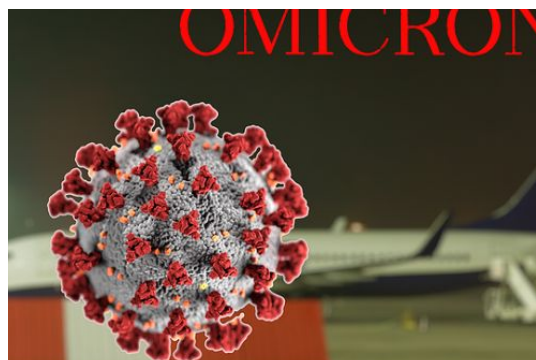


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Friday, 3 December 2021



ESG Focus: COP26 Hands Transition To Big Capital



Equity Strategy 2022: Here We Go Again



Rudi's View: 2022 Looks Familiar, Though Not Quite The Same

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**AUSTRALIA**

# End in Sight for TechnologyOne Transition

TechnologyOne has set its sights on an end goal for its software as a service transition, with some big goals to follow.

- Strong results continue to support TechnologyOne's software as a service transition
- Analysts divided about valuation at current share price
- Big recurring revenue targets have been set post transition

By Danielle Austin

The transition to a software as a service (SaaS) provider has continued throughout FY21 for TechnologyOne ((TNE)), with the company reporting growth in its SaaS segment has driven transition momentum. Having guided to SaaS annual recurring revenue growth of more than 35%, the company reported 43% growth for the year as it continues to convert customers to its SaaS platform.

TechnologyOne's SaaS platform provides enterprise resource planning software and software support. To date the company has transitioned around half of its customers to a cloud-based SaaS platform, with the rest still accessing legacy on-premise services. Notably, recent commentary suggests larger clients are now being transitioned to off-premise services

Metrics in the company's FY21 result were largely positive, with SaaS annual contract value up 43% year-on-year to total \$192.3m, compared to guided growth of 35% for the year. Remaining customers yet to be transitioned away from on-premise services represent approximately a further \$178m to the company in SaaS annual contract value.

Profit before tax was up 19% to \$97.8m driven by a margin of 31.6%, while revenue of \$312m represented 4% year-on-year growth, with any miss in revenue growth attributed to lower on-premise initial license fees, indicating further positive movement for the company's transition away from on-premise services.



## Big goals for a pure software as a service company

With an end to its transition period in sight, TechnologyOne has its sights firmly set on achieving annual recurring revenue as a pure SaaS company of \$500m in FY26. Based on current transitioned customers, and an expected additional annual contract value benefit of \$178m from customers yet to transition, additional customers and expansion will need to address a \$130m gap to meet the target.

The company does have a successful track record of sustained growth, with results in the last quarter representing rewards from strategy set in place over five years ago, and notably continues to achieve growth with incremental cost increases.

Despite largely positive commentary on TechnologyOne's outlook, analyst recommendations are a mixed bag with some downgrading ratings given the company's recent share price run and current valuation, while others see remaining value at the current share price.

Bell Potter retains a Buy rating and a target price of \$15.00. Bell Potter analysts also reiterated profit before tax growth forecasts of 16%, 17% and 17% for FY22, FY23 and FY24 respectively, noting it expects a growth range of 15-20% moving forward, compared to the traditional 10-15% growth rate.

Shaw and Partners downgrades its rating to Hold from Buy given recent strong share price performance, but increases the target price to \$11.75 from \$10.00.

Wilsons retains a Market Weight rating and increases the target price by 14% to \$12.08 with modest adjustments to forecasts.

Macquarie downgrades the rating to Underperform from Neutral and increases its target price by 20% to \$11.00, noting the valuation appears stretched considering the lower revenue growth forecasts compared to peers. The broker upgrades earnings per share forecasts 10%, 15% and 15% through to FY24 given lower expected operating expenditure and increases revenue 3-5% for the same forecast period.

Credit Suisse retains a Neutral rating and increases its target price to \$12.00 from \$9.50. Earnings per share forecasts increase 4%, 8% and 13% in FY22, FY23 and FY24, with low single digit increases to revenue in the forecast period. Credit Suisse analysts assume business strength in positioning to complete the SaaS transition drove the re-rate through 2021, but expect this is now complete.

Morgans retains an Add rating and increases its target price to \$13.73 from \$10.00. While Morgans notes share price has already has a strong run, it believes value remains for investors willing to back the company's double digit organic growth story.

UBS downgrades the rating to Sell from Neutral but increases the target price to \$11.90 from \$11.70, noting the rating downgrade was attributed to 30% growth in the share price in the last three months. Earnings per share forecasts increase 3%, 4% and 2% through to FY24 on reduced operating costs.

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AUSTRALIA

# Select Harvests Awaits Almond Prices Recovery

While a recent fall in almond prices prompts brokers to lower earnings forecasts for Select Harvests, the medium-term expectation is for a rebound in prices.

- Select Harvests FY21 result beat consensus earnings estimates by 25%
- Scope for an almond price recovery
- Causes of the recent softness in pricing

By Mark Woodruff

Easing almond prices have ensured a fall in broker earnings forecasts for Select Harvests ((SHV)), and the key variable for FY22 results is likely to be the effect of the drought in California upon the Australian dollar almond price.

The company is an integrated grower, processor and marketer of almonds that owns and operates farming and processing assets in Australia.

FY21 results delivered a **25% beat to FY21 consensus earnings (EBITDA) estimates**, driven by a rising almond price in the second half on top of a favourable product mix, according to UBS.

Despite these positives, the market focused upon the fall in almond prices to the current \$6.75-7.25/kg from \$7.25-7.75/kg as at 31 August.

UBS prefers to focus attention on the medium term, expecting a recovery in prices predicated on a severe drought in California, combined with healthy underlying demand. Moreover, industry feedback suggests further downside risk to pricing is relatively limited.

While the broker retains its Buy rating, it also acknowledges near-term uncertainty and lowers its target price to \$8.60 from \$9.50.





Citi also retains its Buy rating and believes there is **scope to benefit from an almond price recovery**. Citi's optimism is based on company management's expectation that market pricing will improve before a commitment is made to sales of the 2022 crop. Forward sales, which typically begin in November, may be deferred until harvest in February 2022.

The broker also feels the current almond price weakness is transitory and points to early signs of reviving export demand and a continuation of the Californian drought.

Citi also notes the potential for softer pricing to impact early commitments and lowers its forecast FY22 average almond price. As a result, FY22 and FY23 earnings forecasts have been reduced and Citi's target price falls to \$9 from \$9.85. The reduction also reflects a higher capital expenditure outlook.

#### Causes of the recent softness in pricing

Almond pricing has softened through the back half of October and November 2021 to levels similar to late July 2021.

Citi attributes weaker prices to a range of factors including **well-stocked buyers in Western Europe** that have hoarded the cheaper US 2020 crop, which was purchased early to avoid shipment delays. This is evidenced by a -25% year-to-date fall in shipments to Western Europe.

Moreover, the broker cites industry sources that explain **20% of almond sales have been aborted due to the flow on effects from a distorted sea freight supply chain**. This incorporates high ocean carrier rates and unreasonable demurrage and detention charges.

On top of this, **sellers have been cautious over drought concerns and a belief that the current price fall will correct**, explains Citi.

Looking forward, the broker assumes an Australian dollar hedge rate of \$0.73 (the company has locked in around 50% of its export hedging needs) and a price premium of circa 6%. This implies a US almond export price -5% below FY19 levels.

Citi lowers its forecast to \$7.50/kg in FY22 from \$8.10/kg, and to \$8.50/kg in FY23 from \$8.80/kg, before estimating a peak of \$9.30/kg in FY24. However, the broker still notes the potential for FY15 peak pricing of \$11.45/kg to return or be exceeded.

Finally, FY21 earnings from continuing operations marked a miss versus Bell Potter's estimates. The broker, not one of the seven stockbrokers monitored daily on the FNArena database, retains its Hold rating and lowers its target price to \$7.60 from \$8.50. The move reflects the removal of a prior 10% premium, as spot almond prices are trading below the analyst's FY22 estimate.

According to Bell Potter, the Australian dollar almond price will be largely dependent on the California snow

pack formation in January to April of 2022.

Wilsons, equally not included in the seven stockbrokers monitored daily, retains an Overweight rating with a price target of \$8.75. Wilsons anticipates the global almond market will likely remain "unstable" in the short term, but tight supply should drive a favourable almond price environment over the next 1-2 years.

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**AUSTRALIA**

# Pepper Money Upgrades Despite Market Pressure

Increased mortgage margin impact in the second half wasn't enough to halt a \$15m upgrade to full-year cash earnings guidance for Pepper Money.

- In an early indicator of FY21 results, Pepper Money increased cash earnings guidance more than \$15m
- The upgrade comes amidst indicators of mortgage competition impacts in the second half

By Danielle Austin

Despite margin pressure having widespread impact on the mortgage sector in 2021, non-bank lender Pepper Money ((PPM)) has upgraded full-year cash earnings guidance by more than \$15m ahead of its first full-year result release since its initial public listing.

The company is now guiding to cash earnings of \$135-138m, a significant jump from the more than \$120.7m guidance provided in its initial public offering prospectus.

Industry analysts note a strong year of loan originations for Pepper Money has supported cash earnings, with the company suggesting it will achieve around \$8bn in originations for the year compared to the approximate \$6.6bn guidance from the IPO prospectus. The company already reported \$6.7bn in originations for the year-to-date in the third quarter, and at this level Pepper Money's originations are on track to exceed its FY18 record.



## Pressure in the market

The impacts of mortgage market pressure have continued to surface in recent market updates from banks. Legacy banks in particular have noted impact from increased competition by non-bank lenders and an increasingly digitised sector.

The widespread impact of larger than anticipated margin declines in the lending sector, driven by high borrower movement and competitive fixed mortgage rates, has been highlighted by recent results in banking. Despite not offering fixed rate mortgages, Pepper Money's margins felt the sector pressure in the second half, falling around -20 basis points below first half results. Analysts expect competition will remain intense in the foreseeable future, and continue to cause a drag on margins.

Goldman Sachs retains a Buy rating and increases its target price to \$3.56 from \$3.47.

Macquarie retains an Outperform rating and decreases its target price to \$3.10 from \$3.25. Macquarie analysts noted an improving economic environment was expected to outweigh medium-term margin pressure headwinds.

Credit Suisse retains an Outperform rating and decreases its target price to \$3.05 from \$3.35. The broker expects Pepper Money will be able to increase bottom line growth over FY22 and FY23.

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**AUSTRALIA**

# KFC Europe Powers Collins Foods

Brokers raise earnings forecasts in response to first half results for Collins Foods, as a strong outcome in the Netherlands supports outperformance for KFC Europe.

- Highest margins for KFC Europe in over three years for Collins Foods
- Store network growth is set to accelerate
- The opportunity for Taco Bell
- A comparison to another quick service restaurant peer

By Mark Woodruff

Better margins for KFC Europe and KFC Australia were behind a strong first half performance for **Collins Foods** ((CKF)).

In response, brokers raised earnings forecasts and lifted 12-month target prices, primarily driven by KFC Europe.

Collins Foods, an operator of quick service restaurants (QSR), is the largest KFC franchisee in Australia and is rolling out KFCs across Germany and the Netherlands. As at October 2021, the company operated 17 Taco Bell restaurants in Australia and was the franchisor of a number of Sizzler-branded restaurants in Japan and Thailand.

Along with first half results, management disclosed like-for-like sales for the first six weeks of the second half. KFC Australia rose 1.6% while Taco Bell fell by -8.9%. In overseas operations, KFC Netherlands jumped by 16.5% and KFC Germany climbed 7.1%, despite moderating growth from increased covid restrictions in the latter two weeks.

While management didn't provide any FY22 guidance, store network growth is expected to accelerate via 17-24 new store openings during the period, and the acquisition of a further nine stores in the Netherlands is expected to close in early 2022.

Growth opportunities in KFC Australia are expected to flow from a combination of new store openings and leveraging digital and delivery innovations.



### Europe explained

KFC Europe underpinned the first half beat versus brokers' expectations, with 128.9% earnings (EBITDA) growth and a 620 basis point jump in margin to 14.7%. The result was underpinned by strong same-store sales growth of 14.6%, driven mainly by the 17.2% growth in the Netherlands, explains Macquarie.

As a whole, KFC Europe achieved **earnings margins of 8.2%, the highest in over three years**. However, industry-wide headwinds including **rising food costs, labour shortages and wages pressures remain**.

Wilson believes that in the event of a sustained improvement in performance for KFC Europe a further re-rate of Collins Foods' valuation will occur. Meanwhile, Canaccord Genuity certainly likes the way margins in Europe are heading as the company's operations become more Netherlands-centric and trading conditions normalise.

### The Taco Opportunity

Taco Bell posted a first half loss of -\$1.1m, offset by lower corporate costs.

The company believes the potential for Taco Bell in the Australian market is considerable, as Australians are increasingly acquiring the taste for Mexican flavours. This conviction of management is cited as a risk by Morgans, as Collins Foods may be prepared to tolerate more losses in Taco Bell than the market can stomach.

Macquarie highlights **Mexican QSR has grown at a 35% compound annual growth rate (CAGR) over the last decade, which has outperformed 3% growth for the broader QSR space**. The broker expects Taco Bell to generate more than \$10m of earnings from FY25 as the brand gains momentum.

Morgans points out Taco Bell is huge in the US, much bigger than KFC, and believes the company is right to persevere, provided it can avoid incurring ongoing material losses.

It should be noted the Taco Bell store rollout was adversely impacted by covid-related building restrictions in Victoria, with management now guiding to six to eight new stores in FY22 from nine to twelve previously.

### Overall

Morgans increases its 12-month target price to \$14.70 from \$14.40 after increasing earnings estimates for both FY22 and FY23 by 5% and profit by 13% in each year, after allowing for higher earnings margin assumptions in both KFC businesses. However, investors should be mindful of the risk to earnings of a possible return to lockdowns in key markets such as the Netherlands.

After increasing EPS estimates for FY22-24 and taking into account an improving outlook post-covid, Macquarie lifts its target price to \$14.80 from \$14.75. With **QSR peer, Domino's Pizza Enterprises ((DMP))**, trading on double one of the broker's valuation metrics, an Outperform rating is retained for Collins Foods.

While UBS raises its target price to \$14.10 from \$12.85, a Neutral rating is kept as the premium for quality is believed to be adequately reflected in the current multiple.

The broker pulls forward the European operations recovery in its forecasts and is confident in maintaining KFC Australia earnings margin estimates above 17% for FY22.

Cannacord Genuity, not one of the seven stockbrokers monitored daily on the FNArena database, raised its target price to \$14.85 from \$13.90 and retained its Buy rating. Meanwhile, Wilsons, also not one of the seven, raised its target price to \$15.75 from \$15.30 and retained its Overweight rating.

The database has a consensus target price of \$14.53, suggesting 2.9% upside to the last share price.

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**ESG FOCUS**

# ESG Focus: COP26 Hands Transition To Big Capital

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

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## COP26 Hands Transition To Big Capital

COP26 may have appeared a fizzer to many observers but the outcomes point to another reality - big capital has got this one - and it's a whopper.

- Investors to carry the transition until the next COP
- Outcomes focus on market regulation
- China appears set to take the lead
- Morgan Stanley predicts focus to shift to non-climate ESG thematics in 2022

By Sarah Mills

After what appeared to be much ado about nothing, many COP26 observers emerged perplexed: global warming was to be confined to 1.8 degrees Celsius according to the International Energy Agency, not the 1.5C previously mooted; other forecasts put the figure averaging 2.4C; and Europe showed signs of backtracking on gas.

But in a financialised world, it is **big capital calling the shots** and COP26's indications of limited global central regulation suggests big capital is confident it can carry the transition from here.

Underscoring this proposition, one of the most material statements of the period emerged not from the COP26 but from the investment community.

The **Glasgow Financial Alliance for Net Zero**, which represents 450 banks, insurers and other asset managers, and is led by former Bank of England chief Mark Carney and billionaire financier Mike Bloomberg, announced US\$130trn in new commitments.

The most material global COP26 outcomes also focused squarely on markets, the implication being that sovereign nations will be more than willing to compete on the regulatory front in the race to transition.

The three most material outcomes from the October/November period for global markets include:

- The unleashing of the world's carbon markets
- The agreement to establish an international reporting standards board
- The introduction of methane into global climate commitments

The upshot is that these commitments will take a year or two to bed down, and some analysts expect the climate investment theme will be put on hold in FY22 and that big capital will shift its focus to other environmental and social imperatives such as circularity, biodiversity and social themes (more on that later).





### Financialisation wins the day

Meanwhile, there are US\$130trn big ones in play.

For governments to stay in the transition race they will need to issue debt, and most of the world's debt is to be directed to sustainable finance.

The notable lack of rich-world support for developing countries at COP26 (save for mitigating physical climate risks) also points to the expectation that investors will drive development in emerging markets.

All this suggests growing momentum towards global financialisation and climate colonisation.

So to assume that weak climate commitments at COP26 reflects an easing of global resolve on climate would be a mistake. Remember, the name of the game is "Who Cares Wins".

As Bloomberg Green writes: "Public shaming hasn't seemed to move the needle. But money might".

Might is an understatement. In the context of the transition, money is might and might is right. And the funds will flow. Forecasts vary wildly but the numbers are massive.

The Energy Transitions Commissions forecasts more than US\$1trn in investment is needed to reach net-zero emissions by mid century.

The Organisation for Economic Co-operation and Development says US\$6.9trn will be required annually this decade to meet Paris Agreement forecasts.

By 2025, Morgan Stanley estimates sustainability/ESG assets under management will triple to US\$6.5trn, representing a compound annual growth rate of 29% between 2020 and 2025.

The expectation is this will be driven by "Beyond Europe, Beyond Environment and Beyond Screening" themes.

### 2022 may be a year of adjustment for investment management industry

But as usual, timing is critical, and analysts took the mood of COP26 to suggest the transition pace is generally on track and that the focus will be on bedding down the disclosure nets and carbon-market infrastructure over the next year.

Brandywine Global's *Around the Curve* in its 2022 ESG Outlook says the legacy of Glasgow depends on whether support for climate change mitigation and adaptation reaches critical mass in 2022.

"COP26 and its resulting agreements should drive 2022 trends within the investment management industry," posits *Around the Curve's* blog.

"We expect net positive improvements across three themes: data, collaboration, and finance ... they should benefit from strengthening momentum within the asset management industry next year and beyond.

“Investors do not necessarily need more data providers; we just need standardisation and consensus among them.

“That level of consistency will require extensive co-ordination across the public and private sectors, particularly from entities that collect and report data, whether they are non-governmental organisations, government agencies or corporations.”

So *Around the Curve* spies opportunities for relevant, timely data to assess risks.

### Following the money trail

Brazil, Russia, India, Indonesia and China account for 60% of the world’s emissions.

Given in the US, Australia, and Europe, GDP growth is being achieved regardless of transitioning expenses, some expect climate investment to be directed to the above countries.

As if to underscore this, the European Union, previously the world climate leader, indicated it might rest on its laurels in 2022, going so far as to entertain the prospect of using blue energy (LNG), and opening the door for investors to expand their climate sights to other nations.

The obvious winner from this is China. As the world’s largest consumer of fossil fuels, it offers the highest immediate climate returns.

As the Institute for Energy Economics and Financial Analysis reports in its story ‘EU considers bowing out of gold standard taxonomy - leaving room for China to take the lead’, putting gas in any taxonomy muddies the calculations.

China’s taxonomy - the new Green Bond Endorsed Project Catalogue - in contrast rejects LNG, gas and coal.

This has clear implications for Australia’s resources sector which we discuss in later stories.

“Reading the market, China is showing it knows how to attract private capital,” continues IEEFA.

“Early this year, the People’s Bank of China’s Governor Yi Gang stressed that government funding alone would not be sufficient for China to meet its net zero goals ... and therefore market participants must be encouraged to step in and fill the gap.”

This again underscores big capital and government primary agendas at COP26 for investors to carry the transition.

“China is ready to take the reins from the EU,” says IEEFA before noting that even Russia’s Green Taxonomy published late November appears to exclude blue energy.

### Others expect the G3 will continue to attract capital

Not all analysts agree.

*Around the Curve* suggests the G3 - Europe, Japan and the US - is a logical destination over the next few years, given their emissions profile.

This has some merit, especially given the unpredictability of Chinese markets; and China has every incentive to fund its own transition, but a transition of this scale represents a banquet of opportunity.

Morgan Stanley anticipates a climate catch-up in the US and Asia in the private sector, relative to European peers.

Most analysts expect the US will turn to private investment to fund its transition given the continued usefulness of the transition as a political football.

US President Biden’s various funding packages have already been watered down, suggesting shareholders are expected to do some heavy lifting.

But the US has always put its faith in private capital to drive change and one way or another, the money will find its way from the government to Wall Street.

*Around the Curve* expects the Big 4 US banks, whose loan books currently have a huge bias to fossil fuels, are likely to lead the charge.

Big capital is likely to tap them on the shoulder (remember those US\$130trn big ones) and given the scale of bias, any percentage swing is likely to be significant.

In Europe, Morgan Stanley expects decarbonisation will continue to drive growth in renewables, electric

vehicles, hydrogen, carbon capture storage and energy efficiency for 30 years but the broker also expects a lack of climate catalysts in 2022 will be stock specific and based on best-in-class execution.

### Morgan Stanley augurs the rise of circularity, social and other themes

Morgan Stanley expects climate stocks may suffer from a lack of catalysts in 2022, but observes these stocks have outperformed in the past two years.

The broker spies tailwinds for nascent decarbonisation technologies and other successful enablers of decarbonisation as winners become more evident.

Morgan Stanley also expects 2022 will be a quieter year for climate policy as the US plays climate catch-up, and stakeholder capitalism and ESG engagement intensifies alongside ESG disclosure and regulation - again underscoring the COP26 agenda.

This is further supported by expectations mandatory Sustainable Finance Disclosure Regulation will draw strong net inflows to Europe and more sustainable fund launches.

Morgan Stanley also forecasts strong growth in the green bond market and rapid development of a sustainability-linked bond market in 2022.

ESG-labelled debt issuance is forecast to rise to US\$1.475trn in 2022, up from \$1trn in 2021. (Interestingly, the world's first nuclear green bond was issued in late November.)

Flows into ESG funds hit US\$533bn between January and October 2021. This compares with US\$331bn for all of 2020 - putting the market on track for an annual doubling.

### Non-climate ESG themes in the spotlight

As climate regulatory focus eases up, governments are expected to switch their focus to other critical ESG themes, most notably, biodiversity, circularity, pollution prevention and protection and restoration of water and marine resources and systems. (See a link to our story on Huon Aquaculture below.)

The European Commission, meanwhile, is adopting 35 sustainable fisheries and aquaculture criteria, published this month, for corporate and investor disclosure, with immediate implementation.

So it seems Europe is not really falling behind the ESG curve, but preparing for the broader ESG regime.

The European Union, meanwhile, is developing a social taxonomy, which will include metrics such as health and safety, privacy and cybersecurity frameworks; this is likely to support software companies that support these aims.

Morgan Stanley reports China's carbon-peaking action plan has introduced targets to achieve a circular economy: including recycling volume of scrap steel, copper, aluminium, lead, zinc, plastic, rubber and glass by 2025.

The nation is trying to kill two birds with one stone, honing its circularity focus on its manufacturing industry.

Again, this has big repercussions for Australia's resource stocks, which we discuss in a separate story.

China and the US are also funding social initiatives.

In the US, analysts spy positive revenue-based investment implications for sectors such as digital inclusion; affordable healthcare and housing, arising from US President Biden's infrastructure plan, which focuses on "inclusive growth".

In China, Morgan Stanley says the nation is shifting from "Growth First" to "Balancing Growth and Sustainability" and this should benefit innovative biotech, pharmaceutical and med-tech companies, and commercial insurance companies.

Globally, when it comes to sustainable fishing, aquaculture, water and marine protection; Morgan Stanley says material sectors include capital goods, tech hardware/software and utilities, as well as big users of water such as pharmaceuticals, chemicals, metals and mining.

On the pollution theme, material exposures are spied in construction, oil and gas, pharmaceuticals, tech hardware/software, transport and utilities.

On circularity, the broker highlights technology software sectors that improve circularity within assets, plastic manufacturing and packaging, bio-based and carbon-capture solutions, and general recycling plays.

The biodiversity thematic is also expected to kick in and exposed industries include beverages, technology

hardware and software, construction, real estate, food, leisure, and solutions that support the protection and restoration of biodiversity and ecosystems.

### Climate narrative alive and well

The low-key COP26 would lead sceptics to question the climate-change narrative.

But, even were climate change merely a pretext for building the fourth industrial revolution on renewable and circular technology (which in many books is a good thing), having invested so much money in the narrative, big capital is unlikely to let it die.

The evidence suggests that what we are observing is merely a consolidation phase of the transition.

But what investors are really seeking is guidance on preferred climate solutions.

Perhaps that will come from the next COP.

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## FEATURE STORIES

# Equity Strategy 2022: Here We Go Again

The emergence of omicron has sent markets and government into a potentially overwrought panic, but until we know more about the new variant the outlook is clouded.

- Global economic outlook was solid ahead of omicron
- Transmissibility and vaccine effectiveness as yet unknown
- Until then, economists remain more optimistic than pessimistic
- Australia relatively well-placed

By Greg Peel

In FN Arena's last update on equity strategy, *Into The Headwinds* (link below), the consensus among economists and analysts was that economies would continue to grow in 2022 but at a slower pace than in 2021. High inflation would last for longer than first thought but would start to ease at least by the latter half of the year.

Delta would ease as vaccinations rates continued to grow. Government fiscal stimulus, of the direct hand-out variety, would cease and central banks would shift into policy tightening through rate hikes - some sooner, some later. Corporate earnings growth rates would slow, but the outlook for equities would remain positive overall.

One caveat to the above was, of course, unless another new deadly strain of covid appeared.

## Delta not done with

Before the sudden announcement of a new variant last Friday, and the swiftest time yet for WHO to officially declare it a "virus of concern", the expectation of delta risk easing was already being tested as the northern hemisphere moves towards winter.

Before omicron, Europe was entering its fourth covid wave. The case-count in Germany has reached to a level 217% higher than the prior January peak as the more infectious delta muscled out prior strains.

Even in the Netherlands, where the percentage of fully vaccinated exceeds the European average, the case-count has surged and partial lockdowns have been instigated.

The good news is German hospitalisations are only running at 40% of the prior peak, notes Wilsons Stockbroking. Of those European countries seeing higher case-counts than the prior peak, hospitalisations average 35%. Of those where the case-count is lower, hospitalisations are only 19%.

Hospitalisation numbers are what really count in terms of economic impact rather than case numbers per se. While delta has brought about yet more deaths, incidences of mild symptoms or asymptomatic cases have been greater.

The UK has been an interesting case study, Wilsons suggests, as while the country has been dealing with elevated case numbers for some time, hospitalisations are only 22% of the prior January peak and the death rate 12%.

The US is also experiencing a rise in case numbers once more but for financial markets, inflation and monetary policy have been the far more influential focal points.

Australia is in better relative shape, Wilsons declares, given a higher vaccination rate than Europe or the US, a booster program now underway and the fact we're heading into summer, not winter.

But Wilsons was writing before omicron.



### Variant of Concern

Omicron is the fifth covid variant officially classified as a “variant of concern” by WHO. Following on from the original Wuhan strain, we saw alpha appearing in the UK, beta in South Africa and gamma in South America. Delta emerged out of India and overrode all previous strains.

Delta proved to be more infectious. Given the pace of spread of omicron in just a matter of days, the fear is omicron is more so.

Omicron was actually first detected in Botswana on November 9. It was not until November 24 the South Africans confirmed it was a new strain and alerted WHO. Two days later WHO named it a variant of concern, much faster than any earlier variant.

Omicron has spread faster across southern Africa than delta and the percentage of omicron in case-counts is rising exponentially. At the time of writing, omicron has been detected in 20 countries including Australia and the US.

This suggests omicron is more infectious than delta, and will push delta aside.

The question is as to whether omicron is more virulent, leading to an increase in hospitalisation/death rates. Evidence from South Africa is it is infecting younger, rather than older, people and symptoms are milder than delta. Both cases reported in NSW to date have been asymptomatic, and young.

As older people are more vulnerable, this could be good news, except that South Africa has a very young average age compared to Western countries. So the jury’s still out.

We will have to wait at least two weeks if not longer to ascertain whether current vaccines are equally effective against omicron, less effective or not effective. If a new vaccine is required, it is not expected to be ready before February, and the world will need to go back into months-long rollouts.

It is nevertheless believed that antiviral treatments, which lesson the symptoms of covid and thus hospitalisation/death risk, such as those produced by Merck and Pfizer, will be effective. Furthermore, existing covid testing is successfully detecting omicron.

Ord Minnett points out that in Australia’s case, action to close the border to southern Africa and for states to shut borders again has been much swifter this time around than the delta response. The same is true in many countries.

But while not enough is yet known, renewed lockdowns cannot be ruled out. It will be a tough call for premiers already facing restriction backlashes and having already paid the economic price of prior lockdowns. “Living with covid” remains the current mantra, based on 90% vaccination rates, but living with omicron might be a whole new decision.

Central banks have, since covid arrived, ensured they would step in with further supportive policy measures if required, which makes Fed chair Jerome Powell's talk this week about speeding up tapering all the more untimely.

### The Impact

"Understanding transmissibility is the biggest factor in determining the level of concern for omicron," suggests Morgan Stanley. "If it outcompetes delta, then the level of concern should be very high. If it does not, omicron will create limited disruption".

The broker's new "base case" is now one of a variant that rapidly replaces delta, increases infection rates and reduces vaccine effectiveness. However, there is a modest, but real, possibility the outcome is less severe.

To that end, Morgan Stanley suggests, for now, omicron is expected to have a limited impact on the broker's global growth forecasts.

They are that global growth will remain above-trend, inflation is mostly transitory and central banks will raise rates at a much slower pace than the market is currently pricing (writing before the Fed upped the ante).

The broker notes four main influences on inflation of which three will prove transitory in its view.

Current wage inflation has been driven by people choosing not to work due to government handouts. With these ending, and lockdowns ending, Morgan Stanley expects individuals to return to the workforce and the pressure to fill employment positions will ease, thus easing wage inflation.

The same payments have also sparked a rush to buy goods. For example, since April 2020, furniture prices in the US have risen 30% and used car prices 40%. With mobility returning to society, households are shifting their consumption back to services, Morgan Stanley notes, including movies, restaurant meals and other general "experiences" they had been locked out of.

This shift should alleviate pressure on supply chains and the inflation they are driving.

Commodity prices have risen sharply since last year's recession as supply has been unable to keep up. Morgan Stanley believes most commodities will likely move back into oversupply in 2022, leading to price falls and lower inflation. The exception is iron ore, which the broker believes has likely bottomed.

The other exception, and the exception to inflation being "transitory", is energy prices. The energy sector is now positioning for a net-zero future, and spending serious money to do so. These funds are being diverted away from investment in fossil fuels, long before fossil fuel demand subsides. In short, the world is simply not ready yet.

Morgan Stanley cites the example of the world's "greenest" country in terms of electric vehicle take-up. EV demand in Norway now accounts for 70% of new car sales, yet demand for petrol and diesel has remained flat for the past five years.

Amidst all the hype currently surrounding EVs, especially on stock markets, there is never any mention of the obvious: no one has yet proposed an electric airliner, or cargo ship.

Morgan Stanley believes oil supply will peak ahead of oil demand, putting upward pressure on prices, i.e. inflation.

But the broker also points out that inflation measures such as CPI are "rate of change" measures. Hence while a 40% jump in US used car prices has had a big impact on current inflation, for that inflation rate to be maintained used car prices will have to jump another 40%. Even if they only flatten at high levels, the ongoing inflation rate impact is zero.

Hence inflation is transitory, and hence Morgan Stanley believes central banks will raise rates at a slower pace than markets are currently predicting.

Thus the global economy will continue to grow at an above-trend pace for the foreseeable future. Business investment in the US, the broker notes, and in the larger emerging markets of Brazil, Russia and India, has led to the fastest cyclical recovery since the War, with a focus on manufacturing machinery and IT equipment and software.

Despite government handouts ending, consumer savings rates in developed economies remain significantly excessive, supporting ongoing robust consumption.

And the US is not the only country planning to spend up big on infrastructure.

Of course, all of the above is predicated on omicron transmissibility, which if proven more transmissible than

delta could lead to further lockdowns in Asia, Morgan Stanley notes - the world's manufacturing hub.

While China is trigger happy when it comes to lockdowns, Taiwan is also sticking to a zero-covid policy and it is the world's leading producer of the computer chips used these days in just about everything. Chip shortages have been the biggest factor in the general supply shortages that have been driving inflation.

### Feelin' Alright

If economists and analysts agree on anything, which is rare, they all agree that when it comes to omicron "we just don't know yet".

They also agree Australia is doing rather well in the context.

Despite gravest fears, the Australian economy's swift rebound out of the original 2020 lockdowns caught all and sundry by surprise. Hence economists and analysts were sanguine about this year's delta lockdowns, and again, up till now anyway, the rebound has been swift.

Australia has one of the world's highest vaccination rates, assuming that helps, and one of the world's lowest delta case-rates.

The federal government had planned to reopen the international border to foreign students and skilled migrants from December 1. Morgan Stanley notes that before covid, net migration contributed about half of Australia's long term economic trend growth.

That date has now been pushed out two weeks due to omicron. So again, we can only wait.

Another positive for Australia, and for the global economy, is that Beijing's economic policies are now shifting back to supportive rather than restrictive, as the government weighs up the fallout from environmental restrictions, power shortages, shut-down production and a potential property market collapse.

China was posing the global economy's biggest threat as it was forced to slow down, but monetary injections and policy shift should reduce that threat in 2022.

\*\*\*\*

*Equity Strategy: Into The Headwinds:*

(<https://www.fnarena.com/index.php/2021/11/04/equity-strategy-into-the-headwinds/>)

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WEEKLY REPORTS

# Weekly Ratings, Targets, Forecast Changes - 26-11-21

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

By Mark Woodruff

**Guide:**

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

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

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

**Summary**

*Period: Monday November 22 to Friday November 26, 2021*

*Total Upgrades: 6*

*Total Downgrades: 9*

*Net Ratings Breakdown: Buy 55.62%; Hold 37.51%; Sell 6.87%*

For the week ending Friday November 26, there were six upgrades and nine downgrades to ASX-listed companies covered by brokers in the FN Arena database.

The unexpected retirement of Bapcor's CEO prompted downgrades to ratings from Morgan Stanley, to Equal-weight from Overweight, and Ord Minnett, to Hold from Buy.

Morgan Stanley sees minimal impact on near-term earnings though acknowledges a risk of further personnel churn and a reduced chance of accretive M&A opportunities to provide a near-term catalyst. Meanwhile, Ord Minnett takes the opposing view on near-term earnings and feels they may be impacted as the company is part way through a supply chain overhaul that includes the consolidation of 13 distribution centres.

Shopping Centres Australasia also received two rating downgrades from separate brokers last week. Macquarie (Neutral from Outperform) feels any upside is already encapsulated in the current share price.

On the other hand Morgan Stanley (Equal-weight from Overweight) suggests the relative attractiveness may wane for smaller-mall REITs with regional exposure as mobility increases. It's also thought slowing regional migration and limited balance sheet capacity may weigh.

UBS downgraded its rating for TechnologyOne to Sell from Neutral after a 30% share rally in the last three months, despite materially raising its earnings forecasts after the company's FY21 results. Macquarie also raised earnings forecasts and reduced its rating to Underperform from Neutral after comparing multiples for domestic and overseas peers. Management's lower revenue growth forecast was also taken into account.

TechnologyOne came second on the tables for both the highest percentage rise in forecast target price, and the highest percentage earnings forecast increase by brokers in the FN Arena database last week.

Nickel Mines came first on the former table, while Aristocrat Leisure was first on the latter.

Macquarie estimates Nickel Mines' share of contained nickel production will rise to circa 87ktpa by 2024 following rights being secured to acquire a 70% interest in the Oracle Nickel Project. The broker increased its rating to Outperform from Neutral and lifted its target price to \$1.45 from \$1.10.

Ord Minnett also raised its target price to \$1.45 from \$1.10, and declared the company is now the broker's top

nickel stock pick.

Last week, Aristocrat Leisure was still benefiting from earnings upgrades as a result of its FY21 result. Morgans assessed strong growth in group earnings driven by Digital (now known as Pixel United) and Gaming, in both the Americas and A&NZ.

On the flipside, Webjet had the largest percentage downgrade to earnings forecasts last week. Credit Suisse pushes out the timeline for a full travel recovery to the second half of FY23. In the near-term the company is thought at the mercy of government travel restrictions. Morgans expects the company to exceed FY19 underlying earnings in FY24.

[Note: Brokers were at that point unaware of omicron - Ed]

Finally, as mentioned last week, AGM commentary by Mineral Resources implied to Morgan Stanley that margins could come under pressure. Near-term production guidance was downgraded for Yilgarn and the economics at Ashburton are significantly worse than expected by the analyst.

Despite coming second on the list for forecast earnings downgrades last week, the company is one of Macquarie's preferred stocks in the broader resources sector, with potential to capture downstream value via the ramp-up of Wodgina and the conversion of all spodumene to hydroxide.

Total Buy recommendations take up 55.62% of the total, versus 37.51% on Neutral/Hold, while Sell ratings account for the remaining 6.87%.

### Upgrade

**ADAIRS LIMITED ((ADH)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/0/0**

Adairs will acquire Australian furniture retailer Focus on Furniture for \$80m as a relatively low-risk entry into the home furniture segment and a natural fit with its home furnishings segment, according to Ord Minnett.

The cost price represents 2.4 times underlying earnings achieved in FY21 which totaled \$32.8m, but the broker expects earnings benefited from recent elevated spending in home segments. Double-digit earnings per share are expected to be achieved in FY23.

The rating is upgraded to Accumulate from Hold and the target price increases to \$4.10 from \$4.00.

**APA GROUP ((APA)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/0**

APA Group's share price has rebounded strongly, Morgans notes, after it was gazumped in its pricey bid for AusNet Services. The broker assumes the gas pipeline utility was looking to diversify away from its fossil fuel dependence.

Morgans believes the organic headwinds the company is facing as higher gas prices impact on demand are more than offset by tailwinds from stronger inflation, given CPI-linked contracts.

Hence despite the rebound, the broker upgrades to Add from Hold. Target rises to \$9.98 from \$8.71.

**CROWN RESORTS LIMITED ((CWN)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/1/0**

Credit Suisse expects Blackstone's \$12.50 cash bid for Crown Resorts will be modified and then accepted by the board, notwithstanding a competing bid. Las Vegas Sands is known to be interested in acquisitions in Asia.

What Blackstone is offering could be accepted because what A&NZ casinos can offer (synergy and property restructure) is subject to execution risk, Credit Suisse notes. If the Victorian Royal Commission recommendations are accepted, Packer has to sell his 36%.

The broker believes the bid can be lifted to \$13.00 and hence has raised its target to that price, up from \$9.80, and upgraded to Outperform.

**FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED ((FPH)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 1/1/2**

Macquarie raises its target price to NZ\$37.57 from NZ\$32.30 following 1H results that beat consensus estimates by 13% and the brokers forecast by 11%. The analyst considers there are strong signs of Nasal High Flow (NHF) Therapy adoption.

The broker lifts EPS forecasts for FY22-24 by 9%,13% and15%, respectively, to reflect upgrades to Hospital revenue. As a result, Macquarie lifts its rating to Outperform from Neutral.

The analyst points out around 70% of Hardware sales came from outside US/Europe, which augers well for clinical adoption and device utilisation.

**NICKEL MINES LIMITED ((NIC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 4/0/0**

Macquarie estimates Nickel Mines' share of contained nickel production will rise to circa 87ktpa by 2024. This comes as the company secures the rights to acquire a 70% interest in the Oracle Nickel Project. The broker increases its rating to Outperform from Neutral.

The 70% interest will be acquired for -US\$525m. The analyst upgrades production by 32% for 2024-2026, as full production rates for Oracle are expected from 2024. The broker lifts its price target to \$1.45 from \$1.10.

**WEBJET LIMITED ((WEB)) Upgrade to Add from Hold by Morgans .B/H/S: 3/4/0**

While Webjet continues to feel covid impacts, and does not expect a return to pre-covid booking levels until the second half of FY23, Morgans notes the company did generate positive operating cashflow in the first half totaling \$32.8m.

With Webjet's larger businesses profitable in November, the broker is forecasting six months of positive underlying earnings. Given cost out targets, Morgans expects the company to exceed FY19 underlying earnings in FY24.

The rating is upgraded to Add from Hold and the target price increases to \$6.60 from \$6.20.

**Downgrade**

**APPEN LIMITED ((APX)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 2/1/1**

In recent discussion with industry contacts, Macquarie has observed a trend where some big-tech companies are looking to directly crowdsource for annotation. This is in preference to using third party annotation companies including Appen.

The broker's revised FY21-23 revenue estimates are now -7%-10% below consensus forecasts and the target price is lowered to \$9.50 from \$11.80. Macquarie's rating is also lowered to Underperform from Neutral.

**AUSTRALIAN VINTAGE LIMITED ((AVG)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0**

Higher-than-expected logistics costs have driven Australian Vintage to a FY22 underlying earnings guidance -12% below Morgans' previous forecast. A -\$4.5m logistics cost increase related to supply chain challenges is expected to add cost pressure in the first half.

Despite softer guidance, the broker notes metrics still demonstrate sustainable growth in recent years with guidance around 40% above FY20 results and just -5-7% below last year's record. Morgans expects limited potential for additional capital return in FY22.

The rating is downgraded to Hold from Add and the target price decreases to \$0.90 from \$1.06.

**BAPCOR LIMITED ((BAP)) Downgrade to Hold from Buy by Ord Minnett and Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 5/2/0**

Bapcor CEO Darryl Abotomey has announced his intention to retire in February 2022, at what Ord Minnett describes as a challenging time for the company.

Despite being well-placed for profit growth the news does spark concern of near-term risk, particularly as the company is part way through a supply chain overhaul that includes the consolidation of 13 distribution centres, a project already carrying execution risk.

The rating is downgraded to Hold from Buy and the target price decreases to \$7.20 from \$9.00.

While there may be a risk of further personnel churn, Morgan Stanley sees little impact upon near-term earnings from the unexpected retirement of Bapcor's CEO, Darryl Abotomy.

However, reduced optionality for EPS upgrade catalysts, such as M&A and increased uncertainty around management leads the broker to downgrade its rating to Equal-weight from Overweight. The target price falls to \$7.80 from \$9.70. Industry view: In line.

**CHARTER HALL RETAIL REIT ((CQR)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 3/1/1**

Morgan Stanley perceives the stability offered over the last two years by smaller-mall REITs with regional

exposure may become relatively less attractive as mobility increases. It's thought slowing regional migration and limited balance sheet capacity may also weigh.

As a result, the analyst's rating for Charter Hall Retail REIT falls to Underweight from Equal-weight. In relative terms, the broker prefers Shopping Centres Australasia Property Group ((SCP)) which has a higher three year compound annual growth rate.

The price target falls to \$4.05 from \$4.10. Industry view: In-line.

**SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED ((SCP)) Downgrade to Neutral from Outperform by Macquarie and Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 0/5/0**

Even after Macquarie allows for a stronger post-covid-shop-local thematic for Shopping Centres Australasia Property Group, the broker lowers its rating to Neutral from Underperform. It's estimated upside risk is encapsulated in the current share price.

The analyst makes slight upgrades to EPS forecasts and increases its target price to \$2.94 from \$2.90.

Morgan Stanley perceives the stability offered over the last two years by smaller-mall REITs with regional exposure may become relatively less attractive as mobility increases. It's thought slowing regional migration and limited balance sheet capacity may also weigh.

As a result, the analyst's rating for Shopping Centres Australasia Property Group falls to Equal-weight from Overweight. In relative terms, the broker prefers the group over the Charter Hall Retail REIT ((CQR)), which has a lower estimated three year compound annual growth rate.

The target price of \$2.95 is unchanged. In-Line industry view.

**TECHNOLOGY ONE LIMITED ((TNE)) Downgrade to Sell from Neutral by UBS and Downgrade to Underperform from Neutral by Macquarie.B/H/S: 1/1/2**

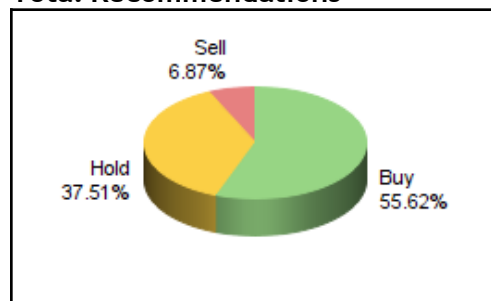
UBS assesses a solid FY21 result for TechologyOne though downgrades its rating to Sell from Neutral after a 30% share rally in the last three months. The profit result was a 1% beat versus the broker and towards the top end of guidance, primarily due to cost efficiencies.

Management reiterated the FY26 \$500m annual recurring revenue (ARR) target, after progress on SaaS transitions during 2H21, points out the analyst. The broker lifts its target price to \$11.90 from \$11.70.

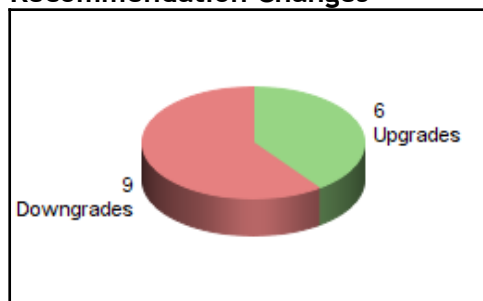
Following FY21 results for TechnologyOne, Macquarie raises its FY22-24 EPS forecasts by 10%, 15% and 15%, respectively, due primarily to lower opex. The broker lifts its target to \$11 from \$9.20 and notes solid momentum in the SaaS transition.

However, Macquarie reduces its rating to Underperform from Neutral after comparing multiples for domestic and overseas peers. Management's lower revenue growth forecast was also taken into account.

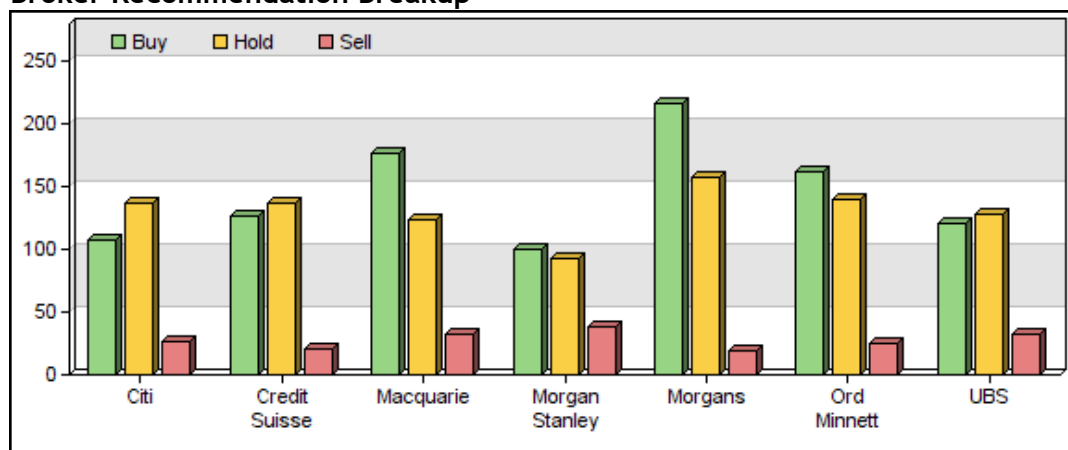
**Total Recommendations**



**Recommendation Changes**



## Broker Recommendation Breakup



## Broker Rating

Order	Company	New Rating	Old Rating	Broker
<b>Upgrade</b>				
1	<a href="#">ADAIRS LIMITED</a>	Buy	Neutral	Ord Minnett
2	<a href="#">APA GROUP</a>	Buy	Neutral	Morgans
3	<a href="#">CROWN RESORTS LIMITED</a>	Buy	Neutral	Credit Suisse
4	<a href="#">FISHER &amp; PAYKEL HEALTHCARE CORPORATION LIMITED</a>	Buy	Neutral	Macquarie
5	<a href="#">NICKEL MINES LIMITED</a>	Buy	Neutral	Macquarie
6	<a href="#">WEBJET LIMITED</a>	Buy	Neutral	Morgans
<b>Downgrade</b>				
7	<a href="#">APPEN LIMITED</a>	Sell	Neutral	Macquarie
8	<a href="#">AUSTRALIAN VINTAGE LIMITED</a>	Neutral	Buy	Morgans
9	<a href="#">BAPCOR LIMITED</a>	Neutral	Buy	Ord Minnett
10	<a href="#">BAPCOR LIMITED</a>	Neutral	Buy	Morgan Stanley
11	<a href="#">CHARTER HALL RETAIL REIT</a>	Sell	Neutral	Morgan Stanley
12	<a href="#">SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED</a>	Neutral	Buy	Macquarie
13	<a href="#">SHOPPING CENTRES AUSTRALASIA PROPERTY GROUP RE LIMITED</a>	Neutral	Buy	Morgan Stanley
14	<a href="#">TECHNOLOGY ONE LIMITED</a>	Sell	Neutral	Macquarie
15	<a href="#">TECHNOLOGY ONE LIMITED</a>	Sell	Neutral	UBS

## Recommendation

### Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	<a href="#">CWN</a>	CROWN RESORTS LIMITED	67.0%	33.0%	34.0%	3
2	<a href="#">FPH</a>	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	-25.0%	-50.0%	25.0%	4
3	<a href="#">NIC</a>	NICKEL MINES LIMITED	88.0%	63.0%	25.0%	4
4	<a href="#">APA</a>	APA GROUP	60.0%	40.0%	20.0%	5
5	<a href="#">WEB</a>	WEBJET LIMITED	43.0%	29.0%	14.0%	7
6	<a href="#">DHG</a>	DOMAIN HOLDINGS AUSTRALIA LIMITED	29.0%	17.0%	12.0%	7
7	<a href="#">TWE</a>	TREASURY WINE ESTATES LIMITED	40.0%	33.0%	7.0%	5

### Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	<a href="#">TNE</a>	TECHNOLOGY ONE LIMITED	-25.0%	25.0%	-50.0%	4
2	<a href="#">CQR</a>	CHARTER HALL RETAIL REIT	30.0%	63.0%	-33.0%	5
3	<a href="#">BAP</a>	BAPCOR LIMITED	71.0%	100.0%	-29.0%	7
4	<a href="#">APX</a>	APPEN LIMITED	25.0%	50.0%	-25.0%	4
5	<a href="#">WES</a>	WESFARMERS LIMITED	-17.0%	-14.0%	-3.0%	6
6	<a href="#">REA</a>	REA GROUP LIMITED	14.0%	17.0%	-3.0%	7

# Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	<a href="#">NIC</a>	NICKEL MINES LIMITED	1.463	1.213	20.61%	4
2	<a href="#">TNE</a>	TECHNOLOGY ONE LIMITED	12.158	10.100	20.38%	4
3	<a href="#">CWN</a>	CROWN RESORTS LIMITED	12.800	11.733	9.09%	3
4	<a href="#">DHG</a>	DOMAIN HOLDINGS AUSTRALIA LIMITED	5.494	5.327	3.13%	7
5	<a href="#">FPH</a>	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	34.000	33.000	3.03%	4
6	<a href="#">APA</a>	APA GROUP	10.028	9.774	2.60%	5
7	<a href="#">TWE</a>	TREASURY WINE ESTATES LIMITED	12.574	12.477	0.78%	5
8	<a href="#">WEB</a>	WEBJET LIMITED	6.146	6.123	0.38%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	<a href="#">BAP</a>	BAPCOR LIMITED	8.386	8.914	-5.92%	7
2	<a href="#">APX</a>	APPEN LIMITED	12.775	13.350	-4.31%	4
3	<a href="#">CQR</a>	CHARTER HALL RETAIL REIT	4.160	4.188	-0.67%	5

# Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	<a href="#">ALL</a>	ARISTOCRAT LEISURE LIMITED	158.043	128.900	22.61%	7
2	<a href="#">TNE</a>	TECHNOLOGY ONE LIMITED	26.360	22.118	19.18%	4
3	<a href="#">NIC</a>	NICKEL MINES LIMITED	7.391	6.661	10.96%	4
4	<a href="#">SHL</a>	SONIC HEALTHCARE LIMITED	267.650	246.900	8.40%	6
5	<a href="#">EVN</a>	EVOLUTION MINING LIMITED	18.077	16.755	7.89%	6
6	<a href="#">WHC</a>	WHITEHAVEN COAL LIMITED	102.317	95.650	6.97%	6
7	<a href="#">HVN</a>	HARVEY NORMAN HOLDINGS LIMITED	44.918	42.975	4.52%	4
8	<a href="#">MMS</a>	MCMILLAN SHAKESPEARE LIMITED	102.475	98.725	3.80%	4
9	<a href="#">FPH</a>	FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED	63.129	61.301	2.98%	4
10	<a href="#">WPL</a>	WOODSIDE PETROLEUM LIMITED	175.989	172.613	1.96%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	<a href="#">WEB</a>	WEBJET LIMITED	-10.346	-6.500	-59.17%	7
2	<a href="#">MIN</a>	MINERAL RESOURCES LIMITED	193.100	231.100	-16.44%	4
3	<a href="#">CWN</a>	CROWN RESORTS LIMITED	-9.325	-8.075	-15.48%	3
4	<a href="#">NHC</a>	NEW HOPE CORPORATION LIMITED	67.938	73.718	-7.84%	4
5	<a href="#">LOV</a>	LOVISA HOLDINGS LIMITED	42.675	45.200	-5.59%	4
6	<a href="#">APX</a>	APPEN LIMITED	33.360	34.885	-4.37%	4
7	<a href="#">BHP</a>	BHP GROUP LIMITED	484.768	504.067	-3.83%	4
8	<a href="#">UMG</a>	UNITED MALT GROUP LIMITED	20.725	21.225	-2.36%	5
9	<a href="#">NUF</a>	NUFARM LIMITED	24.829	25.400	-2.25%	7
10	<a href="#">VRT</a>	VIRTUS HEALTH LIMITED	43.667	44.667	-2.24%	3

Technical limitations

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**WEEKLY REPORTS**

# Uranium Week: Clean And Green?

A Canadian power company has issued the first nuclear “green” bond but ESG investors are in two minds regarding nuclear power’s true “green” credentials.

- Bruce Power issues first nuclear green bond
- There are pluses and minuses regarding ESG criteria
- Spot uranium price jumps up

By Greg Peel

Canadian-based energy company Bruce Power last week announced the issuance of C\$500m in “green” bonds, its CEO remarking “Clean nuclear power is crucial to fighting climate change, and today’s announcement marks another industry-leading step in the company’s environmental, social and governance strategy”.

Bruce Power has been a leader in the phasing out of coal-fired generation, and has been fundamental in the province of Ontario’s electricity system now being 94% emissions-free.

The issue for ESG-aligned investors is: Is nuclear power truly “green”?

Proponents point out nuclear power generation emits zero carbon dioxide, just like solar and wind and other renewables, and they are completely correct. But nuclear power is not “renewable”, as it requires uranium to fuel it, and that, like coal, has to be dug out of the ground.

The bulk of a nuclear reactor’s uranium consumption occurs at the initial stage ahead of firing up. Thereafter, lesser amounts are needed to keep it going. Based on a five to seven year average time of construction of a nuclear plant (itself emission-intensive) and the emission-intensive process of uranium mining/refining to fuel it, it is estimated a reactor will take ten to eighteen years before its zero emissions will net out emissions generated to get it there.

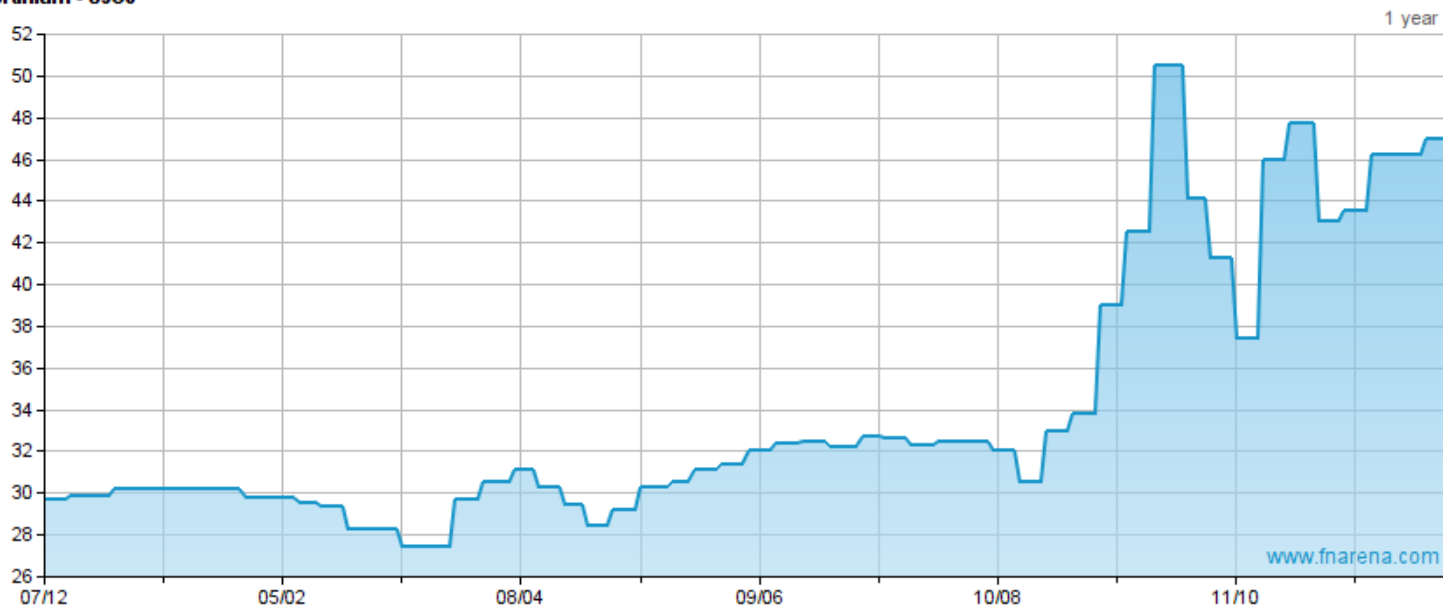
Moreover, reactors release heated waste-water into waterways which impacts dramatically on sea-life, and produces radioactive waste that will not break down for hundreds of years.

Hence, critics suggest nuclear power does not truly satisfy ESG credentials.

Investors will need to draw their own conclusions. Bruce Power’s bond was privately placed.

## Weekly Spot Price

Industry consultant TradeTech’s weekly spot price indicator rose US75c to US\$47.00/lb last week.



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## WEEKLY REPORTS

# Two Small Caps With Big Consumer Brands

By Tim Boreham, Editor, The New Criterion

## Two small caps with big consumer brands promise better times ahead

In the world of small cap investing, a well-known consumer brand does not necessarily equate to a generous market capitalisation. In contrast, the custodians of some of our best-known names easily fall into the 'microcap' category.

We're not implying that these beaten-down stocks are always worth buying, but with some diligent renovation it might be the case. Our starting point is that it's better to own a brand with entrenched goodwill that sings from the shelves, rather than a generic knock-off.

This leads us down the supermarket aisles to the egg shelves, where Farm Pride is synonymous with these ovoid delights. Yet for **Farm Pride** ((FRM)), there hasn't been much egg-citement for investors in recent years.

Formerly the Victorian Egg Marketing board, Farm Pride has always been a quiet outfit, which has much to do with the fact its major holder West Coast Eggs accounts for just under 50% of the register and the top 20 holders account for 75%.

The company's market worth is a paltry \$14m.



It's been tough times in the coop, with the company's operations last year struck by avian influenza - covid for birds - which wiped out one-third of Farm Pride's chooks.

The disease - which was brought in by migrating birds -- resulted in an -\$11.9m loss for the year to June 30, 2021, on revenue of \$76.9m (down -15%).

"12 months later we are still standing, which is testament to the early turnaround work we have done in the business," CEO Daryl Bird told a recent investor briefing.

(And no - we're not making that name up).

*"We have carried out balance sheet repair and most importantly we have increased working capital and recovered all affected farms."*

Meanwhile the egg industry is being forced to adapt to the supermarkets' collective pledge to eliminate cage farming by 2025, to be replaced by barn-laid or free-range production.

Four years ago, the commoditised industry was grappling with oversupply and a supermarket egg war erupted with price reductions of up to -40%.

Now the sector has swung to undersupply and Farm Pride is selling as many eggs as it can hatch. But retail prices remain down, down: a carton of large free-range eggs could be bought for as little as \$3.90 compared with well over \$5 five years ago.

Farm Pride has a circa 8% share of the retail sector that turned over \$1bn last year. It's a dominant supplier to home-brand (supermarket) labels which account for 60% of the sector.

The company's owned or operated farms churn out one million eggs a day from 1.4m chooks, graded at facilities in Sydney and Melbourne.

Farm Pride is also leader in the circa \$200m a year industrial sector, supplying ingredients such as egg liquids to mayonnaise makers.

Bird rues that as cage-laid facilities are phased out, production cost will rise but the retailers will demand less for more.

"Their endeavour is to push prices down and our endeavours as suppliers is to keep prices up," he says.

"But given long lead times for rollouts, there will invariably be mismatches and we are planning for those."

Bird admits the industry's challenges won't exactly egg on investors, but argues Farm Pride is well positioned to overhaul its core business and develop innovative products in an otherwise staid sector.

The latter includes higher margin convenience products (such as hard-boiled eggs), sports nutritional drinks and other forays into non-egg foodstuffs.

The pandemic, not surprisingly, has highlighted the potential of egg-based ingredients for home cooking.

"While we are an egg producer of significance, we are primarily an FMCG (fast moving consumer goods) business and that gives us a good evolutionary track as far as innovation goes."

Bird says that since he flew in to the top job in 2019, the company has stabilised cash flow and cleaned up its balance sheet. A superfluous facility was sold and in July the company entered a \$18m sale and leaseback deal for its main facility and HQ in Melbourne's Keysborough.

Farm Pride shares have gained 68% over the last year, which recognises the corporate renovation efforts and the tight supply.

Still, crestfallen investors have seen the value of their investment fall by -83% over five years.

Given the Farm Pride register is as tight as a battery cage the shares are as rare as hen's teeth and scarcely traded.

The stock is capable of doing much better, given strong population growth and the egg's status as key source of non-meat protein (and not the cholesterol bomb they were suspected to be).

### McPherson's ((MCP))

With a suite of popular personal care brands including Dr LeWinn, Manicare, Lady Jayne and Swisspers, McPherson's has had more facelifts than an ageing Hollywood star but remains mired in mediocrity.

As with Farm Pride, as a supplier to the supermarkets McPherson's has been pushed around by the big guys over the years and can also be hostage to currency movements.

That said, McPherson's full year reported loss of -\$5m for the 2020-21 year belies an interesting value proposition for the \$120m market cap stock.

At the company's late November AGM, chief executive Grant Peck described the year as "one of the most challenging in a decade". And - boy - the company has sure had some challenging years.

The chief culprit was an -82% plunge in Dr LeWinn sales to China, which wiped -\$15.7m from earnings and more

than offset an increase in domestic home-based beauty sales.

The reported loss stemmed from significant items, including a -\$6.7m write down of hand sanitiser inventory because of a market glut.

We should have seen that one coming!

The company has told shareholders to expect lower first (December) earnings, but in earnings before interest and tax (ebit) terms the full year should be \$1-2m higher.

In 2020-21 the company reported ebit of \$11.3m, -55% lower on revenue of \$200m (down -10%).

In November last year McPherson's acquired alternative medicine outfit Global Therapeutics for \$27.5m, with this business chipping in \$9.5m of revenue and \$1.39m of earnings.

McPherson's balance sheet is in fine fettle, which supports a generous dividend payout equating to a circa 5.3% yield, fully franked.

The shares have lost half their value over the last year, but all will be forgiven if management hits its target of \$300m of annual sales and \$50m of ebit by 2026.

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## WEEKLY REPORTS

# The Short Report - 02 Dec 2021

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

### Summary:

By Greg Peel

Week Ending November 25, 2021.

Last week the ASX200 did very little, ahead of the November 26 omicron plunge.

We note that Flight Centre ((FLT)) and Webjet ((WEB)) saw small ticks up in shorts last week - to 12.9% from 12.7% for the former and 9.1% from 8.9% for the latter - ahead of being hit the hardest on the day omicron was revealed.

So we'll find out next week how the shorters responded.

Otherwise all of the red and green below simply reflect stocks ticking back and forth between brackets.

The one exception is Inghams Group ((ING)), which saw its shorts fall to 5.2% from 7.8%. See below.

### **Weekly short positions as a percentage of market cap:**

#### 10%+

FLT 12.9  
KGN 12.2  
KLA 11.6  
RBL 11.1

No changes

#### 9.0-9.9

Z1P, WEB, MSB

In: **WEB, MSB** Out: **EOS**

#### 8.0-8.9%

COE, EOS

In: **EOS** Out: **WEB, MSB**

#### 7.0-7.9%

OBL, BHP, TPW, PNV

In: **OBL** Out: **ING**

#### 6.0-6.9%

MND, AMA, BET, MTS

Out: **OBL, A2M**

#### 5.0-5.9%

A2M, APX, RSG, ING, BPT



Movers & Shakers

Poultry producer Inghams Group did little more than follow the market around last week and has not been impacted any more than the market in the interim omicron scare, despite the potential for re-shut down restaurants.

Citi put out a report last week noting Australian poultry production grew 10% year on year in the September quarter which provides a positive read-through for Inghams in terms of first half volumes. But despite rising feed costs, retail chicken prices fell slightly.

While this suggests an incapacity to pass wholesale inflation through to the consumer, Citi points out there is a 3-6 month lag in higher feed costs flowing through to prices (while the chooks grow, presumably).

Hence while softer pricing is expected in the first half, the broker expects increasing fast food demand in the second half will partially offset in the second.

Citi's report pre-dates omicron.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.0	0.1	MQG	0.3	0.2
ANZ	0.6	0.6	NAB	0.7	0.8
APT	0.9	0.9	NCM	0.5	0.4
BHP	7.4	7.3	RIO	0.4	0.3
BXB	0.6	0.5	TCL	0.3	0.2
CBA	0.7	0.7	TLS	0.2	0.2
COL	0.5	0.5	WBC	1.1	1.0
CSL	0.3	0.2	WES	0.3	0.2
FMG	2.7	2.7	WOW	0.7	0.5
GMG	0.0	0.0	WPL	1.4	1.5

To see the full Short Report, please [go to this link](#)

Guide:

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

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

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

**IMPORTANT INFORMATION ABOUT THIS REPORT**

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

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

*“short covering” may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.*

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

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

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

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

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

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

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## WEEKLY REPORTS

# In Brief: House Prices, Employee Unrest & Best Stock Ideas

Weekly Broker Wrap, In Brief: House prices; employee unrest; fund managers preferred stocks broker's best ideas.

- The outlook for house prices
- Employee dissatisfaction
- Fund managers preferred stocks
- Morgans best stocks
- Morningstar's best stocks

By Mark Woodruff

## The outlook for house prices

**Jarden downgrades its 2022 forecast for house price growth to 5% from 7%.** This comes as November dwelling price growth rose 1.3% month-on-month, down from the prior months reading of 1.5% growth.

This slowing of housing growth has potentially negative implications for the banking sector. The broker previously had an above-consensus housing credit forecast though some offset is provided by increased confidence around business credit.

Willingness to borrow may fall after major banks have hiked fixed home loan rates by 50-70 basis points since September, explains Jarden. While the RBA doesn't expect to hike rates before 2024, it's thought **lending and house prices may moderate if households begin to expect higher rates.**

Already, the analyst points to cracks starting to appear in the housing recovery, with affordability, sentiment and concerns around higher rates all weighing on the market.

Jarden expects rate hikes from May 2023 and a likely low single digits softening in house prices. The key risks for the housing market remain higher rates and more aggressive macroprudential tightening from APRA. The latter risk would be somewhat tempered by moderating price growth, explains the broker.



### Employee dissatisfaction

A survey of more than 500 small to medium enterprises (SMEs) has found one in four are already experiencing a **higher than usual staff turnover** in the wake of covid.

The new data from financial services firm Findex shows **53% of SMEs are concerned about their ability to retain staff over the next twelve months, while one third have noticed a drop in employee satisfaction.**

Maybe this employee dissatisfaction stems from a general lack of consultation.

According to Jane Betts, Chief People Officer at Findex, “managers and leaders need to tap into what their employees want, as it’s clear there’s a big disconnect”.

The disconnect is highlighted by survey figures revealing 50% of businesses have no plans to discuss with their teams a preferred working-from-home-model. Moreover, around two thirds want staff to return to the office for most of the working week, while at the same time acknowledging only about one third of staff want a return to pre-covid working conditions.

Having come so far in the digital transformation, it seems small businesses still envisage a return to pre-pandemic times and regard any business model changes as temporary. Around one third of respondents to the survey said they would have a modified business model, while only 2% said they would have an entirely new business model adapted during the pandemic.

### Fund managers preferred stocks

JP Morgan has reviewed favoured holding of shares by fund managers in October, which the broker terms the Love Index.

With the aim of getting a read on consensus positioning, the broker collects data from 41 funds which together represent a meaningful proportion of assets under management in Australia.

As a general statement, JP Morgans points to a swing away from Cyclical exposures toward Defensives over the last few months. Most of the flows have been directed towards Communication Services.

This trend continued in October. Despite a drop in both Healthcare and Utilities exposures, an uplift in Communication Services drove up overall holdings of Defensives. While Telstra ((TLS)) had a slight fall back in

holdings during the month, the company has experienced a large upweight since late last year, according to JP Morgan.

Meanwhile, Cyclical continued a slide in October. This was demonstrated in part by the reduced proportion of both Brambles (BXB) and Qantas Airways ((QAN)) appearing in the top holdings of fund managers.

In a boost for Discretionary holdings overall, five funds added Aristocrat Leisure ((ALL)) to their portfolios in October. The Discretionary category now comprises 10% of all stocks disclosed by fund managers.

Finally, two funds added Newcrest Mining ((NCM)) to their top holdings in October, and as a result, the company moved into the “well held” category of the Love Index. However, the manager universe scaled-back holdings in both BHP Group ((BHP)) and Rio Tinto ((RIO)), placing the companies at two-year lows in terms of proportion of top holdings held by the fund managers.

### Morgans Best Ideas

Market strategists at Morgans have amended their Best Ideas list, which is based on the highest expected risk-adjusted returns over a 12-month timeframe, while also supported by an above-average level of confidence.

Additions include Technology One ((TNE)), Namoi Cotton ((NAM)), HealthCo Healthcare & Wellness REIT ((HCW)) and People Infrastructure ((PPE)), while Beacon Lighting ((BLX)), GrainCorp ((GNC)) and Kina Securities ((KSL)) have been omitted.

The entire list comprises 46 ASX-listed companies is as follows:

Acrow Formwork and Construction Services ((ACF))

Alliance Aviation Services ((AQZ))

Ansell ((ANN))

Atlas Arteria ((ALX))

BHP Group

Booktopia Group ((BKG))

Corporate Travel Management ((CTD))

Dalrymple Bay Infrastructure ((DBI))

Dexus Convenience Retail REIT ((DXC))

Eagers Automotive ((APE))

Endeavour Group ((EDV))

Frontier Digital Ventures ((FDV))

HealthCo Healthcare & Wellness REIT

HomeCo Daily Needs REIT ((HDN))

Hotel Property Investments ((HPI))

HUB24 ((HUB))

Incitec Pivot ((IPL))

Karoon Energy ((KAR))

Lovisa Holdings ((LOV))

Mach7 Technologies ((M7T))

Macquarie Group ((MQG))

MoneyMe ((MME))

Namoi Cotton

NextDC ((NXT))

Nufarm ((NUF))  
Panoramic Resources ((PAN))  
People Infrastructure  
PTB Group ((PTB))  
QBE Insurance Group ((QBE))  
Ramelius Resources ((RMS))  
Reliance Worldwide Corp ((RWC))  
ResMed Inc ((RMD))  
Santos ((STO))  
Sonic Healthcare ((SHL))  
Tabcorp Holdings ((TAH))  
Technology One  
TPG Telecom Ltd ((TPG))  
Transurban Group ((TCL))  
Treasury Wine Estates ((TWE))  
Tyro Payments ((TYR))  
Universal Store Holdings ((UNI))  
Volpara Health Technologies ((VHT))  
Waypoint REIT ((WPR))  
Whitehaven Coal ((WHC))  
Woodside Petroleum ((WPL))

#### Morningstar's best ideas

Since last month, Morningstar has added Westpac ((WBC)) and removed APA Group ((APA)) from its list of Best Stock Ideas.

The aim of the Best Stock Ideas is to highlight high-quality Australian and New Zealand companies, which are currently trading at discounts to Morningstar's assessed fair values.

Morningstar likes Westpac for funding cost advantages that should allow the bank to reprice loans and generate better margins as the cash rate is increased. On the other hand, APA Group was removed from the Best Stock Ideas after the price rallied back to fair value in November on signs that management would no longer pursue an acquisition of AusNet Services ((AST)).

The list of 16 companies from Morningstar, narrowed down from a coverage of nearly 200 stocks, is as follows:

The a2 Milk Co ((A2M))  
AGL Energy ((AGL))  
AUB Group ((AUB))  
Aurizon Holdings ((AZJ))  
Brambles  
Cimic Group ((CIM))  
G8 Education ((GEM))  
InvoCare ((IVC))  
Lendlease Group ((LLC))



Link Administration Holdings ((LNK))

Magellan Financial Group ((MFG))

Southern Cross Media Group ((SXL))

Viva Energy Group ((VEA))

Westpac Bank

Whitehaven Coal ((WHC))

Woodside Petroleum

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**TREASURE CHEST**

# Treasure Chest: Universal Store Holdings

FN Arena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Today's idea is Universal Store Holdings from Morgans.

By Mark Woodruff

Whose Idea Is It?

Analysts at Morgans

The subject:

Australian specialty retailer of casual youth fashion, Universal Store Holdings ([\(UNI\)](#)).

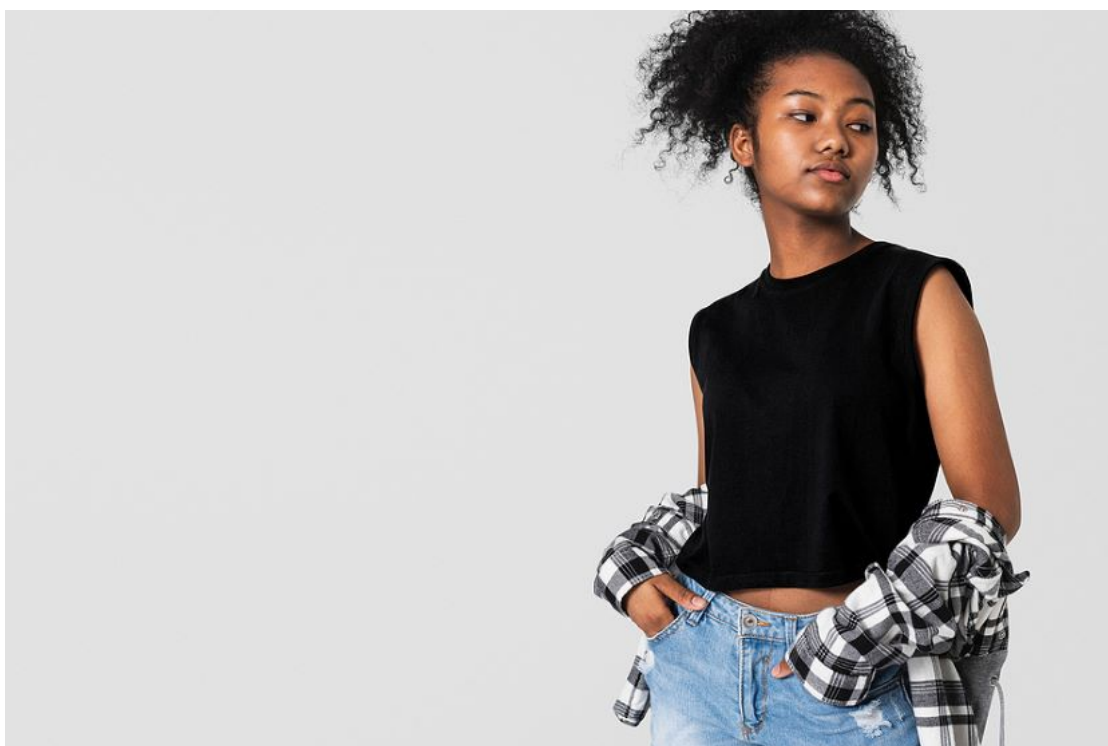
On Thursday, the company updated the market for the first 20 weeks of trading in FY22. Like-for-like sales exceeded Morgans' forecast, with **67.8% growth in online sales** being largely responsible.

In response, Morgans has upgraded its twelve month price target to \$8.90 from \$8.72 while retaining its Add rating. The shares refused to sell off on Friday in line with the rest of the market. The share price is still circa -14% below the upgraded target.

Of the 76 stores, three trade under the company's private label concept Perfect Stranger, which will shortly launch its own website. In Morgans entire coverage of omni-channel retailers, this company delivered the fastest rate of growth in online sales last year.

Now that locked-down stores in NSW, ACT and Victoria have reopened, the broker expects total sales will gather momentum into the year's end.

Expect to see and hear more as the company plans to almost double its advertising and marketing spend. Morgan believes this will bear fruit and on that note, the broker has lifted its FY22 and FY23 forecasts.



More info:

The company first listed in November 2020. Shares have moved in a range of \$4.35 to \$8.56 since and closed at \$7.81 on Friday.

The positive market update came as no surprise to your correspondent who recently formed part of a long queue at the cash register, in a forlorn attempt to appear young and remain on trend. The group's 76 stores spread across Australia cater to casual wear for both men and women. Nine stores have opened so far this year and management expects another two or three to open before the end of FY22.

So far, Macquarie is the only other broker that covers Universal Store Holdings out of the seven that make up FNArena's Broker Call Report universe. Macquarie's initial response post the trading update mimicked that of Morgans; forecasts went up, the price target moved to \$8.90 from \$8.60 and the rating remained Outperform.

But Macquarie had an afterthought and has decided to roll forward its valuation including a more robust roll-out of new stores in its modelling, now including a total of 11-12 additional stores by June next year, as per AGM update from the company. Despite the news of a new variant (omicron), Macquarie's base case scenario is for FY23 to be a year less affected by the global pandemic.

As such, on Monday Macquarie's price target has further increased to \$9.60.

Both Add and Outperform are equivalent to a Buy rating for consensus purposes.

Wilsons, not one of the brokers updated daily, has an Overweight rating and target price of \$8.70.

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**TREASURE CHEST**

# Treasure Chest: HealthCo Healthcare & Wellness REIT

FN Arena's Treasure Chest reports on money making ideas from stockbrokers and other experts.

**Whose Idea Is It?**

Analysts at Goldman Sachs

**The subject:**

Goldman Sachs initiated coverage on HealthCo Healthcare & Wellness REIT ((HCW)) with a Buy rating and the recently listed REIT (September) went straight to the broker's Conviction List.

The maiden price target of \$2.56 implies a total return for the year ahead in excess of 20% with the broker pointing out its expectation is for an average total return for the sector of circa 6% in Australia.

FN Arena's consensus forecasts, which are based on projections published by stockbrokers Morgans and Morgan Stanley, imply the forward looking yield at the current share price is 3.4% and 4.2% respectively for this financial year and FY23.

**More info:**

HealthCo Healthcare & Wellness REIT is the latest initiative of the team of property specialists that made its mark with Home Consortium ((HMC)) and HomeCo Daily Needs REIT ((HDN)), both highly successful ventures that have paid off in spades for early shareholders that gave entrepreneurship two thumbs up.

The HealthCo Healthcare & Wellness REIT owns a portfolio of healthcare and wellness assets, all in Australia and predominantly concentrated on the eastern seaboard. As such, it is seen as a relatively defensive

proposition with secure cash flows and high-quality, stable tenants, often with government backing, but the healthcare sector is also growing steadily, and irrespectively of interest rates and the economic cycle, so this proposition is not only about security and stability.

Analysts at Goldman Sachs believe the REIT is supported by sub-sector mega-trends, such as the ongoing ageing of the Australian population, the ongoing increases in spending by governments on healthcare services, plus technological improvements and more and more demand for healthcare services.

The two brokers in the FNArena universe of seven daily monitored stockbrokers who also cover the stock, Morgans and Morgan Stanley, are equally positive with ratings of Add and Overweight and price targets of respectively \$2.48 and \$2.45.

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TREASURE CHEST

# Treasure Chest: Kelsian Group

FN Arena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Today's idea is Kelsian Group from Canaccord Genuity.

By Danielle Austin

Whose Idea Is It?

Analysts at Canaccord Genuity

The subject:

Public and tourism, land and marine transport provider Kelsian Group ((KLS)), formerly (and until fairly recently) known as SeaLink Travel Group.

Analysts at Canaccord Genuity suggest today's beaten-down share price offers 50% potential return over the year ahead, including circa 3% in dividend.

Since August, shares in Kelsian Group are in freefall. Having peaked at \$10 -an all-time high- the shares have only fallen, and fallen further since with yesterday's closing share price at \$6.38 marking a loss of circa -36%.

Last Friday the company announced it had not been successful in its bid for the Sydney Region 9 contract and Canaccord Genuity believes ongoing share price weakness reflects negative market perception of missed opportunity.

The broker likes that Kelsian has strong revenue visibility with more than 90% of revenue contracted as well as that the company has demonstrated ability to retain contracts. Canaccord Genuity has retained its Buy rating, while only lowering its target price to \$9.62 from \$9.94 as missing out on this contract was never incorporated into its modeling in the first place.





#### More info:

Despite Kelsian Group losing out on the Region 9 contract to a Transdev-John Holland joint venture, and missing out on a sizeable contract with the Melbourne Metro Bus Franchise in October, Canaccord Genuity notes considerable further opportunity for the company to set its sights on. As part of its growth strategy, the company has tendered for contracts around Australia and the UK, and the broker notes further bus tender opportunities in both Sydney and Singapore.

Kelsian is also considered well-positioned to benefit from opportunity in the organic resources transport segment, having already integrated the acquisition of mine site transfer charter company Go West.

In the short term, Canaccord Genuity expects the company's marine and tourism segments to benefit from a prolonged peak summer period, and notes room for growth in the Frasier Island and north Queensland regions, as well as from acquisitional activity to add further scale. The broker considers opportunity in marine, tourism and resource transport to be potential catalysts.

At this point Macquarie is the only other broker to have commented on Kelsian Group's Region 9 contract loss. Macquarie has maintained a Neutral rating and reduced its target price to \$6.45 from \$7.85, equally noting further tendering opportunities for the company over the next two years.

Of five other brokers who cover this company, four have a positive view with price targets suggesting a general consensus the share price weakness has become "excessive". Bell Potter rates the stock Hold with a price target of \$9.00.

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**RUDI'S VIEWS**

# Rudi's View: 2022 Looks Familiar, Though Not Quite The Same

In this week's Weekly Insights

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## 2022 Looks Familiar, Though Not Quite The Same

By Rudi Filapek-Vandyck, Editor FN Arena

This might come as a surprise to many readers, but, reading through investment strategy reports for 2022 and listening to funds managers on webinars, there is far more agreement than disagreement among the world's experts about what is likely to occur in 2022.

Global growth is slowing, and will continue to decelerate. Inflation will peak soon, and then start descending. Central bank policies become less accommodative. Bond yields are trending higher. And the world will have to start living with the virus and its multiple variants, with bumps and set-backs along the way.

Where disagreement kicks in is in the speed and timing of these events.

Questions like: "when exactly will the yield on the US 10-year government bond reach 2% and at what speed?" can momentarily become very important for a market that at times feels like it wants to have that big correction so many investors are fearful of.

Equally important: so many portfolios are positioned for re-opening borders and re-inflation, but those trades have become crowded and volatile as also witnessed by share prices in Webjet ((WEB)) and Flight Centre ((FLT)) and the like; even before omicron announced itself.

At the index level, the Australian share market has effectively been in a moribund state since the second half of the August reporting season. And our two largest sector constituents -banks and iron ore producers- have been directly responsible for it. Investors can thank China and a disappointing banks reporting season.

At the smaller end of the market, things have soured quickly for stocks that enjoyed widespread popularity not that long ago. The likes of PointsBet Holdings ((PGH)), Codan ((CDA)), Bapcor ((BAP)), Damstra Holdings ((DTC)), Nearmap ((NEA)) and Appen ((APX)) have all been testing how much pain can be inflicted on shareholders without them capitulating and selling out (though many would have, by now).

Year-to-date the Australian market (ASX200 plus dividends) is still up more than 14%, which would be seen as a positive outcome in most calendar years, in particular given the many question marks and potential challenges that are on investors' minds.



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The two most important factors for the year ahead might well be growth and inflation, with corporate profits and asset valuations squeezed in between.

2021 has brought back inflation but many remain of the view the narrative is overcooked and bond markets may have overdone it in the short term.

At the source of this year's spike in global inflation are the low comparatives a year ago, plus ongoing disruption from closed borders, lockdowns and other virus-related impacts, and, in the US, the mystery disappearance of more than 4m workers that may or may not return into the labour market.

While the debate rages on, and there are valid arguments and forecasts either way for each of the separate constituents, fact remains the chances of international shortages and bottlenecks remaining in place for (much) longer are genuine and real, and this increases the chance that inflation might become a self-reinforcing process, in particular if those 4m non-job seekers in the US remain missing.

Hence, last week **economists Bill Evans and Elliott Clarke at Westpac** revised their timeline for the Federal Reserve in the US next year with the central bank expected to announce accelerated tapering at its upcoming December 14-15 meeting with rate hikes to follow in June, September and December next year (25bp each).

What follows next is equally important as Westpac too is of the view that inflation will decelerate throughout 2022, and GDP growth is to remain healthy so Jerome Powell & Co can remain accommodative which, on Westpac's forecast, should result in a fairly benign pace of rate hikes in 2023-25.

Westpac only anticipates three more hikes (3x) -one every six months- between June 2023 and June 2024 which takes the federal funds rate to 1.625%.

The above scenario has major implications for the trajectory of currencies. The USD is expected to strengthen over the next six months, pushing the AUD potentially below 70c, but start weakening from the moment other regions like Europe are strong enough to embark on their own rate hike cycle.

Most importantly: the pulling forward of the timing of US rate hikes is not expected to have any impact on the RBA timeline. Westpac is still of the view Philip Lowe & Co won't lift a finger before February 2023.

It goes without saying, Westpac is but one forecaster in a world of many, but in particular Bill Evans has built up a commendable track record over his long career. It's why his name is held in high esteem among colleagues, journalists and investors in Australia.

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Let us for the time being assume Evans and Clarke are closer to next year's actual outcome than the many dissenting, hyper-ventilating voices on TV and social media. This has a number of major implications for asset markets:

- bond yields today are too low, but yields won't need to double again as they did earlier between mid-2020 and early 2021

- global inflation will eventually trend back to where central bankers like it to be, assisted with a relatively

small number of rate hikes (certainly within historical context)

-economic growth too will trend lower, but this need not mean another recession is inevitable or on the immediate horizon

-the RBA need not follow the FOMC in haste, contrary to what the local bond market is suggesting

Underlying, the key message for investors seems to be that market volatility will remain high, in particular if US 10-year bond yields make their way from currently below 1.50% to, say, 2.50%.

However, in the absence of much stronger and more persistent inflation, or much weaker economic growth, next year should not mark the end of the bull market for equities.

In fact, if we take the above cocktail and add historically elevated valuations there is a fair argument to be made that 2022 shares a whole lot of common characteristics with the year past.

Without further much ado, I thus predict multiple attempts for portfolio rotation into Value and Cyclical and out of Growth, Quality and Defensives.

Some of these attempts will be more successful than others, but on a likely middle-of-the-road scenario outcome, investors better not forget that mega-trends carry their label for very good reason, and covid and technology are changing the world and reshaping the future.

Higher bond yields might lead to a sell-off in higher valued, strongly growing companies-of-the-future, as long as that growth remains in place, their share prices will stage a come-back, and move beyond, ever onwards and upwards.

Because investing in the share market is ultimately investing in growth. Nothing more and nothing less. As long as you don't pay a crazy price to get on board.

Within the context that creates itself from the ingredients above, the importance of patience and "timing" might become more prominent in 2022.

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One key difference that needs to be highlighted is the **outlook for corporate profits locally** which looks a lot less broad-based and less promising than it was earlier in 2021 and last year.

This difference is easily illustrated through the numbers. FY21 saw Australian companies on average improve earnings per share by more than 25%.

For FY22 that number is circa 13%, but... most of that growth seems already behind us. On assessment by market analysts at Morgan Stanley the twelve months forward looking EPS growth number has recently sunk to 4.7%.

Market consensus for FY23 and FY24 sits at rather weak 3% and 2.6% growth projections.

In Australia, contrary to the USA, market consensus aggregate EPS expectations peaked in August, and have been in noticeable decline since.

Apart from the banks, insurers and iron ore producers, forecasts are falling for Webjet, Crown Resorts ((CWN)), Lovisa Holdings ((LOV)), Appen, United Malt Group ((UMG)), Nufam ((NUF)), Virtus Health ((VRT)), and numerous others.

This, I think, is the real message to take home for the year ahead: overall dynamics are getting tougher for corporate Australia. In order to avoid being hit by the next profit warning or otherwise corporate disappointment, it looks wise to dial back on the overall risk-taking.

It's very striking, also, that in the US experts are debating how much leaner and more profitable American companies are becoming as they adopt new technologies and adapt to the changing times, while in Australia, at the top end in particular, the corporate dynamics look a lot less promising.

Also, if we take a leaf from the 2021 playbook, things are bound to get hairy at times, sometimes scarily so. As we've all observed over the year past, indices do not necessarily reflect what is really going on across the market, and portfolio rotation can inflict significant damage on individual stocks, even if it lasts only



temporarily.

The lesson I learned from experiences from the years past is it is best to use volatile times to cleanse the portfolio and get rid of disappointers and never-deliverers. Many an investor secures profits and gets stuck with the losers. I believe best practice consists of doing exactly the opposite.

And, of course, it's always great to have cash on the sidelines. Have as much as you need to sleep well.

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**This is the final edition for 2021. Weekly Insights returns in late January.**

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### Recent editions of Weekly Insights

The Secret Ingredient:

<https://www.fnarena.com/index.php/2021/11/25/rudis-view-the-secret-ingredient/>

Ansell, Mach7, Nitro Software, ResMed And Santos:

<https://www.fnarena.com/index.php/2021/11/18/rudis-view-ansell-mach7-nitro-software-resmed-and-santos/>

Three Risks Into Year-End:

<https://www.fnarena.com/index.php/2021/11/11/rudis-view-three-risks-into-year-end/>

Bonds Versus Earnings:

<https://www.fnarena.com/index.php/2021/11/04/rudis-view-bonds-versus-earnings/>

Australia's Share Market Sweet Spot:

<https://www.fnarena.com/index.php/2021/10/28/rudis-view-australias-share-market-sweet-spot/>

### December Index Watch

Standard & Poor's will announce changes made to local indices on Friday December 10th, to be put in place after the close of trade the following week, on Friday the 17th.

Analysts at Wilsons are anticipating a number of changes for each of the ASX20, ASX50, ASX100 and ASX200. As is usually the case, any changes to the ASX20 are only "possible" while a higher plausibility is reserved for the potential changes to the other indices.

Wilsons sees a possibility that Brambles ((BCB)) might lose its spot in the ASX20 with James Hardie ((JHX)) the prime candidate to fill up the vacancy, if S&P decides to make that move.

More probable is that the ASX50 might undergo some changes with Aurizon Holdings' ((AZJ)) likely to be dropped in favour of Seek ((SEK)), on the broker's analysis. Also possible: LendLease ((LLC)) losing its spot in favour of BlueScope Steel ((BSL)).

M&A is creating extra gaps for the ASX100 and ASX200 meaning there are more candidates to join than to be dropped from both indices.

For the ASX100, Wilsons thinks Orocobre ((ORE)) and Pilbara Minerals ((PLS)) -both lithium miners- stand a good chance to be included, while insurance broker Steadfast Group ((SDF)) might be called upon too with the inclusions of Link Administration ((LNK)) and Orora ((ORA)) now under a question mark.

For the ASX200, Wilsons sees potential inclusions for Sandfire Resources ((SFR)), Imugene ((IMU)), Liontown Resources ((LTR)), Paladin Energy ((PDN)) and Event Hospitality & Entertainment ((EVT)) while probable exclusions for Kogan ((KGN)), Redbubble ((RBL)), Omni Bridgeway ((OBL)) and Monadelphous ((MND)).

Given a lesser chance, but still labeled as "possible" are the inclusions of Novonix ((NVX)) and Arena REIT ((ARF)) and the exclusions of Nearmap ((NEA)) and Spark New Zealand ((SPK)).

Traditionally, and still dependent on other factors such as general market sentiment, changes announced to the ASX200 tend to have a larger observable impact on the share prices involved as professional funds managers move in and out, if they haven't already done so in the lead-up to the official announcement.

### Conviction Calls

The team at **Shaw and Partners** that is -without competition- the most enthusiastic in the country about **software companies** listed on the ASX, has initiated coverage on Zoom2U ((Z2U)) with a Buy rating and 65c price target.

Zoom2U is a delivery services marketplace platform plus a delivery management software-as-a-service (SaaS) provider which is not yet profitable but the team at Shaw sees it as fully funded until that operational break-even can be established.

Otherwise, it's very much steady-as-always at Shaw with Mach7 Technologies ((M7T)), Whispir ((WSP)) and Gentrack Group ((GTK)) still making up the Top Three favourites for the local software sector.

Total coverage now comprises of 15 ASX-listed companies, and only five do not carry a Buy rating; PushPay Holdings ((PPH)), Class ((CL1)), TechnologyOne ((TNE)) and WiseTech Global ((WTC)) are all Hold-rated, with Iress ((IRE)) holding the sole Sell rating.

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For those looking to add exposure to **gold producers** during times of increased volatility and uncertainty, **Wilson's** has expressed its preference for Northern Star ((NST)) with Newcrest Mining ((NCM)) least preferred in the sector.

Over at **Canaccord Genuity**, mining analysts have equally included Northern Star for their top picks among Australian producers, alongside Capricorn Metals ((CMM)) and Perseus Mining ((PRU)).

For those looking for higher-risk developers and explorers, Canaccord has selected Bellevue Gold ((BGL)), De Grey Mining ((DEG)), Orecorp ((ORR)) and Titan Minerals ((TTM)) as its most preferred favourites.

### Research To Download

RaaS on Chimeric Therapeutics ((CHM)):

<https://www.fnarena.com/downloadfile.php?p=w&n=1BA5C9FA-D818-F2B6-AD5C51E77382EFE0>

RaaS on Shekel Brainweigh ((SBW)):

<https://www.fnarena.com/downloadfile.php?p=w&n=1BCC77EA-D2D8-BECD-D070E41997B90457>

RaaS on AML3D ((AL3)):

<https://www.fnarena.com/downloadfile.php?p=w&n=1C727031-9800-907C-4C20A7F9CCCEBEE2>

RaaS on Schrole Group ((SCL)):

<https://www.fnarena.com/downloadfile.php?p=w&n=1C766A07-DFE6-54F3-EEB577AF637AAC33>

### FNArena Talks: All-Weathers

My final departing gift, on video, for calendar 2021: a 17 minutes-long explanation of my research into All-Weather Stocks on the ASX:

<https://www.fnarena.com/index.php/analysis-data/fnarena-talks/>

Also available via YouTube: [https://youtu.be/fx6wgH\\_uCps](https://youtu.be/fx6wgH_uCps)

### **Hendrik Bessembinder, Unsung Hero**

I mention Hendrik Bessembinder's research in the above video, and I have mentioned his research in my writings in the past, but there is an updated paper titled "Wealth Creation in the U.S. Public Stock Markets 1926 to 2019".

To download a brief summary: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3537838](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3537838)

Note: this summary contains the names of the companies that have been responsible for all the wealth that has been created via the US stock markets, in a long-term, sustainable manner.

It goes without saying, Bessembinder's research is backward-looking and it is up to investors to decide which companies are nothing more than a star from the past and which ones will continue creating wealth in the decade(s) ahead.

Investors looking to apply my research into All-Weather Performers at the international level; here is your starting point.

### **All-Weather Model Portfolio**

Since late 2014, the **FNArena/Vested Equities All-Weather Model Portfolio** has been based upon my research into All-Weather stocks on the ASX.

Monthly Portfolio reviews published in 2021:

-October: <https://www.fnarena.com/downloadfile.php?p=w&n=4BA408AC-AF35-78F5-F42D94A2CF808BF1>

September: <https://www.fnarena.com/downloadfile.php?p=w&n=B6798F75-0375-ACE0-CAB39BEDF04567BE>

August: <https://www.fnarena.com/downloadfile.php?p=w&n=B674AF06-E339-5816-5FD0DA4AE7D29F80>

June/July: <https://www.fnarena.com/downloadfile.php?p=w&n=B66CC435-9758-005C-77B2719A92612A9B>

May: <https://www.fnarena.com/downloadfile.php?p=w&n=B66804C2-BB83-93BF-AEFB5A28EC0E4A5A>

April: <https://www.fnarena.com/downloadfile.php?p=w&n=B664E73A-FBB4-1456-8EF79590D64EBF29>

March: <https://www.fnarena.com/downloadfile.php?p=w&n=B66218E0-DB14-B8D4-360E91AE22EA01AC>

February: <https://www.fnarena.com/downloadfile.php?p=w&n=B65DC629-929F-1743-8FF1EEFE600DF5A8>

(This story was written on Monday 29th November, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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In addition, since FNArena runs a Model Portfolio based upon my research on All-Weather Performers it is more than likely that stocks mentioned are included in this Model Portfolio. For all questions about this: [info@fnarena.com](mailto: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.

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<https://www.fnarena.com/index.php/sign-up/>

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