR, IGO

9.0-9.9%

IGO, MTS, ILU, ISD, OFX, In: IGO Out: HVN

8.0-8.9%

HVN, FLT, AAD, BAL

In: HVN Out: PRU

7.0-7.9%

RWC, JHC, WOR, GTY, PRU, EHE, NXT, NWS, MND, RFG

In: WOR, PRU, RFG

6.0-6.9%

IPD, JBH, CSV, A2M, HSO, SGH, RIO, BGA, BKL, SEK, IFL, PDN, MTR, MYO

In: BKL Out: RFG

5.0-5.9%

BDR, CTD, AAC, GXL, KAR, BEN, TPM, IVC, AHG, OSH, CSR, SAR, LNG, SUL, AWC

In: TPM, AHG, SAR Out: BKL

Movers and Shakers

Two weeks ago TPG Telecom announced the acquisition of spectrum and a subsequent capital raising, with the intention of becoming Australia's fourth mobile provider. The news sent shares in mobile leader Telstra spiralling, along with sector colleague Vocus Communications, which has its own issues to deal with.

We note that Vocus remains significantly shorted at 12.6%, up from 11.3% the week before, Telstra merely 0.7% shorted (can't fight those dividends), and that TPG appeared in the table for the first time last week on 5.3% shorted. There were two issues to deal with once TPG came out of its trading halt: (a), the dilution of the capital raising and (b), whether TPG was kidding itself it could become a genuine mobile player.

Competition has to date killed of any others who have tried.

Automotive Holdings Group has long been considered a pillar of retail strength, providing seemingly endless earnings "beats" from its auto division and growing constantly through dealership acquisitions. Anyone who considered shorting the stock would be doing so at considerable risk.

But all good things come to an end. Recent auto sales data shows an accelerating decline in WA, to which the company is 35% exposed. Well yes, the mining state is in recession. But powering along economically is NSW, which has also suffered two consecutive months of auto sales declines. Auto Holdings made a debut in our table at 5.2% shorted last week.

Saracen Mineral Holdings is set to become, in the opinion of analysts, a significant second-tier gold miner. It all depends on the Thunderbox project, which continues to show positive development. But with all new projects comes inherent risk, and a tendency for the market to get carried away and "price for perfection". Valuations are gold price-dependent, and that's been all over the shop lately.

Saracen also posted a weak March quarter production report last week, albeit the weather was to blame. Whatever the case, the stock has debuted in the table at 5.1% shorted.

Saracen joins Perseus Mining ((PRU)), owner of the notoriously trouble-prone Edikan mine in Africa, and Beadell Resources ((BDR)), which just posted weak quarterly numbers and has problems with an oxide only mill when sulphide ore is being produced, as the only other gold miners 5% or more shorted.

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: Banks, Amazon And Automotive

Bank regulation reform; regional bank outlook; IVF; Amazon and the media; automotive sales trends; Kogan.com.

-Pause in new initiatives from Basel likely to be welcomed by bank industry -Regional banks seen well-placed to navigate changing mortgage market -Significant impacts for Australian traditional media expected from Amazon -Weak market conditions continue in automotive sector

By Eva Brocklehurst

Banks

Shaw and Partners observes the Australian Prudential Regulation Authority now on its own in regard to tightening capital requirements, as global banking reforms are halted until 2019 so the Basel Committee can complete its assessment of the impact of reforms post the global financial crisis.

The lack of major new initiatives by Basel is expected to be welcomed by the industry, which is trying to grapple with the prospect of regulatory uncertainty in the wake of Brexit and the deregulatory push of the US President Donald Trump.

Shaw and Partners suggests less regulation globally will be a positive for global bank shares and flow into Australian bank share prices and it will, at the margin, probably weaken APRA's ability to be tough on Australian banks regarding capital levels.

Macquarie observes Australian banks have long been beneficiaries of strong and uninterrupted economic growth with ongoing increases in household leverage. The broker envisages limited scope for further re-pricing and expects mortgage volume growth to revert to sub-nominal GDP levels by the end of FY18, as the backlog of recent construction activity settles.

In the short term, the broker believes bank stocks offer relatively defensive earnings supported by recent re-pricing initiatives and low bad debts. Nevertheless, Macquarie envisages medium-term risk around housing-related earnings growth. As a result, the broker does not believe there is a justification for banks to trade at premium price/earnings multiples versus historical ranges. Hence, Macquarie maintains a neutral stance on the sector.

Regional Banks

Morgan Stanley believes that regional banks are relatively well-placed to navigate the changing mortgage market, as there is less impact from lower loan growth and more leverage to re-pricing. The broker upgrades Bendigo & Adelaide Bank ((BEN)) to Equal-weight, given its stronger earnings momentum versus Bank of Queensland ((BOQ)) and believes it is better placed to navigate the new mortgage market.

The broker suspects Bendigo & Adelaide still needs to improve its return on equity and costs as well as de-risk via a partial sale of Homesafe, which is considered to be a key earnings risk the FY18. The broker retains a Equal-weight on Bank of Queensland, noting a dividend in yield of 6.5%.

Bell Potter considers it opportune to revisit the potential tie-up of Suncorp's ((SUN)) banking arm with Bendigo & Adelaide. The analysts believe merger benefits should go a long way towards mitigating scale constraints and levelling the playing field. The two regionals are envisaged to be highly compatible in terms of culture, understanding of regional markets and familiarity with multi-brand distribution.

In addition to the usual cost synergies, Bell Potter believes a merger would provide scale in key specialist segments, a strengthening of the credit rating and geographic diversity.

IVF

UBS observes a significant re-bound in IVF cycle growth rates in the March quarter and attributes this to the step change from the structural shift of some industry participants towards a bulk-billing model.

The main issue is how much of this growth is being driven by bulk-billing stimulation and how much is attributable to full service. If the majority is flowing to bulk billing the impact for listed players is different, although UBS suspects neither aspects are particularly positive.

Virtus Health ((VRT)), which has begun to transition its low-cost business to bulk bill, will be participating in growth but cannibalising its historical volumes with lower-margin patients. Meanwhile, Monash IVF ((MVF)), which has moved a relatively smaller low-cost business to full service will not be participating in the growth in bulk billing at all.

Amazon And Media

Morgan Stanley ponders the outlook for traditional media and the impact of Amazon, which has confirmed it will launch a local retailing business in Australia. Starting with an online marketplace the company plans to build a fulfilment centre.

While the implications for Australia's retail sector are being widely scruitinised, the broker believes there will also be secondary impacts in a range of other industries, on which the market has not yet given much thought. The impact on Australian media companies is expected to be negative and potentially very significant.

The broker emphasises this likely be gradual over multiple years. Retail is the largest advertiser group in Australia and accounted for 20-30% of total expenditure in 2016. The major risk Morgan Stanley envisages is disruption, if traditional Australian retailers lose market share and suffer lower sales they will spend less on advertising.

The broker notes Amazon spends very differently to Australian retailer, using keyword searches and online instruments and not TV/radio/print. This may be a catalyst for Australian retailers to review how they spend their advertising dollars, bringing up the point about substitution. Amazon's own advertising platform could emerge as an attractive alternative for online advertising by Australian retailers and consumer brands.

Automotive

Moelis observes weak market conditions continue for the automotive sector. Queensland and Western Australian sales trends remain weak, with sales observed to be down -5.2% and -9.2% respectively in the March quarter. Enforcement of responsible lending conditions is partly to blame for the softer volumes, the broker suspects, as increased scrutiny by ASIC of lending traffic has led to tighter conditions from the financiers.

As a result, some high credit risk customers can no longer obtain finance. The outcome for insurance regulation is still unclear but the broker observes discussions with insurers appear positive. Increased competition in the market from private equity backed groups suggests to Moelis that acquisition multiples are elevated and, in light of this, expects both AP Eagers ((APE)) and Automotive Holdings ((AHG)) to remain disciplined in their approach to acquisitions.

Kogan.com

Kogan.com ((KGN)) has upgraded FY17 earnings expectations for the fourth time since its IPO in July 2016. While details are limited as to the drivers of the upgrade, Canaccord Genuity suspects strong sales of its private label products as well as strong subscriber growth for Kogan Mobile.

The broker estimates Kogan Mobile is now one of the fastest-growing mobile virtual network providers in Australia. Earnings estimates for FY17 and FY18 are revised up 13% and 2% respectively. Short-term upgrades to private-label revenue forecasts are partially offset by a reduction in the broker's medium-term forecast for the company's third-party domestic revenue. Canaccord Genuity has a Buy rating and target of $2.33.

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New Website: FNArena Price Charts

One of many changes we introduced on the new website is the extended usage of FNArena price charts. Apart from Stock Analysis, where price charts are an integral part of the suite in data, news and experts views facilitating research into ASX-listed stocks, FNArena news stories now display the same charts at the bottom of news stories for every ASX-listed company mentioned.

This is generating a number of questions from investors who, perhaps, are not as yet familiar with the data available through Stock Analysis.

FNArena distinguishes itself from most other financial data and analysis providers in that we collate and generate our own proprietary data. The consensus price targets, the consensus forecasts and the consensus views that are available through the FNArena website are all unique to our service.

The same applies to the price charts in which we incorporate some of the key data to assess the status/outlook for a given stock. As such, every FNArena price chart also shows position and evolution of consensus price target, in addition to the 60 and 200 days moving averages. The consensus price target is shown through a grey-ish background, while a blue and red line show the two mathematical price trends.

Equally important, and sometimes triggering questions, is that the top bar of the price chart also displays the most recent values for each. In other words: the number behind SMA (60) indicate where the blue trend line currently sits. The number behind SMA (200) shows the positioning of the red trend line. The number behind Cons Target shows the exact calculation for FNArena's consensus target.

Underneath each price chart sits a second window, usually showing two horizontal trending lines, one yellow and one red, interrupted by one vertical bar stating "New Financial Year". These are FNArena's consensus forecasts for earnings per share (EPS) for Year-1 and Year-2. Note that as companies release their actual financial results, these forecasts move up by one year respectively.

In other words: the Year-1 forecast to the left of the "New Financial Year" expires upon release of financial results, but Year-2 then becomes Year-1 into the new financial year.

There are many observations that can be made from these price charts that can assist investors with their research and their assessment. Is the trend in consensus price targets up or down? Does the red line for "EPS2" remain above the yellow line for Year-1 EPS? Is divergence occurring between share price and consensus forecasts?

While these are all potentially interesting, if not important inputs, investors should at all times keep in mind that sometimes the market leads and stockbroking analysts might have to catch up, while in other times the market simply ignores and then finds it needs to catch up with what no longer can be ignored.

There are no silver bullets when it comes to investing in the share market, but day-to-day observations, accumulated experience and in-depth analysis and research can make a huge difference.

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Telstra Is Not BHP

In this week's Weekly Insights:

-Telstra Is Not BHP -Steel Warning -Conviction Calls: Citi, UBS, Canaccord Genuity -New Website: FNArena Price Charts -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

Telstra Is Not BHP

By Rudi Filapek-Vandyck, Editor FNArena

It may be hard to imagine today but it wasn't that long ago, the first half of 2015, when Telstra's ((TLS)) share price was consistently trading above $6 and the boldest forecasters in the local sharemarket were targeting a share price starting with 7.

One year ago the share price was still at $5.60. Last week it was threatening to break below $4. How times have changed.

First the bad news: for all those who followed their stockbroker's advice and bought the shares from the moment it dropped below $5; that was, simply, bad advice. The share price is highly unlikely to trade at that level again. Times and context have changed. Better reset those expectations and re-assess.

I haven't been a strong advocate for owning/buying shares in Telstra since 2015, and that is putting it mildly. Judging by the relentless downtrend that is now apparent on backward looking price charts, the heavy dose of Telstra-scepsis has been more than justified. But now the share price has fallen a further -20% since January, the question has to be asked whether the share market, as per usual, is not getting overly bearish, pushing the share price too low?

The answer, I believe, lies not with whether the current bad news cycle has further to run (it probably has), but with Telstra's ability, and determination, to maintain its dividend for shareholders.

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Straight up: I don't believe Telstra is going to reduce its 31c payout per year anytime soon. But there won't be any further rises either. It is true the odds have moved into favour of dividend cuts sometime into the future, maybe four or five years from now, and this is what the share market is currently focusing on.

Set aside the global search for yield that once dominated the local share market, this shift in operational dynamics is essentially the driver behind Telstra's share price de-rating over the past two years. Previously, stockbroking analysts were projecting ongoing dividend increases to 32c, 33c, even 34c in the years ahead. That downshifted to 31c for as far as the eye can see.

In more recent times ongoing reductions to earnings per share (EPS) forecasts are suggesting Telstra's profits this year will be lower than 31c per share (see Stock Analysis on the FNArena website), further exacerbating investor angst that juicy yield from the former telco monopolist won't be on offer for much longer.

All this ignores the fact the company remains a cash cow and there will be ongoing NBN payments from the Australian government. Telstra has paid out higher dividends than its reported EPS on multiple occasions in the past.

Nevertheless, it does make sense for investors to focus on what can go wrong and what scenarios are likely, given most would own Telstra today for its annual payouts.

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It wasn't that long ago many were holding on to their shares in BHP Billiton ((BHP)) as they believed the board's promise of sustaining a through-the-cycle, steadily rising annual dividend. But then things went from bad to worse and they got so bad, nobody believed the board could possibly stick to its promise. By the time the inevitable was announced publicly, BHP paid out less than one quarter in dividends from the previous year (i.e. they cut by nearly 75%). By then, the share price had already been slaughtered and started recovering.

Prior to the board's admission the progressive dividend policy was no longer sustainable, BHP shares too had been in a drawn out downtrend. For much of the post-2011 years the shares found support at the 4% prospective yield level, until market confidence shifted to the negative. After that, things moved quickly, and relentlessly.

There are more than a few lessons in here for investors investing for yield in the share market.

Some investors might still be traumatised by the BHP experience, but there is another recent reference point. Up until mid last year, Australian banks were also in a persistent downtrend amidst widespread belief they might have to cut their dividends, if not raise extra capital on top of the capital raisings of 2015. As it turned out, only ANZ Bank reduced its dividend, once, and it proved more of a haircut than another BHP/Rio Tinto experience. Bank shares have significantly outperformed the broader market since.

Telstra today is not the BHP Billiton of tomorrow. If, in coming year(s), the Telstra board proves me wrong and does decide to disappoint the circa 50% of retail investors on its shareholder register by reducing the annual dividend, it will be more of an ANZ Bank repeat experience rather than another BHP Billiton copycat. Of that I am even more convinced.

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One of the more interesting research reports on Telstra was released at the end of last month, by analysts at UBS. In it, the analysts argue a prudent Telstra should reduce its dividend to 29c per annum (from 31c now). They also stated the Telstra board, very aware of the company's dividend status in the local market, was more likely to ignore their advice, until they no longer can.

This further reinforces my point: Telstra shareholders should not fear a dividend cut this year or next. It is too early for that. In the low odds outcome of a negative surprise, it'll be a small reduction a la ANZ Bank, not another sledgehammer experience a la BHP or -heaven forbid - Origin Energy.

Another intriguing report was released last week by Deutsche Bank, who believes Telstra's 31c dividend is safe until 2019. After that, a relatively benign reduction should be on the cards. The latter should be interpreted as 28c-29c instead of the 31c for the next three years (including current FY17).

What this means, point out analysts at Deutsche Bank, is that Telstra's share price at around $4.20 already is reflecting a 6.6% sustainable yield. Plus franking. No surprise thus, Deutsche Bank has upgraded the stock to Buy with a price target of $4.51. On the analysts calculations, Telstra shares are now trading at a -39% discount vis-a-vis the broader market.

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According to FNArena's Sentiment Indicator (see website), only four stocks out of 400+ in our database now offer a higher yield than Telstra does. Those four are: Crown Resorts, Fortescue Metals, Alumina Ltd and Harvey Norman. But even if we assume the current 7.38% is not 100% representative and we concentrate on the underlying, sustainable yield of 6.6% instead, only two more stocks jump above Telstra with a superior yield; Aventus Retail Property Fund and Rio Tinto.

While I don't think Telstra is ever going to be a fantastic investment, I do think it is but a matter of time before the gap between its current, beaten down share price and the rest of the yield offering stocks narrows. The average yield in today's market is closer to 4%. Major banks are offering between 4.9% and 5.8%. In comparison, Telstra's 6.6% underlying, if not the at face value 7.38% (short term secure) looks too attractive to ignore indefinitely.

Having said all of the above, there remains potential for ongoing bad news for the sector and for Telstra in particular, starting with a pending ACCC decision on whether to declare Telstra's mobile roaming service, which would give competitors access to Telstra's network without having to make substantial investments.

I recently spotted a technical view on the shares which suggested the new trading range could reach as low as $3.75. While nothing is impossible in the face of edgy traders and nervous investors, and it would be a brave man to declare the bad news cycle is over, but I'd be hugely surprised if the share price falls as low as suggested by that particular technical view. I'd be even more surprised if the share price won't be higher in 2018.

Steel Warning

It appears the Chinese steel market has once again done what the Chinese steel market does best: expect too much demand for its products. A correction is taking place as I write this very sentence.

The price of iron ore has tumbled in excess of -30% in only a few weeks time but falling steel prices in China (only just beginning), coinciding with a sharp deterioration in Macquarie's survey among Chinese steel producers suggest a sharp recovery seems unlikely. Moreover, it may well be that the price bottom lies lower, still.

Last month quant analysts at Macquarie released an interesting piece of research, drawing a relatively reliable correlation between data from the stockbroker's China steel survey and share prices for leveraged companies such as Fortescue Metals ((FMG)), BlueScope Steel ((BSL)) and Whitehaven Coal ((WHC)), among many others. That piece of research now looks particularly interesting since share prices have retreated significantly on the back of a tumbling iron ore price. Fortescue Metals, for example, has fallen from above $7 to below $5.50 with the share price now below the 200 days moving average.

From the results from the Macquarie steel survey we can possibly make the following assumption: Chinese steel producers, and commodities market traders, have been bullishly riding the wave of optimism throughout the first three months of the new calendar year, possibly expecting order intake this year might catch up on the record year that was 2016. Alas, after three months hoping for such an ultra-optimistic outcome, the opposite has proved true.

A quick reversal has since taken place. One noteworthy observation is this implies order intake seems to have peaked sooner than is usually the case. A second one is the deterioration in sentiment has been swift and violent. In terms of the Macquarie survey, sector sentiment reached an all-time high in February and has now fallen to its lowest reading for any April month in the history of the survey (since 2011).

Both the Orders Index and the Sentiment Index are now below 50. In Macquarie's lingo both indices trigger a Sell (or Short) signal.

Equally noteworthy, the latest NBS production data show Chinese crude steel output hitting a record high in March of 72mt, nearly 1mt above the previous peak level seen in May 2014.

This is where things get interesting. Because of the sharp fall in iron ore prices, most steel producers are still enjoying healthy profit margins, as also indicated by the survey, and this likely means they'll happily continue producing. This cannot go on indefinitely, of course, and overproduction will eventually come home to roost, triggering a destocking cycle, and more downside pressure on input prices such as iron ore.

Better not think this correction is the end of it, or that it'll be resolved tomorrow. Not if Macquarie's survey has the last say.

Conviction Calls: Citi, UBS, Canaccord Genuity

The world of equity investors is, broadly viewed, currently split in two opposing camps. One part sees higher growth ahead, globally, with rising corporate profits and inflation, plus US tax cuts, taking care of higher bond yields and less accommodation from the US Federal Reserve. The other part sees elevated asset valuations being supported by, still, exceptionally low bond yields, and thus a rather moderate outlook for returns.

Take your pick.

Citi's North American equity strategist Tobias M Levkovich sits solidly in the first camp. Citi just released its mid-2018 target for the S&P500 in the US and set at 2560 this implies circa 7.8% upside from current level plus some 2% in dividends. Still very attractive in a low bond yield environment, adds a bullish Levkovich. Plus potential tax cuts from the Trump administration are not included.

By the way, Citi's S&P500 target for year-end is 2,425, implying more gains are to be made in the first half of next year than in the remaining eight months of 2017.

On the opposing side sits the local team of strategists at UBS who see solid growth prospects, but predominantly for resources stocks, and elevated valuations for just about every other sector in the Australian share market. Valuations above historic multiples can be justified through exceptionally low bond yields, finds UBS, but expectations are best kept in check.

UBS just raised its year-end target for the local ASX200 to 5875 (from 5700 prior) and this implies most returns are to be made from dividend payouts and from volatility in share prices, assuming we all get in and out at the right times.

Valuation modeling at stockbroker Morgans indicates the S&P500 is trading well ahead of fundamentals (the model indicates more than one year ahead based upon prospective operational profits) and the same seems to apply to Australian equities with Morgans' modeling setting fair value at 6070 for the ASX200, at year end 2017.

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Canaccord Genuity's equity research in Australia specialises in small and medium cap stocks so its Top Australian Focus List might provide some insights about potential value and opportunities outside the ASX Top-100. Stocks that have been added since the last update are:

-tin and copper miner Metals X ((MLX)) -independent data centre operator NextDC ((NXT))

Remaining Focus List inclusions are:

-Blue Sky Alternative Investments ((BLA)) -BSA Group ((BSA)) -Cooper Energy ((COE)) -Credit Corp Group ((CCP)) -Galaxy Resources ((GXY)) -Infigen Energy ((IFN)) -Kogan.com ((KGN)) -QMS Media ((QMS)) -SpeedCast International ((SDA))

For a total of 11 High Conviction stocks.

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Citi's Focus List Australia/NZ has seen the removal of AGL Energy ((AGL)). This is because Citi analysts have come to the conclusion that politicians and others involved will manage to find a solution to the current electricity crisis, and by then it won't be pretty for shareholders that have been enjoying the upside over the past few months.

Remaining stocks on the Citi Focus List Australia/NZ:

-Aristocrat Leisure ((ALL)) -Caltex Australia ((CTX)) -MYOB ((MYO)) -Newcrest Mining ((NCM)) -South32 ((S32)) -Sims Metal Management ((SGM)) -Star Entertainment ((SGP)) -Santos ((STO))

New Website: FNArena Price Charts

One of many changes we introduced on the new website is the extended usage of FNArena price charts. Apart from Stock Analysis, where price charts are an integral part of the suite in data, news and experts views facilitating research into ASX-listed stocks, FNArena news stories now display the same charts at the bottom of news stories for every ASX-listed company mentioned.

This is generating a number of questions from investors who, perhaps, are not as yet familiar with the data available through Stock Analysis.

FNArena distinguishes itself from most other financial data and analysis providers in that we collate and generate our own proprietary data. The consensus price targets, the consensus forecasts and the consensus views that are available through the FNArena website are all unique to our service.

The same applies to the price charts in which we incorporate some of the key data to assess the status/outlook for a given stock. As such, every FNArena price chart also shows position and evolution of consensus price target, in addition to the 60 and 200 days moving averages. The consensus price target is shown through a grey-ish background, while a blue and red line show the two mathematical price trends.

Equally important, and sometimes triggering questions, is that the top bar of the price chart also displays the most recent values for each. In other words: the number behind SMA (60) indicate where the blue trend line currently sits. The number behind SMA (200) shows the positioning of the red trend line. The number behind Cons Target shows the exact calculation for FNArena's consensus target.

Underneath each price chart sits a second window, usually showing two horizontal trending lines, one yellow and one red, interrupted by one vertical bar stating "New Financial Year". These are FNArena's consensus forecasts for earnings per share (EPS) for Year-1 and Year-2. Note that as companies release their actual financial results, these forecasts move up by one year respectively.

In other words: the Year-1 forecast to the left of the "New Financial Year" expires upon release of financial results, but Year-2 then becomes Year-1 into the new financial year.

There are many observations that can be made from these price charts that can assist investors with their research and their assessment. Is the trend in consensus price targets up or down? Does the red line for "EPS2" remain above the yellow line for Year-1 EPS? Is divergence occurring between share price and consensus forecasts?

While these are all potentially interesting, if not important inputs, investors should at all times keep in mind that sometimes the market leads and stockbroking analysts might have to catch up, while in other times the market simply ignores and then finds it needs to catch up with what no longer can be ignored.

There are no silver bullets when it comes to investing in the share market, but day-to-day observations, accumulated experience and in-depth analysis and research can make a huge difference.

2016 - L'Année Extraordinaire

It was quite the exceptional year, 2016, and I did grab the opportunity to write down my observations and offer investors today the opportunity to look back, relive the moments and draw some hard conclusions about investing in the world today.

If you are a paid subscriber to FNArena, and you still haven't downloaded your copy, all you have to do is visit the website, look up "Special Reports" and download your very own copy of "Who's Afraid Of The Big Bad Bear. Chronicles of 2016, A Veritable Year Extraordinaire" (in PDF).

For all others who still haven't been convinced, eBook copies are for sale on Amazon and many other online channels. You'll have to visit a foreign Amazon website to also find the print book version.

All-Weather Model Portfolio

In partnership with Queensland based Vested Equities, FNArena manages an All-Weather Model Portfolio based upon my post-GFC research. The idea is to offer diversification away from banks and resources stocks which are so dominant in Australia, while also providing ongoing real time evidence into the validity of my research into All-Weather Performers.

This All-Weather Model Portfolio is available through Self-Managed Accounts (SMAs) on the Praemium platform. For more info: info@fnarena.com

Rudi On TV

This week my appearances on the Sky Business channel are scheduled as follows:

-Thursday, 12.00-2.00pm, co-host in the studio -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

Your Editor has been invited to present at the Australian Shareholders Association's (ASA) 2017 Securing Your Investing Future Conference to be held at the Grand Hyatt Melbourne from 15-16 May.

The conference details - www.australianshareholders.com.au/conference-2017

Speaker information - www.australianshareholders.com.au/speakers

Program information - www.australianshareholders.com.au/program

Telephone: 1300 368 448

(This story was written on Monday 25th April, 2016. It was published on the day in the form of an email to paying subscribers at FNArena).

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

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

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- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?) - Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate) - Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection) - Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow. - Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $380 for twelve months or $210 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible): http://www.fnarena.com/index2.cfm?type=dsp_signup

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