# STORIES TO READ FROM FNArena

Friday, 12 June 2020

Strong Support For Iron Ore Prevails

Life After Covid, Part II

Demand Surges For Johns Lyng Restorations

## CONTENTS




FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journo's:
Greg Peel, Eva Brocklehurst & Sarah Mills

AUSTRALIA

# Outlook Better As Vocus Clears Debt Hurdles

While the economic outlook may continue to weigh, Vocus Group has removed a key overhang by refinancing debt facilities.

**-Improved leverage should ensure covenants are not breached**
**-Unclear if the economy will adequately recover over the next year**
**-Investors appear to be pre-empting a strong rebound**

By Eva Brocklehurst

Investor concerns regarding the debt position of Vocus Group ((VOC)) have been put to rest and it is now clear an equity raising is no longer required, lifting the overhang on the share price. However, there remains some uncertainty in terms of the economic outlook over FY21.

Vocus Group has refinanced its syndicated debt facilities and extended the size to $1.26bn, with a weighted average term of 3.5 years, extended from 1.5 years. The New Zealand facility of NZ$135m is unchanged.

Restrictions on net debt ratios have also been eased slightly. Morgans understands this does not translate to higher first half FY21 capital expenditure or debt levels but should provide a margin of safety. The broker assumes the cost of debt increases by around 50 basis points and also forecasts a higher debt balance because of the lowering of free cash flow forecasts.


**Refinancing has taken the pressure off the balance sheet and also removes fears that Vocus Group would not be able to access debt markets.** The improved leverage should be more than sufficient to ensure covenants are not breached, Credit Suisse asserts.

Brokers also welcome the renewal of FY20 operating earnings (EBITDA) guidance, which has been tightened to $359-369m, at the lower end of the former range. This is a little weaker than Credit Suisse expected with the variation to estimates likely to reside in the retail segment.

Ord Minnett assumes the network segment grows organically by 8%, supported by the increased usage of the Australia-Singapore cable and wholesale network from technology customers, as well as the requirements by wholesale customers for more backhaul to service higher network demand.

The fact management was able to broadly reiterate guidance is a welcome development Morgans believes, and t**here is now a margin of safety should economic activity weaken and customers' ability to pay bills deteriorate over the rest of 2020**.

Risks

Counterparty risk still exists with respect to small/medium enterprises (SMEs). With current government stimulus packages to last until mid-September, most SMEs are a going concern, but if the economy has not adequately recovered towards the end of 2020, and there is no longer any government support, the broker warns the situation could deteriorate.

Credit Suisse agrees, and envisages scope for weakness at Commander in particular as SMEs are likely to be scaling down to necessities, albeit unlikely to disconnect services while stimulus measures are in place.

Morgans reduces revenue growth forecasts and also capital expenditure estimates, as less investment will be required to fund growth. The main swing factor is the economic recovery in terms of forecasts for the next year.

Moreover, it takes time to deliver a unified fixed line communications business out of the many acquisitions the company has undertaken. To date, Morgans assesses investors appear to be pre-empting a strong recovery in earnings.

Yet, this could be some years away and the pandemic may slow a recovery down further. Still, the broker is comforted by the fact that new management has articulated a turnaround plan that should not descend into shortcuts for quick gains.

Morgans would prefer that the operating cash flow is reinvested to de-gear the balance sheet and points out free cash flow generated over the next few years, given the current profile, will go straight to the banks, not to investors.

Still, the broker assesses that this is "the right thing to do". FNArena's database has two Buy ratings and four Hold for Vocus Group. The consensus target is $3.57, signalling 13.1% upside to the last share price.

*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.*

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

AUSTRALIA

# Is Wesfarmers Heading For A Sales Cliff?

Sales activity at Bunnings and Officeworks has been stunning over the period of pandemic-related restrictions but signals there is very little operating leverage for Wesfarmers going forward.

**-As restrictions lift, sales growth should taper**
**-Moderation in house prices, housing likely to impact sentiment**
**-Expansion of Bunnings online likely to be critical**

By Eva Brocklehurst

Conditions during the coronavirus shutdown have actually favoured major Wesfarmers ((WES)) businesses, with both Bunnings and Officeworks recording substantial sales growth in the second half to date.

Credit Suisse was surprised at the strength of the update, although the resilience of home improvement-related sales (Bunnings) and working from home (Officeworks) was always apparent. Bunnings is likely to have outperformed the broader hardware segment over the period given, as the analyst plaintively describes, the “unending list of house maintenance requirements".

Still, the sales are treated as catching up rather than a pulling forward, amidst the support from household mobility restrictions and more free time. As these restrictions lift sales growth should taper.


Sales growth at Bunnings was 19.2% and Officeworks 27.8% over the year to date. Kmart and Target also experienced improved momentum, up 4.1% and down -1.8% respectively.

Channel checks have also indicated to UBS an acceleration in trade after April 25 but **the big concern is whether there is a "fiscal cliff" developing once government stimulus ends**. UBS upgrades revenue estimates across all divisions for FY20 and expects strong growth in the first quarter of FY21 as well. By the fourth quarter of 2020 comparable sales are likely to be negative.

All up, UBS considers Wesfarmers a strong business with a disciplined approach to capital and returns. Still, the businesses are cyclical and reliant on consumer sentiment and expenditure.

Headwinds will grow in FY21 as government stimulus measures end. Moreover, Bunnings is exposed to a moderation in housing and there is a weak backdrop in this regard over the next 12 months.

UBS forecasts a -5-10% decline in house prices which bodes negatively for the hardware chain once stimulus ends. Credit Suisse agrees 2021 house prices are likely to re-assert their dominance as a key correlation with sales growth.

**Surplus funds also mean that acquisitions are a probability and this may provoke a negative market reaction initially** , the broker adds. There is a need for Wesfarmers to streamline its business but Credit Suisse believes the risks of acquisitions/investment are likely to weigh on the share price performance.

Underperformance of the portfolio has occurred in line with the sell-down of the interest in Coles ((COL)) and growing funding capacity. Moreover, Bunnings accounts for around 70% of the comparison portfolio value, ahead of its 65% contribution to group earnings.

Citi also considers Wesfarmers lacks operating leverage. As restrictions ease and activity returns to normal, sales growth in FY21 is expected to go back to pre-pandemic levels.

Costs

Sales growth has come at a cost. Citi points out the incremental margin on the latest sales is 14.5%, lower than what would normally be expected with such strong growth. The broker expects this situation will continue in the second half.

Costs were higher at Bunnings, as around $20m was invested in cleaning, security and protective equipment over the past three months. Around $70m in costs will be incurred in FY20 because of the trading restrictions in New Zealand, store closures and the accelerated roll-out of the online platform.

Costs at Officeworks are also expected to remain elevated in the second half. Similarly, the temporary closure of NZ stores will affect Kmart earnings in FY20. Momentum has improved at Kmart and Target as foot traffic increased in shopping centres and there was a recovery in demand for winter clothing. Yet Ord Minnett anticipates supply chain issues at Kmart, and the conversion of some Target stores, will require more investment.

As a result of higher costs, Morgans remains cautious about how much of the improved sales will flow through to earnings. The broker may become more positive about the stock on any weakness in the share price.

Online

Online sales growth of 89% in 2020 to date is very positive, given the slower trajectory of online sales penetration the company has experienced in the past. It appears to Macquarie that Wesfarmers is reaching new customers rather than cannibalising sales yet Citi disagrees, suspecting online demand at Bunnings is an incremental headwind to margins and largely cannibalising in-store sales.

The broker expects online sales for Wesfarmers will reach $1.5bn in FY20, excluding Catch, a 5.7% penetration rate. The online offer from Wesfarmers has lagged other category-leading retailers for some years, with the notable exception of Officeworks.

The company's three retail businesses are at very different stages of online development. Officeworks remains the strongest, particularly as it also manages a large shop-front channel. In contrast Kmart and Target have lagged department store peers Myer ((MYR)) and David Jones.

The recent expansion of Bunnings online will be critical, in Citi's view. This has started with click and collect and more recently the rolling out of delivery options.

FNArena's database has one Buy (Macquarie), four Hold and two Sell. The consensus target is $38.96, signalling -8.6% downside to the last share price. Targets range from $36.50 (Morgan Stanley) to $44.50 (Macquarie).

*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.*

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

AUSTRALIA

# How Will JB Hi-Fi Fare Once Stimulus Ends?

JB Hi-Fi has been in a plum position to benefit from households spending more time at home for both work and play, but how will this pan out once government stimulus ends?

**-Net profit likely to fall in second half of FY21**
**-Could this be time to take profits in JB Hi-Fi?**
**-Have household expenditure trends changed?**

By Eva Brocklehurst

JB Hi-Fi ((JBH)) has experienced an extraordinary run of sales as households spend more time at home, but the issue now lies with how much demand has been pulled forward as a result of the pandemic.

The share price has risen around 30% since early April, UBS notes, and subsequently the market has appreciated the earnings strength resulting from the pandemic, and the fact that liquidity concerns were unwarranted.

Yet, while JB Hi-Fi has a strong business model, the stock is trading on multiples at whcih UBS believes the risk/reward is just fair, and earnings risk is building because, after September 2020, government relief in the guise of JobKeeper and rent/loans to small-medium enterprises (SME) will end (unless there is a subsequent development).


Given the highly unusual market conditions as FY20 ends, Citi is therefore cautious about the outlook for FY21. The sales run-rate is likely to remain strong in the first quarter and support the first half but, looking through the spike stemming from working and learning from home, earnings should normalise in the second half and net profit fall -34% from a very high prior corresponding base.

Guidance is now for net profit of $325-330m in FY20 (adding back in the non-cash impairment for the NZ business), and well ahead of most forecasts. This implies more than 3x EBIT leverage, driven almost entirely via costs as the gross margin is likely to be flat, UBS asserts.

Guidance represents 30% growth on the prior year, converting to around 70% in terms of net profit, which emphasises incredibly strong operating leverage and an ability to control costs, and on this basis Morgans expects **strong cash flow conversion will likely lead to a material reduction in net debt**.

Product innovation could benefit the company in FY21, although the broker agrees earnings are likely to fall in the second half. Morgans is not unduly concerned and does not believe the market is capitalising FY20 earnings at "ridiculous" levels.

Sales were up 20% in the second half to May 31 for JB Hi-Fi Australia and up 23.5% for The Good Guys which suggests a market share loss to Harvey Norman ((HVN)) in electrical, Credit Suisse asserts.

The location of stores are likely to be the main cause of this, in the broker's view, given JB Hi-Fi's greater exposure in shopping centres and being overweight Victoria. Potentially, shopping centres could become less attractive retail locations for an extended period of time.

Profit Taking?

Credit Suisse advises taking some profits, given the second half has benefited significantly from households spending more time at home during the pandemic and the likelihood consumer expenditure will drop once government support packages cease

The stock may be "quality" but it is trading at a significant premium to peers and at the high end of historical multiples. Hence, the broker downgrades to Underperform from Neutral.

The broker accepts expenditure on entertainment and technical items is now considered "essential", and therefore exposed to a low income effect, but the usual **correlation between house prices and household goods expenditure will now be lower over the next 12-18 months** as a result of this behavioural change.

Moreover, a $25m impairment on the carrying value of the NZ business appears to be stemming from a weakened competitive position in New Zealand rather than pandemic-specific factors. New Zealand is not material to value and Credit Suisse believes it could be an opportunity to rethink the strategy. Ord Minnett suggests the NZ impairment provides a base for improved earnings in the near term and further options in the medium term.

Investment View

Morgans finds little to dislike about the investment case but anticipates it will be uphill for the stock in the second half of FY21 as a strong comparable period is cycled. Clearly, JB Hi-Fi has benefited from a large investment in the home office and a material step up in stimulus from tax write-offs for SMEs.

Macquarie has even fewer qualms, assessing JB Hi-Fi's ability to grow earnings at double the rate of sales in the midst of additional cleaning/security costs highlights the operating leverage in the business.

While acknowledging the outlook for discretionary expenditure after September is uncertain the broker suspects households are diverting travel expenditure to household goods and this should continue to some degree while borders are closed.

Ord Minnett is even more positive and upgrades to Accumulate from Hold. The broker believes a combination of product and channel/location should support the second half despite a tough comparable period. The broker likes the product mix which includes a sustainable advantage in entertainment and technology and also notes The Good Guys is performing better.

FNArena's database has two Buy ratings, four Hold and one Sell (Credit Suisse). The consensus target is $39.85, signalling just -0.9% downside to the last share price. Targets range from $34.52 (Credit Suisse) to $44.00 (UBS, Ord Minnett).

COMMODITIES

# Strong Support For Iron Ore Prevails

As the pandemic cuts a swathe through Brazil, analysts are anticipating strong support for the iron ore price will prevail, and the focus is on China's stimulus expenditure.

**-Second half surplus unlikely to be enough to reduce price substantially**
**-Vale production guidance likely to be a challenge**
**-Easing restrictions in South Africa and India required to alleviate any tightness**

By Eva Brocklehurst

Iron ore continues to provoke and excite speculation as industrial activity re-emerges from the pandemic-related shutdowns. Iron ore prices have cut through US$100/t, supported by resilient demand from China and reduced Brazilian exports, amid a lack of alternative marginal supply.

China accounts for around 70% of seaborne demand and its quick recovery from the pandemic has boosted expectations. A return to pre-pandemic output is not considered likely in the short term but a modest recovery could be expected.

UBS notes Chinese steel mills have opted to keep production running, despite an abrupt slowing in downstream demand as a result of restrictions on mobility. Actual forecast heights for steel stocks were never reached and inventory has been in decline since restrictions started to lift, so the broker prefers to focus on the trajectory rather than absolute levels. A "slim" surplus in 2020 is expected and prices should trend lower as long as Brazil is able to increase exports.


Still, Credit Suisse points out China's blast furnaces are at capacity of over 91% and demand is unlikely to lift further. True, South African and Peruvian mines are expected to recover and a move to surplus should mean the iron ore price eases, but robust prices above US$75/t (a US$75-95/t range) are likely for the next 12 months.

Goldman Sachs anticipates 2020 will be much like 2019, with a big first-half deficit in iron ore followed by a second-half surplus. Hence, the broker upgrades iron ore benchmark forecasts to US$86/t for 2020 and US$80/t for 2021 and expects Vale will sell 311mt of iron ore and China's steel production will peak mid year.

Iron ore will move to a surplus in the second half of 2020, despite the outbreak of coronavirus in Vale operations, Credit Suisse asserts, and any serious softening of the iron ore price will need substantially increased supply. **Australian shipments are already running strongly so there is little upside from that quarter**.

JPMorgan upgrades steel production forecasts in China to growth of 1.2% from a contraction of -1.5% based on better-than-expected April output, which was up 0.2%. There is also an encouraging recovery in demand as port inventory throughout May was drawn down. Hence, marking to market in 2020 and factoring in stronger Chinese demand, 2020 and 2021 forecasts are lifted to US$91/t and US$80/t, respectively.

Brazil

Brazil is the pivot point for supply and in the year to date exports are down -12%. Supply was mixed throughout May and did pick up over the last couple of weeks. Yet, **Vale is facing a difficult time lifting its run rate**, given heavy rain in the first quarter. JPMorgan suspects this may also relate to indirect impacts from the pandemic, such as longer maintenance periods and difficulties in procuring equipment, envisaging downside risks to Vale's 310-330mt production guidance.

Morgan Stanley does not believe Vale will lower its 2020 production guidance but agrees it could be challenging to deliver because of likely delays in the required approvals to re-start operations, and the impact of the pandemic could be greater than the guidance reflects. Total cases in Brazil have risen 40% week on week and the outbreak in that country remains in the early stages.

Reported cases around the Vale south-eastern system continue to increase while the northern system remains still the most exposed area. Nevertheless, mining is continuing in Brazil and, while absenteeism may take a toll, shipments should start to increase as the wet season ends. Brazilian cargo in transit has already lifted by 600,000t/week.

UBS anticipates a strong recovery in iron ore production from Vale will be required to bring production in line with guidance, and easing restrictions in South Africa and India will also be needed to alleviate any tightness in iron ore supply.

Australia

Goldman Sachs upgrades estimates for the major iron ore stocks, maintaining a Buy rating for both **BHP Group** ((BHP))and **Rio Tinto** ((RIO)), forecasting an average free cash flow yield of 7-9% for the two over the next three years. The broker, not one of the seven brokers monitored daily on the FNArena database, maintains a Neutral rating for **Fortescue Metals** ((FMG)) given its valuation.

All up, JPMorgan is positive about iron ore miners in Australia and also finds more valuation support in BHP and Rio compared with Fortescue. Still, Fortescue provides a higher free cash flow/dividend yield over coming years and a lower enterprise value/EBITDA (operating earnings) multiple. Hence, JPMorgan, also not one of the seven, has an Overweight rating on all three.

The FNArena database has seven Buy ratings for BHP Group while Rio Tinto is more mixed, with three Buy, three Hold and one Sell (Credit Suisse). Fortescue Metals has three Buy ratings, three Hold and one Sell (Citi).

*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.*

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

COMMODITIES

# Material Matters: Base Metals And Gold

A glance through the latest expert views and predictions about commodities. Copper; aluminium; zinc; lead and gold.

**-Citi becomes more bullish on copper**
**-Negative impacts on aluminium to partially reverse**
**-Probability of a zinc stockpile developing in China**
**-Renewed vehicle usage to support lead**
**-Divergent performance among gold stocks**

By Eva Brocklehurst

Copper

Citi has become more constructive about **copper**, noting the pick-up in China is happening faster and stronger than previously expected. Historically, China's credit impulse has been the best single leading indicator of an upturn in copper consumption as well as the broader economic cycle.

The broker acknowledges it is "dangerous" to become more bullish after a 20% rally in the metal but now forecasts a price of US$5300/t in the second quarter of 2020 and a six-month forecast of US$6000/t.

Citi also tweaks **aluminium**, **nickel** and **zinc** forecasts for the near term to reflect the improved balance of risks. **Palladium** is also upgraded given the outperformance of automotive industry in the US and China and a pull-back is no longer expected.

The cheap entry point may be behind the market but the broker still envisages value as a rebound in base metal prices is not yet fully priced into the stocks. That said, the broker stresses that a more bullish base case in the short term, particularly in copper and palladium, is not without substantial risk.

Shifting down a gear, Citi lowers **Sandfire Resources** ((SFR)) to Neutral/High Risk and **IGO** ((IGO)) to Neutral from Buy. While **OZ Minerals** ((OZL)) remains at Buy and the top copper choice the High Risk designation is removed.

Aluminium

Macquarie envisages a partial reversal of the drivers that negatively impacted on aluminium prices in March-April. This is largely just a normalisation of activity levels, with the recovery being driven by China.

The global market, otherwise, appears quiet and balanced. Beyond this, the outlook for aluminium will eventually return to increasingly bearish medium-term fundamentals are the trade conflict between the US and China returns.

Aluminium is dependent on China to both stimulate local demand and resume its smelter reform program, in turn restricting growth in both production and exports. Yet China has reported another year of smelter capacity growth.

A forecast lift in the aluminium price beyond 2020 assumes the virus is under control and demand stabilises, prompting a tightening of the market post 2022. Macquarie's long-term price forecasts is US$1820/t.

Zinc

A rebound in demand is considered essential for zinc. Chinese zinc smelter activity, while down sequentially, was still up strongly in the first four months of the year. Macquarie notes supply anxiety and a bidding frenzy has meant huge volumes of international material arrived in China.

On the demand side, industrial activity is certainly picking up as construction, automotive and infrastructure investment have strengthened. However, a contradictory and rather important development has materialised, in the broker's view.

Galvanising plated steel output was sliding again in April and, given strong automotive data, this should have begun to recover. Macquarie can only reconcile the conflicts in the data by assuming that a certain amount of zinc material has moved to illiquid reserves, and there remains a probability that a stockpile is developing.

Lead

Macquarie assesses **lead** continues to suffer from its exposure to automotive industries but, nevertheless, tagged along with the broad-based rally in base metals. This has allowed the spread to zinc to expand to over US$400/t at one stage.

The broker notes the tightness of scrap during the lockdown has been a buffer for the refined market in the face of severe demand reductions but this did not have the same benefit for lead as for copper.

This is likely the result of lead scrap being bound to automotive demand. The broker considers it very likely that the reactivation of idled vehicles as lockdowns ease will result in an uptick in battery failures and drive a jump in demand.

Producers appear to be ready for this event and should be well covered for both refined feedstock and finished batteries. Moreover, with a staged return to full office attendance, automotive usage of lead looks set for prolonged weakness. Macquarie suspects the underperforming metal will continue to do so at least until the end of 2020.

Gold

While the Australian dollar **gold** price has increased 18% in the year to date and driven the index higher, relative performance has diverged. UBS notes **Newcrest Mining** ((NCM)) has been lagging, up just 2% while **Evolution Mining** ((EVN)), for example, is up 63%.

UBS assesses the relative performance has created an opportunity in Newcrest Mining and upgrades to Buy. The inclusion of Red Chris and Havieron challenges market perceptions that production is peaking in 2020-21, the broker asserts.

Evolution Mining, on the other hand, is downgraded to Sell, now trading at a 16% premium to net present value. Either a higher gold price or material improvement in operations would be required to drive outperformance.

UBS also downgrades **Northern Star Resources** ((NST)) to Sell and **Alacer Gold** ((AQG)) to Neutral because of the share price performance. Moreover, the higher gold price is likely to lead to higher costs from processing lower grades. The broker believes this should provide an option for management to change mining plans.

*Find out why FNArena subscribers like the service so much: "[Your Feedback (Thank You)]" - Warning this story contains unashamedly positive feedback on the service provided.*

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

FEATURE STORIES

# Life After Covid, Part II

*Central banks have now exhibited just what extent of tools they have available. Fiscal spending means deficits for a long time. Rates will not just be lower for longer, but zero. Big Tech and China are virus winners.*

**-Zero rates for longer**
**-Lingering large fiscal deficits**
**-Big Tech domination**
**-China wins**

By Greg Peel

*Life After Covid, Part I* (https://www.fnarena.com/index.php/2020/06/02/life-after-covid-part-i/ ) explored the assumption life will be very different once the pandemic risk subsides, from a household level to a global level. Such considerations will inform preferred investment choices in the years ahead.

The conclusion was that predictions of a vastly altered lifestyle are to a great extent exaggerated – an argument underpinned by evidence from past economic crises of life soon regressing toward what had been considered “normal” to that point. Certainly there will be differences, but most will reflect the acceleration of trends already underway, with online shopping a perfect example, rather than seismic shifts in consumption and industry.

While Part I focused more on our lives and on potential shifts in industry practice, Part II begins with an examination of predictions with regard post-pandemic debt and global ramifications.

Too Low For Zero

The San Francisco Federal Reserve recently published a working paper, the authors of which included a former PIMCO senior adviser. The paper explored the history of past pandemics and their economic impact.

Beginning in the fourteenth century.

From Black Death to covid, the world had experienced fifteen pandemics each costing more than 100,000 lives. The authors conclude these pandemics had long-lasting economic effects, lowering the real rate of interest for decades afterwards.

The authors speculate that the decline in the rate of return reflected depressed investment opportunities due to the higher cost of employing surviving labour, and/or a heightened desire to save due to increased precautionary saving or a rebuilding of depleted wealth. They also point out, nonetheless, two obvious caveats.

In every prior pandemic, economies were completely reliant on labour. The labour force was decimated. As sad as it may be, the victims of covid have mostly been older, hence the labour force has not been significantly impacted.

We might also note that the Spanish flu is estimated to have killed 50 million in a global population of 1.8 billion at the time. To date covid has officially killed around 400,000 in a population pushing the 8 billion mark. (Realistically that number is much larger, given most countries only count deaths in hospital, but still not a patch on 1918.)

The other caveat is the 2020 fiscal response, which the authors admit this time around is "very large".

We can assume unemployment was not an issue following past pandemics, as it is in typical financial crises, but it will be an issue this time. However, while Edward III likely didn't rush in to provide support for the masses after the Black Death – other than to sign them up to start a Hundred Years War with France – responses today in the likes of the US and Australia to provide labour force support are unprecedented in size and scope.

Both countries have adopted what we here call JobKeeper and JobSeeker support.

The authors don't offer a third caveat, but I will.

Central banks appeared in Europe in the seventeenth century and the US even had two in the nineteenth century, but the Federal Reserve, in a vague form of what it is today, was founded in 1913 – just in time for World War I and the Spanish flu. It was only in the 1980s that central banks adopted a dual mandate of managing unemployment and inflation.

The then Fed provided no monetary support during the Spanish flu.

Higher fiscal deficits and debt levels should lead to significantly higher inflation, the authors point out, but this time the impact of the virus on interest rates is likely to be negative for the foreseeable future.

Firstly, while the public sector is "dissaving" by providing debt-supported fiscal support, the private sector is likely to want to "save" for years to come, as was the case following the four previous recessions, most notably after the GFC.

Clearly, Australian households will be once again shocked into reducing debt levels, as they were following the GFC, although this didn't last very long given resultant historically low interest rates. A vast number of Australia listed companies have rushed to raise new capital to shore up balance sheets, and will be keeping a closer eye on debt levels from here.

Secondly, in an effort to prevent government bond yields rising significantly higher due to the level of debt taken on by governments, central banks will likely continue to implement QE and other measures in order to prevent governments having to switch into austerity mode in order to balance that debt.

The conclusion:

*"In summary, while the health and humanitarian crisis of COVID-19 will eventually pass, and hopefully sooner than later, the depressing effects on interest rates will likely linger for a long time. Investors should brace themselves for a New Neutral 2.0 world of even lower real interest rates for longer."*

<u>The Zombie Apocalypse</u>

ANZ Bank economists agree.

The world started this downturn with low rates, but will finish it with rates genuinely at zero, which is now the new normal everywhere in the developed world. QE is now more common than not.

Note that while the RBA does not have a zero cash rate, it decided there's no point in going below 0.25% before introducing QE and other measures, which from a monetary stimulus standpoint effectively equates to zero rates or less. But that is not to say the RBA won't change its mind on the cash rate, depending on how things play out from here.

ANZ Bank also suggests that talk of economic recovery following a V or U-shape is misleading, as they imply some symmetry in the cycle. "This recovery could well be more like untying a huge and complex knot".

With fiscal balances deteriorating rapidly, there will be no low-debt economies, ANZ suggests. Fiscal repair will be harder to achieve as conventional monetary policy (lowering rates) has run out of room, making central banks less able to buffer any downside shocks.

QE policies are now underway across advanced economies and all the way to the likes of India and the Philippines. None of the central banks that implemented QE in the GFC had restored their balance sheets before the virus hit. The Fed started, but when Wall Street started going rapidly into reverse on fear of monetary over-tightening, the Fed immediately "pivoted", later admitting its mistake.

We could go into an extended argument about how the Fed started the stock market rally from 2009 and thus never allowed for the market to find its true value, thus painting itself into a corner, and forcing it to readminister the drugs at the first sign of the market failing, but this is not the forum.

ANZ Bank does note that during this crisis, central banks have outwardly coordinated with governments and "deputised" banks to exercise forbearance (for example mortgage repayment deferral). We might also add that APRA, which is independent but answerable to parliament, has dictated a more general bank "forbearance" in the form of deferred or reduced dividends.

“We have drifted away from central banks independently targeting inflation under generally accepted rules of prudence,” notes ANZ. “We are now in a misty environment where rules are more ambiguous and accountability less clear.”

Governments have delivered aggressive and experimental policy extremely quickly, likely widening the perceptions of what is possible, ANZ suggests. Policies such as a universal basic income and wealth taxes may become more mainstream. Note that Spain has moved to introduce a basic income for the most vulnerable households in the wake of the virus. While Australia has a minimum wage, JobSeeker has doubled the dole.

Given the extent of criticism aimed at the government pre-virus, one must expect the dole will not fall all the way back post-virus to the level it was beforehand. The US has always eschewed a minimum wage, but it, too, has provided a JobSeeker-style payment during the virus.

Underemployment had already become a rising global issue post-GFC, referring to those working part-time who would rather work full-time, or at the very least have more hours. The GFC forced corporations to become “leaner”, pursuing cost efficiencies, and technology has accelerated the rise of the robots.

While economies may bounce back relatively quickly if the virus threat passes, substantial rises in unemployment following any crises typically take a long time to unwind, ANZ Bank notes.

Given this crisis happened very rapidly, it was assumed from the outset recovery could be just as swift if the virus could be contained. To that end the global fiscal response has included corporate bail-outs on the assumption those companies just had to ride out the storm. The US government has bailed out airlines, for example.

The more the downturn is protected, however, suggests ANZ, the more firms will survive that are no longer fit-for-purpose on the other side. These will be the “zombie companies”. This is not a new problem, but will likely take a leap forward this downturn and affect the speed of the recovery and the adjustment that is required.

The US government bailed out its airlines, as an economy needs airlines, notwithstanding the number of workers they employ. In 2008 the US government controversially bailed out General Motors largely because of the number of workers employed. While taxpayers did get their money back, we note today that GM has a market cap of US$39bn, while Tesla has a market cap of US$164bn despite having produced a comparatively miniscule number of vehicles.

Ah yes, but that’s all just EV hype and starry-eyed sentiment. Except that Toyota is worth US$172bn.

ANZ Bank also believes covid will force the EU towards fiscal integration, which was after all the original plan, shown to be starkly lacking by the fate of the “PIIGS” post-GFC. But I’d say the jury’s out on that one. The way things are going, if Brexit proves to be smooth the EU may go the other way.

Another bold statement made by ANZ Bank is that “G-zero is now embedded”. G-zero is a reference to the current “G7” group of leading global economies not including China or Russia, and the more extended “G20”, of which China and Russia are members along with Australia, with the EU counted as one bloc.

ANZ Bank does not go into detail with regard this assertion but one presumes the closure of borders, including to vital trade, implies an “every man for himself” attitude that flies in the face of G-anything. Not to mention the blame game.

Interestingly, Trump has now put forward the notion of bringing Russia back into the G7 (G8) – a move totally opposed by the likes of Canada and the UK – or at least bringing in India, South Korea and Australia (G10) – an invitation Scott Morrison has accepted.

There is one obvious omission. China is reportedly also moving to build its “own” internet.

To complete ANZ Bank’s predictions of post-covid changes, here is a simplified list:

-Bigger government
-More localised manufacturing
-More working from home
-More sovereign focus on food supply
-Increased infrastructure spending, most likely on smaller-scale projects
-A reassessment of the globalisation of education
-Immunisation history on passports
-Ongoing protections for aged care homes
-Permanent changes in consumer behaviour

Debt Forever

There are two things that indicate the world will never quite be the same, suggests Citi.

The first is that the policy response to the crisis has reminded us policy makers are never truly out of tools. The second is the aftershocks of a staggering amount of debt issuance will likely linger for decades.

To date the Fed has resisted the notion of negative interest rates. The RBA has also rejected such a policy, albeit not quitter out of hand, and now we saw respected Australian economists suggesting it is probably a good idea.

Citi points out that negative interest rates have not been "the panacea policy makers had hoped for". Witness the experiences of the eurozone and Japan, both of which had moved to negative rates post-GFC and neither of which had managed to crawl out of their economic holes to a point rates could be restored.

The lack of impact form negative rates will put more pressure on QE to combat economic contraction, Citi suggests, essentially blurring the lines of policy as central banks lend directly to corporate borrowers. "We are entering a new era of direct intervention in asset and lending markets".

In less than three months we've witnessed monetary policy break all bounds of what was considered possible, and fiscal policy is there to accompany it. Fiscal policy has taken a backseat to monetary policy in recent years, notes Citi, but now fiscal policy has vaulted into the lead as mega-deficits become the new normal.

Note that during the post-GFC European debt crisis, the ECB turned on the QE tap but Germany became the EU central fiscal bank, if you like, lending money to financially stressed members while enforcing austerity in return. Austerity may help reduce debt but does not stimulate an economy. Hence, we might say, it didn't work.

Last week the ECB went all-in on QE and the German government caved and began a massive fiscal support program.

The lingering effect of fiscal debt is a "no going back" feature of this crisis, suggests Citi. In the GFC there was an "astonishing" amount of debt issued to rescue economies. Leading to calls from many to end the "debt supercycle" as debt loads exploded to perceived unsustainable levels. The decade since has, however, shown us that debt was, in fact, sustainable.

The monetary/fiscal debt response to the virus has made the GFC response look like pennies in the dollar. Can debt still be sustainable? asks Citi.

Debt is not necessarily a bad thing if the return on assets exceeds financing cost, Citi admits, but as ANZ Bank economists noted (earlier in this article) debt is the equivalent of "dis-saving", and for every dis-saver there must be a saver to fund it. The swing to dis-saving in this crisis has been surprisingly large. Will anyone be left, asks Citi, to provide the global savings to address this imbalance?

Unless…(https://www.fnarena.com/index.php/2019/05/15/modern-monetary-theory-global-saviour-or-highway-to-hell/ )

Rollerball

Long before the crisis, governments across the globe were becoming concerned about the sheer power and penetration of US Big Tech, being the likes of Facebook, Google and Amazon. Yet despite all that governments have tried to throw at these companies, in the areas of tax, privacy, censorship and monopoly, their stock prices continue to rise into blue sky.

The virus has only served to underpin that trend.

Over the past few months, both consumers and businesses have tried and adopted new technologies to survive and thrive. Morgan Stanley believes this faster pace towards a more digital/online/mobile and cloud-based economy is the new normal.

And who are the big global players? Facebook, Google, Amazon, Apple, Microsoft.

One of the best "future predicting" movies of the 1970s, along with *Plant of the Apes* and *Soylent Green*, was *Rollerball*. *Rollerball* depicted a future in which the world was no longer run by governments, but by corporations.

Given the ever-growing popularity of the services the aforementioned provide, only to become even more popular during the crisis, these companies also now dominate growth in advertising, along with the likes of Twitter, Snap, Spotify and (China's) TikTok.

From long before the virus, traditional media companies have been fighting a losing battle to remain relevant, and competitive. Only by shifting to digital has there been any chance of survival, as the likes of FTA television, radio and print media slowly become the future's quaint history museum exhibits, along with the stump-jump plough, grandma's mangle, and the rotary-dial telephone.

And the pace of technology development has already seen New Digital replace Old Digital. The VHS was replaced by the DVD, the cassette by the CD, and FTATV to a great extent by cable. Now all are being usurped by streaming.

Traditional media companies were already struggling before the virus as advertising revenue migrated to new platforms. The lockdowns saw advertising dry up and sent many a stock price to near-death levels. Now the lockdowns are easing, investors are looking for bargains among such long-standing companies.

Morgan Stanley believes these investors are set to be disappointed. The economy will recover, and thus advertising will recover, but traditional media will not join in the spoils. The spoils will be enjoyed by Australian corporates and SMEs that become more digital, more mobile, and more cloud-based in the running of their businesses, all of which feeds into the major global providers.

"If the global tech players continue to grow revenue double digits in Australia," says Morgan Stanley, "but the total pool of ad revenues is only increasing 2-3% pa, there is necessarily a 'crowding out' of ad spend left for domestic Media companies to pursue."

*“Corporate society takes care of everything. And all it asks of anyone, all it's ever asked of anyone ever, is not to interfere with management decisions."* – Rollerball, 1975

And let’s not stop there.

Macquarie Wealth Management believes two ideas are likely to dominate the next decade – artificial intelligence and blockchain.

“These will up-end every human endeavour,” suggests Macquarie, “from self-driving cars and robotics to central banks, allowing some countries and companies to leapfrog others.”

AI and blockchain technologies also have the capacity to disrupt the “cloud of finance”, just as AI, automation and 3D printing are disrupting the physical world. Hence there is good reason, says Macquarie, why everyone from the BIS (Bank of International Settlements), Fed and ECB, to China and Russia, to banks such as JPMorgan and tech giants such as Facebook, are all exploring crypto-currencies and blockchain technologies.

“It is as much of a threat as an opportunity.”

Rise of the Dragon

China is “razor-focussed”, Macquarie suggests, on the threats and opportunities arising from these technologies. Digital renminbi is already closer to fruition than most currencies while China’s AI spending continues to lead the world. Although AI relies on Western intellectual breakthroughs, progress over the next decade is likely to be more reliant on more dependent availability of capital and data rather than new discoveries.

“Unlike the West, China has no limitations in harvesting these prerequisites”.

China is already challenging all aspects of the new world from hardware to software, robotics and surveillance. While most emerging and developed world equity markets remain stuck in conventional businesses, Macquarie notes, from banks to telcos, commodities and utilities, China is witnessing an explosion of leading-edge themes. Only the US has a similar vitality, which brings us back to Big Tech.

“We think investors will be better off buying into the future.”

The Chinese economy has been the fastest emerging market and will surpass the US soon. China’s economy is already now twice the size of next-placed Japan. To continue to call China an emerging market is “preposterous”, says Supercharged Stocks’ Andrew O’Donnell.

China will roar ahead faster than the US following this year's pandemic, O’Donnell suggests, and significant gains will be made in mining. Beijing has set the foundation for expanding at a rapid pace through its One Belt, One Road initiative, 5G smart city construction, focus on battery energy materials and enormous batteries, energy grids and production, and by stockpiling resources while maintaining a massive low wage, high output workforce.

The virus has brought to light that China also produces many of the prescription drugs Americans need and take. Essentially, all the manufacturing of importance, pharmaceutical production and/or critical components of a nation is undertaken by China.

On the political side, China is pivoting more towards open markets while the progressive movements of the West are moving towards more totalitarian, state-run systems, O’Donnell puts forward.

Electrification of the future is an increasing theme and China has created a foundation for being a leader in new energy.

We may recall that before the virus, markets were dominated by a US-China trade war. O’Donnell suggests there really is no trade war – the US had simply not realised it had already lost.

“China has amassed and produces, and uses most metals, both basic and critical to all technology,” notes O’Donnell. “China has stockpiled enormous resources but since it makes, well, just about everything, it was expected that a considerable reduction in demand would come from the coronavirus”.

*“The issues of trade war are more of a political and media story that hides the real factor: China controls the supply chain for all technology, infrastructure and pharmaceutical. Yes, China makes your medicine. How much of a trade war do you think you have been in if your opposition controls all the critical resources for military, technology and healthcare?”*

Welcome to Life After Covid.

WEEKLY REPORTS

# Weekly Ratings, Targets, Forecast Changes - 05-06-20

By Rudi Filapek-Vandyck, Editor FNArena

***Guide:***

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

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

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

***Summary***

*Period: Monday June 1 to Friday June 5, 2020*
*Total Upgrades: 14*
*Total Downgrades: 16*
*Net Ratings Breakdown: Buy 49.75%; Hold 41.32%; Sell 8.93%*

The most surprising observation for the first week of June is probably the fact that stockbroking analysts continue to issue nearly as many upgrades as downgrades for individual ASX-listed companies.

Clearly, while the market keeps running as hard as investors' legs can carry the general optimism, analysts still see plenty of laggards and cheap left-behind stocks that deserve a better rating, and thus a higher share price.

The week ending on Friday, 6th June 2020 saw 14 upgrades and 16 downgrades on FNArena's counting with 13 of those 14 ratings moving to a Buy.

GWA Group received the sole upgrade that did not move beyond Neutral/Hold.

Among the 16 downgrades, five sank to a fresh Sell with the ASX itself one of the receivers. Other fresh Sell ratings were targeted at Lovisa Holdings, Northern Star, and Nufarm (2x).

This small selection summarises the downgrades perfectly. All about high valuation, gold producers and disappointing share market updates.

On the positive side of the ledger, the story centres around share market laggards that were largely ignored up until last week, led by mining stocks, retail landlords, and banks.

Both Westpac and National Australia Bank were upgraded to Buy last week.

The table for the week's largest increases to price targets continues on the same theme, with exception of Afterpay. Santos leads the week's ranking, followed by Super Retail Group, Arena REIT, and Afterpay.

Somewhat in contrast to the positive sentiment that has gripped financial markets, the negative side is still showing larger reductions to valuations and price targets. The week's largest casualty is Freedom Foods Group (disappointing market update), followed by OceanaGold, Vicinity Centres, and Incitec Pivot.

The good news is only five of the week's reductions are worth paying attention to. The underlying tide really has changed from March to May.

The changing dynamic for valuations has not yet translated to earnings forecasts, where the bias remains very much to the downside.

The general picture is exactly the opposite with Austal, Super Retail Group, Iress, and Star Entertainment Group the only worth mentioning as far as positive revisions are concerned.

But when it comes to reducing forecasts, there is still plenty to pay attention to with perennial disappointer Nufarm leading the week's table for negative revisions, followed by Freedom Foods Group, oOh!media, Viva Energy Group, Santos, WiseTech Global, and Vocus Group.

All companies mentioned suffered downgrades to their profit outlook in double-digit percentage. But that's no longer the message investors pay attention to.

**Upgrade**

**ARENA REIT ((ARF)) Upgrade to Overweight from Equal-weight by Morgan Stanley** .B/H/S: 2/1/0

Arena REIT is raising $60m via a placement in order to fund growth opportunities over the next 18 months. Despite the pandemic, the company has confirmed FY20 distribution guidance of 13.9-14.0c.

Gearing will decline to less than 18% post the capital raising, which Morgan Stanley assesses will provide plenty of room to fund the expenditure required in the pipeline over the next 18 months and also provide potential for acquisitions.

Rating is upgraded to Overweight from Equal-weight and the target is raised to $2.68 from $2.40. Industry view is In-Line.

**ALUMINA LIMITED ((AWC)) Upgrade to Buy from Neutral by UBS** .B/H/S: 3/2/1

The market in 2020 has experienced reduced demand because of lockdowns associated with the pandemic, amidst limited supply cuts. As restrictions are lifted, prices are expected to lift.

UBS envisages a surplus in the aluminium market in 2020 but a balanced alumina market. While alumina prices are now 10% above the mid April lows, rising input costs are likely to further steepen the cost curve.

The broker assesses Alumina Ltd is poised to benefit from this through margin expansion. Rating is upgraded to Buy from Neutral and the target raised to $2.10 from $1.50.

**BINGO INDUSTRIES LIMITED ((BIN)) Upgrade to Buy from Neutral by Citi** .B/H/S: 3/2/0

Citi lowers FY20 forecasts by around -8% to reflect weaker waste collections and post collections volumes. Volumes are expected to return to trend growth from the second half of FY21.

The broker still expects Bingo Industries can reach its long-run margin target of around 30%. The broker also suspects consensus estimates and expectations for a market share war are overdone.

Rating is upgraded to Buy/High Risk from Neutral/High Risk and the target lowered to $3.10 from $3.30.

**COSTA GROUP HOLDINGS LIMITED ((CGC)) Upgrade to Add from Hold by Morgans** .B/H/S: 3/1/1

Morgans assesses the outcome of the 2020 citrus crop is the main risk for the remainder of the year and will be the determinate of whether guidance is achieved.

The broker also believes Costa Group has done a good job of navigating pandemic-related challenges.

Amid signs the headwinds are moderating, Morgans upgrades to Add from Hold. Target is raised to $3.60 from $3.05.

**GWA GROUP LIMITED ((GWA)) Upgrade to Neutral from Underperform by Credit Suisse** .B/H/S: 0/4/0

Home improvement activity has been supported by changes to working arrangements during the pandemic. Credit Suisse believes GWA Group will be a beneficiary although growth has historically been more modest compared with hardware sales.

The broker likes the primary exposure to new housing and is less concerned about a decline in demand for interior projects as restrictions ease.

Rating is upgraded to Neutral from Underperform and the target is raised to $3.15 from $2.20.

**JB HI-FI LIMITED ((JBH)) Upgrade to Outperform from Neutral by Macquarie** .B/H/S: 2/5/0

Macquarie envisages potential for JB Hi-Fi to surprise to the upside at the FY20 results. Recent feedback has indicated strong demand for electronics and hardware continued throughout May.

The broker also notes discretionary expenditure has been propped up by the increased earnings of the JobSeeker population as well as indications that funds from early superannuation access went towards discretionary expenditure.

While the effects will wear off in September as the JobKeeper winds up, the pace at which the Australasian economies are reopening has underpinned a more positive view on the outlook.

Rating is upgraded to Outperform from Neutral and the target raised to $41.00 from $35.60.

**NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Upgrade to Buy from Neutral by UBS** .B/H/S: 7/0/0

While the numerous pressures on banks have weighed over recent years and the stocks have consistently underperformed, UBS suggests the outlook may not be so bleak.

While the economy is not emerging from its problems as yet, the broker believes the market is likely to factor in a recovery in bank returns unless there is further deterioration.

National Australia Bank is upgraded to Buy from Neutral. In a good environment credit losses could fall back to mid-cycle levels by FY22 and asset inflation may begin to normalise. A sector return of around 9% still appears possible, in the broker's view. Target is raised to $20.50 from $16.50.

**NEWCREST MINING LIMITED ((NCM)) Upgrade to Buy from Neutral by UBS** .B/H/S: 3/4/0

The Australian dollar gold price has increased by 18% over the year to date driving the ASX gold index 24% higher. However, UBS notes relative performance among stocks has diverged with Newcrest Mining underperforming.

This has created an opportunity to consider rotating into Newcrest and the broker upgrades to Buy from Neutral. Target is raised to $35 from $33.

**SOUTH32 LIMITED ((S32)) Upgrade to Buy from Neutral by UBS** .B/H/S: 6/1/0

UBS upgrades to Buy from Neutral, assessing the risk/reward is attractive. There is upside risk to spot alumina, aluminium and metallurgical coal in the medium term, partly offset by manganese.

Moreover, there is a strong balance sheet and the business is reshaping the portfolio with the Hermosa project, Ambler & Eagle Downs and via the exit of South African energy coal and manganese alloy smelters.

UBS envisages a number of potential catalysts. Estimates are reduced for FY20 by -6% and for FY21 by -14% to reflect new guidance. Target is reduced to $2.80 from $2.90.

**STOCKLAND ((SGP)) Upgrade to Overweight from Equal-weight by Morgan Stanley** .B/H/S: 3/2/1

Residential stimulus and the restructure of stamp duty are expected to provide support for Stockland. Morgan Stanley lifts FY21 and FY22 settlement estimates to 5000 and 5400 lots, respectively.

The broker takes a more positive view, given housing stimulus at both federal and state levels and support for retail as stores re-open faster than expected.

Rating is upgraded to Overweight from Equal-weight and the target raised to $4.30 from $3.10. In-Line industry view.

**SANTOS LIMITED ((STO)) Upgrade to Add from Hold by Morgans** .B/H/S: 6/1/0

Morgans believes the hurdles to new growth have increased substantially. Oil is recovering and large producers have regained profitability, which is an essential improvement in fundamentals.

Santos is considered best placed to resume growth with a significant competitive advantage over close peers. Dorado is likely to provide an attractive growth option and the increased stake in Darwin LNG has raised confidence in the Barossa development.

PNG remains the risky proposition. Rating is upgraded to Add from Hold and the target to $6.30 from $4.39.

**VICINITY CENTRES ((VCX)) Upgrade to Outperform from Neutral by Credit Suisse** .B/H/S: 2/3/1

Vicinity Centres has recently reported that 50% of retailers in its centres were open in the first week of May. The impact of rent relief on earnings remains unclear.

While Credit Suisse is unable to quantify the impact of the pandemic with any certainty, FY20-22 estimates are reduced by -8.0-14.5% to reflect the potential impact of rent relief and negative re-leasing spreads.

The company appears to be more inclined to take other capital management options, including cutting the dividend, rather than raising equity.

Nevertheless, the broker considers the downside is captured in the current price and upgrades to Outperform from Neutral. Target is reduced to $1.93 from $2.38.

See also VCX downgrade.

**VIVA ENERGY GROUP LIMITED ((VEA)) Upgrade to Add from Hold by Morgans** .B/H/S: 3/3/0

Morgans suggests the recent sell-off in Viva Energy shares is overdone. Refining market conditions remain depressed but the recent divestment of property has ideally positioned the balance sheet, suggests the broker.

There is potential for a relief rally, stemming from initial signs that traffic activity is recovering, the report suggests. The broker upgrades to Add from Hold. Target is raised to $1.90 from $1.47.

**WESTPAC BANKING CORPORATION ((WBC)) Upgrade to Buy from Neutral by UBS** .B/H/S: 4/2/1

While the numerous pressures on banks have weighed over recent years and the stocks have consistently underperformed, UBS suggests the outlook may not be so bleak.

While the economy is not emerging from its problems as yet, the broker believes the market is likely to factor in a recovery in bank returns unless there is further deterioration.

Westpac is upgraded to Buy from Neutral. In a good environment credit losses could fall back to mid-cycle levels by FY22 and asset inflation may begin to normalise. A sector return of around 9% still appears possible, in the broker's view. Target is raised to $20.50 from $18.50.

**Downgrade**

**ATLAS ARTERIA ((ALX)) Downgrade to Hold from Add by Morgans** .B/H/S: 0/5/0

Atlas Arteria is undertaking a capital raising via a $420m institutional placement and share purchase plan of up to $75m. Proceeds are to be used to repay the debt related to the APRR investment.

Morgans recommends clients take up the offer as the price represents at least a 12% potential return compared with the target, which is reduced to $6.98 from $7.21.

Given the recent strength of the share price and reduction in the target, the potential return at current prices has compressed to 5%. Hence, Morgans downgrades to Hold from Add.

**AFTERPAY LIMITED ((APT)) Downgrade to Hold from Add by Morgans** .B/H/S: 2/3/1

The stock is trading at its highest multiples compared with historical averages. Morgans upgrades earnings forecasts for the next two years because of improved revenue and bad debt assumptions, based on recent trends.

However, the rating is downgraded to Hold from Add on valuation grounds. Target is raised to $46.00 from $33.11. The fact Tencent has taken a 5% stake in the company is an advantage, in the broker's view, providing substantial options going forward.

**ALACER GOLD CORP ((AQG)) Downgrade to Neutral from Buy by UBS** .B/H/S: 1/2/0

The Australian dollar gold price has increased by 18% over the year to date driving the ASX gold index 24% higher. However, UBS notes relative performance among stocks has diverged.

Alacer Gold is downgraded to Neutral from Buy because of the share price outperformance. Target is raised to $10.30 from $9.50.

**ASX LIMITED ((ASX)) Downgrade to Underperform from Neutral by Credit Suisse** .B/H/S: 0/3/4

Cash equity activity remained strong in May with the ASX on track for a record second half. ASX 24 derivatives activity was very weak, which Credit Suisse suggests was likely the result of the RBA rate targeting initiatives.

Equity raisings also remained elevated. However, going into FY21 revenue growth is expected to slow and the fall in the BBSW rate will create a further obstacle.

The broker assesses earnings estimates are starting to look stretched and downgrades to Underperform from Neutral as the stock has outperformed the market over the last three months. Target is steady at $73.

**EVOLUTION MINING LIMITED ((EVN)) Downgrade to Neutral from Buy by UBS** .B/H/S: 1/4/2

The Australian dollar gold price has increased by 18% over the year to date driving the ASX gold index 24%

higher. However, UBS notes relative performance among stocks has diverged.

Evolution Mining has improved 63% over the year to date, outperforming peers.

From here, UBS believes a higher gold price or material improvement in operations is required and downgrades to Neutral from Buy. Target is $5.50.

**EVENT HOSPITALITY AND ENTERTAINMENT LTD ((EVT)) Downgrade to Neutral from Buy by Citi** .B/H/S: 1/1/0

The share price has increased 52% since March 23 and, as a result, Citi downgrades to Neutral from Buy. The downgrade relates to risks to the cinema division outlook and the valuation of property.

While the hotel division should benefit from a resurgent domestic tourism sector, the broker still expects challenges from lower corporate travel because of increased use of videoconferencing.

Citi also suspects Event Hospitality will try to avoid raising equity and/or selling assets. New debt, however, may have higher borrowing costs or restrictions on dividends and growth capital expenditure. Target is raised to $9.75 from $7.45.

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

The company's high-margin products have been severely affected by the restrictions relating to the pandemic. Morgans downgrades forecasts materially, expecting it will take time for the out-of-home channel to fully recover.

The broker believes Freedom Foods needs to closely manage its balance sheet or an equity raising will be required. As earnings will take time to recover and multiples are stretched, the broker downgrades to Hold from Add. Target is reduced to $4.33 from $5.05.

**IRESS LIMITED ((IRE)) Downgrade to Accumulate from Buy by Ord Minnett** .B/H/S: 2/1/1

The company has announced a $170m capital raising and will acquire OneVue Holdings ((OVH)) at an implied equity value of $107m. In the near term, the acquisition is dilutive but offers longer-term upside potential.

While Iress has withdrawn guidance, trading in the year to April has been in line with expectations and there is no material impact from the pandemic thus far.

Ord Minnett updates forecasts and reduces the rating to Accumulate from Buy. Target is lowered to $11.85 from $12.65.

**LOVISA HOLDINGS LIMITED ((LOV)) Downgrade to Sell from Buy by Citi** .B/H/S: 1/2/1

Citi downgrades to Sell from Buy, following the V-shaped recovery in the share price, up 219% since March 19. The broker does not envisage downside risks are factored into consensus net profit forecasts, which assume FY22 will more than double FY20.

The broker envisages risks stemming from costume jewellery underperforming the broader discretionary retail category as well as dependence on shopping centres for foot traffic.

There is also the prospect of a slower roll-out of stores and exposure to countries that have experienced a greater impact from the pandemic. Target is reduced to $5.85 from $6.90.

**NORTHERN STAR RESOURCES LTD ((NST)) Downgrade to Sell from Neutral by UBS** .B/H/S: 0/3/2

The Australian dollar gold price has increased by 18% over the year to date driving the ASX gold index 24% higher. However, UBS notes relative performance among stocks has diverged and Northern Star has outperformed, lifting 31%.

As a result, the broker downgrades Northern Star to Sell from Neutral, raising the target to $14.50 from $13.70.

**NUFARM LIMITED ((NUF)) Downgrade to Reduce from Hold by Morgans and Downgrade to Underperform from Neutral by Macquarie**.B/H/S: 3/1/2

Covid-19 is starting to impact Nufarm’s fourth quarter and Europe’s second-half earnings forecast has been lowered by Morgans. The broker also expects an increase in finance costs with more FX volatility.

The balance sheet looks fine following the sale of the South American operations for $1bn. Morgans downgrades its rating to Reduce from Hold due to uncertainty over earnings with target price increased to $4.76 from $4.60.

Macquarie was disappointed with the trading update and the outlook for the fourth quarter as the impact of the pandemic creates uncertainties and challenges. The fourth quarter is Nufarm's largest seasonal quarter.

Europe is experiencing the greatest impact from the pandemic and earnings are likely to be well behind in the second half.

Meanwhile, North America has been affected by changed consumer demand in the turf and ornamental segments, although improved crop protection performance has more than offset this weakness in the third quarter.

Macquarie downgrades to Underperform from Neutral and reduces the target to $4.85 from $5.10.

**PRO MEDICUS LIMITED ((PME)) Downgrade to Neutral from Buy by UBS** .B/H/S: 1/1/0

Pro Medicus has been awarded a five-year contract worth $22m by Chicago-based Northwestern Memorial Healthcare, which UBS considers is further validation of the Visage viewing platform. Material upside is envisaged from this contract.

The company has not experienced any major delay or deferral from the pandemic. However, the broker reduces FY20 and FY21 revenue estimates by -7% and -5%, respectively, to account for a more conservative recovery in elective examination volumes.

Rating is downgraded to Neutral from Buy as, despite the growth outlook, the valuation risks are considered evenly balanced. Target is raised to $29.65 from $29.30.

**THE STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Neutral from Buy by Citi** .B/H/S: 5/2/0

Star Entertainment has achieved tax certainty regarding the NSW government's gambling tax regime, moving to fixed tax rates as expected.

Citi increases FY20 estimates for operating earnings by 10% following the re-opening of Sydney, although acknowledges the pace of recovery remains uncertain.

Rating is downgraded to Neutral from Buy as, once Queens Wharf in Brisbane is operating and earnings normalise, the free cash flow no longer offers a significant margin of safety, given competitive pressures and VIP restrictions. Target is raised $3.10 from $2.95.

**SUPER RETAIL GROUP LIMITED ((SUL)) Downgrade to Neutral from Buy by UBS** .B/H/S: 5/2/0

UBS downgrades Super Retail to Neutral from Buy and increases earnings (EPS) estimates for FY20-22 by 8-26% to reflect improved trading conditions. Target is raised to $8.70 from $7.50.

Over the medium to longer term UBS suggests the company is well-placed to emerge from the pandemic in a stronger position, however given the share price performance and near-term earnings risk the risk/reward is considered balanced.

**VICINITY CENTRES ((VCX)) Downgrade to Hold from Accumulate by Ord Minnett** .B/H/S: 2/3/1

Vicinity Centres has raised $1.2bn equity via an underwritten placement at $1.48 a share along with a share purchase plan.

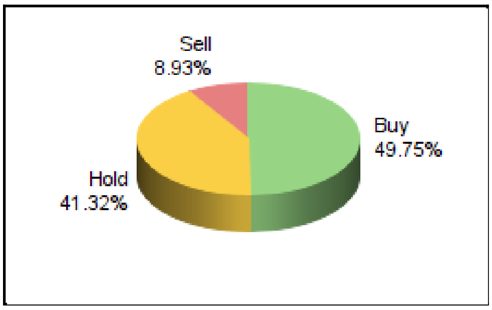
Ord Minnett believes covenant and liquidity pressures were not the trigger but rather the board elected to keep gearing below the upper end of the target range.

This is a big dilution for investors to wear, in the broker's view. In addition, the company will not pay a second half distribution.

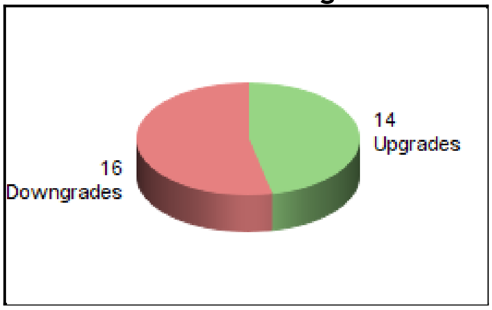
The stock has bounced since early April and is now trading in line with valuation. Ord Minnett downgrades to Hold from Accumulate and lowers the target to $1.70 from $1.80.

See also VCX upgrade.

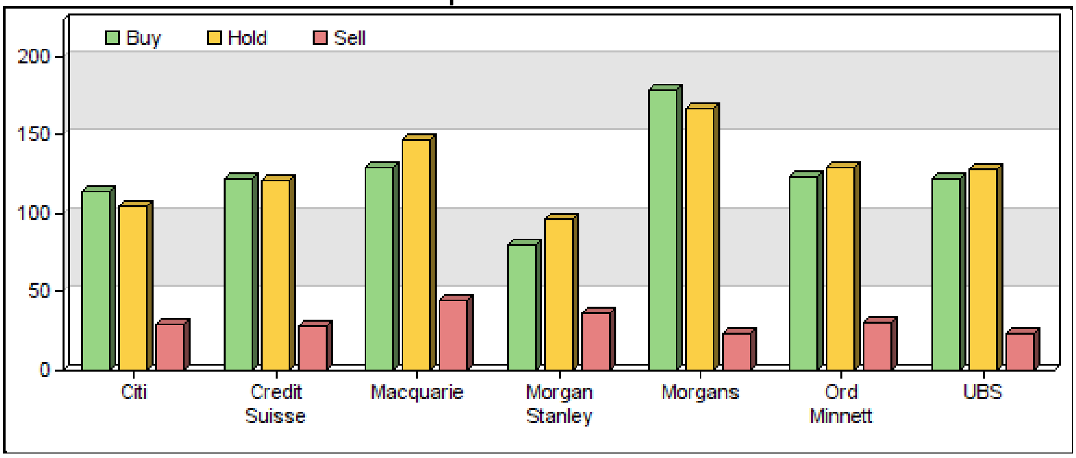
**Total Recommendations**




**Recommendation Changes**




**Broker Recommendation Breakup**




# Broker Rating

| Order | Company | New Rating | Old Rating | Broker |
|---|---|---|---|---|
| Upgrade | | | | |
| 1 | ALUMINA LIMITED | Buy | Neutral | UBS |
| 2 | ARENA REIT | Buy | Neutral | Morgan Stanley |
| 3 | BINGO INDUSTRIES LIMITED | Buy | Neutral | Citi |
| 4 | COSTA GROUP HOLDINGS LIMITED | Buy | Neutral | Morgans |
| 5 | GWA GROUP LIMITED | Neutral | Sell | Credit Suisse |
| 6 | JB HI-FI LIMITED | Buy | Neutral | Macquarie |
| 7 | NATIONAL AUSTRALIA BANK LIMITED | Buy | Neutral | UBS |
| 8 | NEWCREST MINING LIMITED | Buy | Neutral | UBS |
| 9 | SANTOS LIMITED | Buy | Neutral | Morgans |
| 10 | SOUTH32 LIMITED | Buy | Neutral | UBS |
| 11 | STOCKLAND | Buy | Neutral | Morgan Stanley |
| 12 | VICINITY CENTRES | Buy | Neutral | Credit Suisse |
| 13 | VIVA ENERGY GROUP LIMITED | Buy | Neutral | Morgans |
| 14 | WESTPAC BANKING CORPORATION | Buy | Neutral | UBS |
| Downgrade | | | | |
| 15 | AFTERPAY LIMITED | Neutral | Buy | Morgans |
| 16 | ALACER GOLD CORP | Neutral | Buy | UBS |
| 17 | ASX LIMITED | Sell | Neutral | Credit Suisse |
| 18 | ATLAS ARTERIA | Neutral | Buy | Morgans |
| 19 | EVENT HOSPITALITY AND ENTERTAINMENT LTD | Neutral | Buy | Citi |
| 20 | EVOLUTION MINING LIMITED | Neutral | Buy | UBS |
| 21 | FREEDOM FOODS GROUP LIMITED | Neutral | Buy | Morgans |
| 22 | IRESS LIMITED | Buy | Buy | Ord Minnett |
| 23 | LOVISA HOLDINGS LIMITED | Sell | Buy | Citi |
| 24 | NORTHERN STAR RESOURCES LTD | Sell | Neutral | UBS |
| 25 | NUFARM LIMITED | Sell | Neutral | Morgans |
| 26 | NUFARM LIMITED | Sell | Neutral | Macquarie |
| 27 | PRO MEDICUS LIMITED | Neutral | Buy | UBS |
| 28 | SUPER RETAIL GROUP LIMITED | Neutral | Buy | UBS |
| 29 | THE STAR ENTERTAINMENT GROUP LIMITED | Neutral | Buy | Citi |
| 30 | VICINITY CENTRES | Neutral | Buy | Ord Minnett |

# Recommendation

## Positive Change Covered by > 2 Brokers

| Order | Symbol | Company | New Rating | Previous Rating | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | ARF | ARENA REIT | 67.0% | 33.0% | 34.0% | 3 |
| 2 | STO | SANTOS LIMITED | 79.0% | 58.0% | 21.0% | 7 |
| 3 | CGC | COSTA GROUP HOLDINGS LIMITED | 40.0% | 20.0% | 20.0% | 5 |
| 4 | BIN | BINGO INDUSTRIES LIMITED | 60.0% | 40.0% | 20.0% | 5 |
| 5 | URW | UNIBAIL-RODAMCO-WESTFIELD | -33.0% | -50.0% | 17.0% | 3 |
| 6 | UMG | UNITED MALT GROUP LIMITED | 67.0% | 50.0% | 17.0% | 3 |
| 7 | VEA | VIVA ENERGY GROUP LIMITED | 50.0% | 33.0% | 17.0% | 6 |
| 8 | SGP | STOCKLAND | 25.0% | 8.0% | 17.0% | 6 |
| 9 | AWC | ALUMINA LIMITED | 33.0% | 17.0% | 16.0% | 6 |
| 10 | S32 | SOUTH32 LIMITED | 79.0% | 64.0% | 15.0% | 7 |

## Negative Change Covered by > 2 Brokers

| Order | Symbol | Company | New Rating | Previous Rating | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | AQG | ALACER GOLD CORP | 33.0% | 67.0% | -34.0% | 3 |
| 2 | NUF | NUFARM LIMITED | 17.0% | 50.0% | -33.0% | 6 |
| 3 | FNP | FREEDOM FOODS GROUP LIMITED | 67.0% | 100.0% | -33.0% | 3 |
| 4 | EVN | EVOLUTION MINING LIMITED | -14.0% | 14.0% | -28.0% | 7 |
| 5 | WEB | WEBJET LIMITED | 40.0% | 60.0% | -20.0% | 5 |
| 6 | NST | NORTHERN STAR RESOURCES LTD | -42.0% | -25.0% | -17.0% | 6 |
| 7 | APT | AFTERPAY LIMITED | 17.0% | 33.0% | -16.0% | 6 |
| 8 | CTD | CORPORATE TRAVEL MANAGEMENT LIMITED | 42.0% | 58.0% | -16.0% | 6 |
| 9 | SUL | SUPER RETAIL GROUP LIMITED | 64.0% | 79.0% | -15.0% | 7 |
| 10 | SGR | THE STAR ENTERTAINMENT GROUP LIMITED | 71.0% | 86.0% | -15.0% | 7 |

# Target Price

## Positive Change Covered by > 2 Brokers

| Order | Symbol | Company | New Target | Previous Target | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | STO | SANTOS LIMITED | 6.133 | 5.427 | 13.01% | 7 |
| 2 | SUL | SUPER RETAIL GROUP LIMITED | 8.823 | 7.913 | 11.50% | 7 |
| 3 | ARF | ARENA REIT | 2.577 | 2.347 | 9.80% | 3 |
| 4 | APT | AFTERPAY LIMITED | 32.183 | 30.035 | 7.15% | 6 |
| 5 | AWC | ALUMINA LIMITED | 1.750 | 1.650 | 6.06% | 6 |
| 6 | CGC | COSTA GROUP HOLDINGS LIMITED | 3.324 | 3.156 | 5.32% | 5 |
| 7 | NAB | NATIONAL AUSTRALIA BANK LIMITED | 19.136 | 18.279 | 4.69% | 7 |
| 8 | VEA | VIVA ENERGY GROUP LIMITED | 1.778 | 1.707 | 4.16% | 6 |
| 9 | SGP | STOCKLAND | 3.468 | 3.332 | 4.08% | 6 |
| 10 | SGR | THE STAR ENTERTAINMENT GROUP LIMITED | 3.261 | 3.154 | 3.39% | 7 |

## Negative Change Covered by > 2 Brokers

| Order | Symbol | Company | New Target | Previous Target | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | FNP | FREEDOM FOODS GROUP LIMITED | 4.793 | 5.817 | -17.60% | 3 |
| 2 | OGC | OCEANAGOLD CORPORATION | 3.050 | 3.420 | -10.82% | 4 |
| 3 | VCX | VICINITY CENTRES | 1.615 | 1.807 | -10.63% | 6 |
| 4 | IPL | INCITEC PIVOT LIMITED | 2.554 | 2.700 | -5.41% | 7 |
| 5 | IRE | IRESS LIMITED | 12.145 | 12.795 | -5.08% | 4 |
| 6 | BIN | BINGO INDUSTRIES LIMITED | 2.438 | 2.478 | -1.61% | 5 |
| 7 | S32 | SOUTH32 LIMITED | 2.396 | 2.410 | -0.58% | 7 |
| 8 | NUF | NUFARM LIMITED | 5.483 | 5.512 | -0.53% | 6 |

# Earning Forecast

## Positive Change Covered by > 2 Brokers

| Order | Symbol | Company | New EF | Previous EF | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | ASB | AUSTAL LIMITED | 23.367 | 21.367 | 9.36% | 3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2 | SUL | SUPER RETAIL GROUP LIMITED | 59.781 | 54.979 | 8.73% | 7 |
| 3 | IRE | IRESS LIMITED | 44.465 | 41.678 | 6.69% | 4 |
| 4 | SGR | THE STAR ENTERTAINMENT GROUP LIMITED | 7.926 | 7.597 | 4.33% | 7 |
| 5 | CTD | CORPORATE TRAVEL MANAGEMENT LIMITED | 36.227 | 35.607 | 1.74% | 6 |
| 6 | AGL | AGL ENERGY LIMITED | 129.471 | 127.717 | 1.37% | 7 |
| 7 | APT | AFTERPAY LIMITED | -19.917 | -20.183 | 1.32% | 6 |
| 8 | SCG | SCENTRE GROUP | 18.620 | 18.420 | 1.09% | 6 |
| 9 | SHL | SONIC HEALTHCARE LIMITED | 86.414 | 85.714 | 0.82% | 7 |
| 10 | BAP | BAPCOR LIMITED | 25.873 | 25.690 | 0.71% | 6 |

**Negative Change Covered by > 2 Brokers**

| Order | Symbol | Company | New EF | Previous EF | Change | Recs |
|---|---|---|---|---|---|---|
| 1 | NUF | NUFARM LIMITED | -3.912 | 0.263 | -1587.45% | 6 |
| 2 | FNP | FREEDOM FOODS GROUP LIMITED | 4.800 | 10.100 | -52.48% | 3 |
| 3 | OML | OOH!MEDIA LIMITED | 0.568 | 1.085 | -47.65% | 4 |
| 4 | VEA | VIVA ENERGY GROUP LIMITED | 1.598 | 2.332 | -31.48% | 6 |
| 5 | STO | SANTOS LIMITED | 20.015 | 23.501 | -14.83% | 7 |
| 6 | WTC | WISETECH GLOBAL LIMITED | 20.700 | 23.300 | -11.16% | 3 |
| 7 | VOC | VOCUS GROUP LIMITED | 15.083 | 16.807 | -10.26% | 6 |
| 8 | TLS | TELSTRA CORPORATION LIMITED | 17.067 | 18.277 | -6.62% | 6 |
| 9 | IFN | INFIGEN ENERGY | 3.900 | 4.100 | -4.88% | 3 |
| 10 | IPL | INCITEC PIVOT LIMITED | 11.983 | 12.483 | -4.01% | 7 |

**Technical limitations**

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

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

WEEKLY REPORTS

# Uranium Week: What To Do About Russia

*Utilities remain absent in the uranium market ahead of any news regarding the soon to expire Russian Suspension Agreement, and it's not hard to see why.*

**-Russian production of uranium down minimally compared to US**
**-Sales from Kazak mines up 17% yoy**
**-RSA expiry impacting on demand**

Let's review some data from recent Uranium Week reports:

The US Energy Information Agency reported US production for the March quarter of 2020 down -79% from the December quarter of 2019 and -86% lower than the first quarter of last year.

Last week Uranium One, the mining division of Russia's state nuclear entity Rosatom, reported production down -9% in the March quarter from the December quarter and -4% from a year ago.

Uranium One also operates in Kazakhstan, and those mines reported a -37% drop in sales in March from December but a 17% increase year on year. Where did it all go?

At 28%, the US is the largest consumer of global uranium production, and two weeks ago the Department of Energy reported a 20% increase in US purchases year on year in 2019, 90% from offshore.

While Canada remained the top supplier to the US in 2019, the combined purchases of uranium from Russia/Kazakhstan/Uzbekistan exceeded those from Canada/Australia/US for the first time, Canaccord Genuity reported, and this may be exceeded further in 2020 given shutdowns at Canada's Cameco operations.

Note that virus-related shutdowns only began very late in the March quarter, if not in the June quarter, on top of prior shutdowns related simply to the low uranium price.

Uncertainty

It is of little wonder the global uranium market is currently concerned that the Russian Suspension Agreement expires at the end of this year. The RSA puts an "anti-dumping" cap on Russian uranium sales to the US of 20% of total. But that's just Russia. Russian sales to the US in 2019 were only 15% of total, but as noted, combined former-soviet sales exceeded allied sales, if you will.

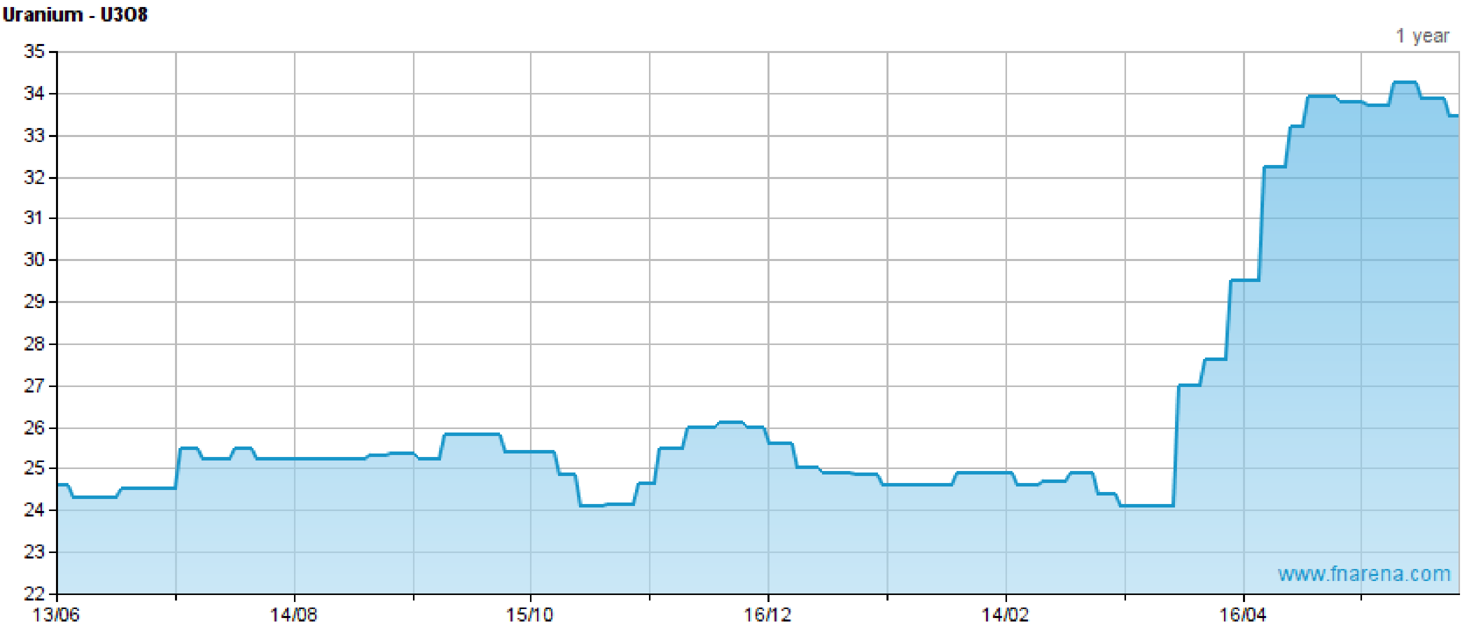
It is also not difficult to understand why, two years ago, US uranium producers petitioned the government to enforce an obligation on US utilities to purchase 25% of requirements domestically. The government instead has budgeted to purchase uranium itself, for the US Strategic Reserve, overcoming the issue of US utilities simply not being able to afford more expensive domestic uranium.

However, that budget is yet to be passed in Congress, and given there's a lot going on at the moment on the fiscal side of things, there is no indication yet of when, or even if, the purchase plan will be ratified.

Throw in the expiry of waivers of US sanctions on Iran, which allowed foreigners (including Russia) to assist Tehran with its (peaceful) nuclear objectives, and it is also not difficult to understand why the global nuclear power industry remains in a state of uncertainty.

As a reflection, activity in the spot uranium market came to a standstill last week, with two off-market transactions leading industry consultant TradeTech to lower its weekly spot price indicator by -US45c to US$33.40/lb. Utilities remain as good as absent from the market.

TradeTech's term market indicators remain at US$37.50/lb (mid) and US$39.00/lb (long).




*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.*

*FNArenais proud about its track record and past achievements: Ten Years On*

WEEKLY REPORTS

# The Short Report - 11 Jun 2020

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

**Summary:**

Week ending June 4, 2020

Last week saw the ASX200 retreat from the 6000 level before spending the week returning.

Hmmm…I'm not all that convinced of last week's ASIC data.

As is evident from all the green below, last week saw a lot of short position reductions, and indeed a reduction in the total number of stocks shorted 5% or more of seven. Given the blow-off rally we have seen to new post-virus highs, it makes perfect sense, but…

While three stocks fell out from the 5% bracket, Challenger ((CGF)) disappeared from 7.3%, Harvey Norman ((HVN)) from 7.2%, Flight Centre ((FLT)) from 6.6% and Alumina Ltd ((AWC)) from 6.0%. We might also add Bendigo & Adelaide Bank ((BEN)), down to 5.2% from 8.1%.

Experience suggests that whenever there is a cluster of big short position changes as is the case here, they mostly all revert back the following week, confirming discrepancy in the data. We are reminded that short position reporting is mandatory, but relies solely on reporting from the shorter.

It's thus an honour system to a degree. I'm not suggesting shorters are dishonest, but it's not unusual in times of heightened volatility to see the numbers all go a bit awry for a week before catching up the next week.

So I'm not going to proffer any explanations for short position moves last week. We shall see what happens next week.

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

**10%+**
MYR 13.4
SUL 10.6
GXY 10.2

No changes

**9.0-9.9**

WEB, JBH, CUV, ING, NEA, ORE

In: JBH, ING Out: PLS

**8.0-8.9%**

PLS

In: PLS Out: JBH, ING, SEK, BEN

**7.0-7.9%**

SEK, PPT, MTS, BOQ, NCZ

In: SEK, NCZ Out: CGF, HVN, Z1P

**6.0-6.9%**

LYC, PGH, NCZ, SGM, Z1P

In: Z1P Out: NCZ, FLT, CTD, AWC, MYX

**5.0-5.9%**

CLH, MYX, JIN, NEC, GWA, CTD, LOV, BEN, BUB, CLQ, SYR, AMP

In: MYX, CTD, BEN Out: AMA, BIN, WOR

**Movers & Shakers**

**Movers & Shakers will return when things settle down.**

**ASX20 Short Positions (%)**

| Code | Last Week | Week Before | Code | Last Week | Week Before |
|---|---|---|---|---|---|
| AMC | 1.8 | 1.9 | NCM | 0.3 | 0.6 |
| ANZ | 0.8 | 0.6 | RIO | 2.2 | 2.3 |
| BHP | 4.5 | 4.7 | SCG | 0.4 | 0.6 |
| BXB | 0.3 | 0.4 | SUN | 1.3 | 0.8 |
| CBA | 0.5 | 0.5 | TCL | 0.5 | 0.8 |
| CSL | 0.1 | 0.3 | TLS | 0.3 | 0.3 |
| GMG | 0.6 | 1.1 | WBC | 0.8 | 0.8 |
| IAG | 0.8 | 0.7 | WES | 0.5 | 0.7 |
| MQG | 0.4 | 0.6 | WOW | 0.4 | 0.4 |
| NAB | 0.8 | 0.7 | WPL | 1.3 | 1.2 |

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.*

WEEKLY REPORTS

# The Wrap: Construction Activity, Online Shopping And Childcare

While construction activity in Australia remains weak, competition is heating up in the infant formula market, and child care gets some help.

**-Construction activity in Australia weak**
**-Competition heating up in infant formula market**
**-An enduring shift towards online shopping**
**-Child care relief package to end in July**

By Angelique Thakur

James Hardie: The Rock of Gibraltar

Uncertainty is the major feature of construction markets at present. Individual building sector companies have reported a mixed impact on construction since the beginning of the pandemic.

Goldman Sachs highlights the slowdown in residential activity in Australia and New Zealand since the onset of the pandemic. This has sparked fears of a glut in the housing market with the analysts expecting vacancies and rents to track ahead of population growth.

Another factor that will impact residential housing is the weak outlook for migration and population growth. The government's recently announced housing stimulus, while definitely helpful, is too small to drive meaningful growth within the sector, comment the analysts.

It is the same story in the non-residential segment with analysts expecting an increase in office and retail vacancy rates, exacerbated by employees working from home and small and medium sized businesses facing solvency issues.

In such a volatile scenario, when it comes to building material players, Goldman Sachs prefers structurally strong companies like James Hardie Industries ((JHX)) with a solid market position and potential to expand margins and gain market share.

The analysts have resumed coverage on three stocks – GWA Group ((GWA)), Boral ((BLD)) and Adbri ((ABC)) – with a Neutral rating on all.

GWA Group, supplier of kitchen and bathroom fixtures, has exposure to the repair and remodel segment, which is less volatile but still affected by the weakness in housing and construction.

Boral is considered well placed with exposure to the well-shielded east coast infrastructure pipeline and the US residential market (expected to recover ahead of the Australian market). However, downgrades in the last two years along with uncertainty on the operational and strategic fronts prompt the broker to remain cautious.

Goldman Sachs has resumed coverage on CSR ((CSR)) with a Sell rating due to exposure to residential construction activity and a worsening aluminium outlook.

The crisis 'May' not be over yet

May saw Engineering and Construction contracts awarded worth $279m, a huge improvement from the $56m recorded in April.

Civmec ((CVL)) was the clear winner with contracts worth $165m, reaping the benefits of its domestic manufacturing capability, while other players remained mired in supply chain issues.

However, players like Adbri, Boral and Fletcher Building ((FBU)) warn of an impending decline in construction activity stemming from restriction-induced issues, report Bell Potter analysts.

This is reiterated by Service Stream ((SSM)), Saunders International ((SND)) and Lycopodium ((LYL)). Lycopodium and Service Stream noted project delays, while Saunders International's supply chain has been hit, affecting productivity.

The Master Builders Association of Victoria has called for a tackling of productivity issues which, if left unchecked, could lead to a -$6bn annual decline in activity across the building and construction sector.

The views above do not surprise the experts at Bell Potter given we are witnessing the largest GDP decline since the Great Depression. They believe a cyclical industry like Engineering & Construction is bound to be impacted.

With economies reopening globally and (as yet) no major spike in infections in the USA, investors are growing increasingly hopeful of a V-shaped recovery. This is further supported by the unprecedented stimulus measures.

While these measures have buoyed asset and commodity prices, the experts warn they could prove to be a double-edged sword, limiting future growth capacity of the economy due to high debt levels.

Bell Potter analysts suggest the focus should be on suburban roads and small-scale public infrastructure projects, which can be planned and commissioned relatively quickly. This, they feel, will have more impact than homebuilding measures.

Such projects will have opportunities for BSA ((BSA)), Cimic Group ((CIM)), Decmil Group ((DCG)), Downer EDI ((DOW)), Maca ((MLD)), NRW Holdings ((NWH)), Saunders International, SRG Global ((SRG)) and Southern Cross Electrical Engineering ((SXE)).

Infant formula market: Cranking it up

Citi analysts point to surplus inventory levels of infant formula in both China and Australia. The analysts suspect a change in supply routes between Australia and China may be the reason for the excess stocks.

With flights between the two countries disrupted due to the pandemic, a huge proportion of stock was sent via sea, but time taken through this route was longer (about a month) and a lot of the stock arrived post-stockpiling.

The broker is convinced this is temporary and expects any impact to be confined to the fourth quarter with strong third quarter sales and pre-sales activity of the 6.18 shopping festival (held in China) mopping up the excess supply.

The other notable update is the launch of an organic A2 infant formula in Australia by Aptamil under its Essensis series. This comes hot on the heels of Bellamy's Beta Genica-8 launch (in May).

Citi analysts note the new formula is of a superior quality and feel that with two new entrants having better formulations and using a2 Milk's ((A2M)) largest channel - cross-border e-commerce – the company needs to lift its game.

Shift towards online shopping

Covid-19 has led us to change our ways in a lot of areas and shopping is no exception. An analysis conducted by Bell Potter observes a notable shift towards online shopping which may well prove to be an enduring one.

The team point to a steep increase in website traffic for a number of discretionary retail players during the pandemic. The Athlete's Foot ((AX1)) saw visits up by more than 40% during April/May, while site visits to Skechers, Platypus and HypeDC were comparable to levels seen only during the Christmas season.

It was the same with Breville Group ((BRG)) with site traffic levels up 16% in May (month-on-month) while City Chic Collective's ((CCX)) Australia and New Zealand traffic was up 57% (month-on-month). In the apparel segment, Peter Alexander's ((PMV)) May visits were double the March levels.

Domino's Pizza Enterprises ((DMP)) saw steady growth in Australia with site traffic growth hitting about 20% month-on-month. Domino's noted a strong increase in pizza consumption in Japan outside the Christmas holiday season.

JB Hi-Fi ((JBH)) falls in the category of a destination store business yet saw visits increase in April while tempering somewhat in May. Lovisa Holdings ((LOV)), reliant on impulse purchases, is more dependent on foot traffic and, unsurprisingly, the online channel formed only a small component of sales.

Childcare Industry: Back to the basics

The covid-19-hit childcare industry was given temporary additional assistance in the form of a relief package

(Early Childhood Education and Care Relief Package). This is set to end on July 12 with a return to the Child Care Subsidy (CCS) along with continued support to unemployed families.

Operators will be entitled to a transition payment that will replace JobKeeper from July 20. This will be equal to 50% of what they were receiving under the current relief package.

While the package was of immense help, strengthening the ability of landlords' (REITs) tenants to remain financially viable, the shift back to CCS is a lot better, notes Canaccord Genuity.

This move is also supported by Goldman Sachs which notes the relief package incentivised centres to lower occupancy levels so as to reduce costs and improve profitability.

This will not be profitable under the current circumstances, which see demand for childcare increasing. Goldman Sachs comments increasing occupancy will put financial stress on operators under the relief package, while a return to CCS will enable operators to remain viable and increase daily occupancies.

Canaccord expects government funding to increase by circa 22% in the third quarter to almost $3bn versus $2.5bn in the second quarter.

Goldman prefers Charter Hall Social Infrastructure REIT ((CQE)), considered undervalued at its present share price level, while the broker is Neutral on Arena REIT ((ARF)).

SMALL CAPS

# Demand Surges For Johns Lyng Restorations

Demand for the building & restoration services of Johns Lyng has skyrocketed after a series of catastrophic events, suggesting the company will withstand any pandemic-related setbacks.

**-Record number of job registrations to May 2020 related to catastrophes**
**-Commercial building services work likely to decline in FY20**
**-Potential benefits from Victorian government programs**

By Eva Brocklehurst

There are jobs aplenty for Johns Lyng Group ((JLG)), which operates insurance building & restoration services. Year-to-date registrations include work that has emanated from six catastrophic events across Australia's eastern seaboard between September 2019 and February 2020.

Demand for the company's services has skyrocketed, with a record number of job registrations, at 55,000 for the year to May compared with 61,000 over 2019. In May alone the company has booked 8400 new jobs, up 78.7% of the previous May. This is provided a solid foundation for growth in this division.

FY20 guidance has been upgraded by 10-12% with revenue forecast at $470m and operating earnings (EBITDA) at $39m. The total amount of catastrophe-related work is yet to be fully determined. Nonetheless, it is expected to contribute operating earnings of $7.5m in FY20 on $72m in revenue, which Canaccord Genuity suggests implies a margin for this division of 10.4%.

Moelis, which does not rate the stock, also expects further margin expansion given the operating leverage derived from catastrophe work later in the event cycle, as well as increased contributions from higher margin segments such as strata management.

Management has indicated its acquisitions such as Bright & Duggan, Capitol Strata and Air Control Australia are all performing well and will help with full year contributions in FY21 along with the completed integration into the Johns Lyng systems.

Meanwhile, commercial building services work is likely to decline in FY20 because of the standstill in property staging and retail shopfitting amid pandemic-related restrictions.

Bell Potter calculates **the upgrade to earnings from the insurance building work should still more than offset the forecast decline in commercial building services** and remains confident the company is on a strong footing, retaining a Buy rating with a $2.90 target.

Moreover, Canaccord Genuity suspects there may be a benefit from the building works package, worth $2.7bn, announced by Victoria's state government, as well as the establishing of Cladding Safety Victoria and a $550m program to reduce risk associated with combustible cladding on residential apartments.

As work in hand is currently locked in until at least Christmas, and volumes in insurance restoration work continue to grow, the broker assesses the business could have FY21 earnings underwritten by the time it reports in August 2020. Canaccord has a Buy rating and $2.83 target.

Johns Lyng is an integrated building services company which provides insurance restoration work as well as commercial services throughout Australia. There are three divisions, including insurance building & restoration that restores property and contents after damage from weather and fire events.

Within this division there are five units and the company also operates a US-based fire, water and flow restoration business called Steamatic. Commercial building services has four units incorporating such areas as shopfitting and floor coverings.

The third, commercial construction, specialises in building and construction projects in Victoria in aged care, hospitality, retail, education and industrial segments.

SMALL CAPS

# Conditions Improve For Integral Diagnostics

Integral Diagnostics is increasingly confident business is returning to normal, making its second acquisition in New Zealand.

**-Faster return to growth now considered possible**
**-Acquisition of Ascot Radiology highlights consolidation opportunities**
**-Scope for additional acquisitions**

By Eva Brocklehurst

Integral Diagnostics ((IDX)) is negotiating the bumpy road of pandemic restrictions, which has been highlighted by a slump in patient volumes in April followed by a partial recovery in May.

Revenue declined by -24-50% across all business units because of the lockdowns in April but declines were only -5-16% in May as restrictions were eased. The company has indicated June has started on a positive note and revenue is continuing to gradually improve.

Elective surgery is resuming and expected to return to normal levels in coming months. During the crisis the company closed eight smaller community sites and has since re-opened three. Citi anticipates the other five sites will open by the end of June.

The new Hope Island site on the Gold Coast commenced operations in June and patient activity has been positive to date. Wilsons, not one of the seven stockbrokers monitored daily on the FNArena database, notes Integral Diagnostics took market share from hospitals in both PET/CT and MRI during the pandemic and such high-end areas are more conducive to private billing and optimal pricing.

As rates of community transmission of the coronavirus remain low in Australia, and New Zealand completely lifts restrictions, a faster return to growth is now considered possible. Still, with earnings and the share price approaching pre-pandemic levels, and amid some margin challenges in FY21, Credit Suisse downgrades to Neutral from Outperform.

A more measured approach is considered justified as the company's cost base is expected to return to pre-pandemic levels by July. That said, Credit Suisse acknowledges there is some scope for a surprise on the upside.

**Integral Diagnostics has implemented some initiatives on the cost front**, with up to -20% reductions in remuneration for some radiologists, board members and executives. Rental reductions have also been negotiated along with reduced service costs for equipment.

Renewed stability has provided management with confidence to execute the acquisition of NZ-based Ascot Radiology for NZ$50m, consisting of cash and scrip. The practice merges with the existing NZ business and offers sub-specialisation although avoids any overlap.

Ord Minnett expects an accelerated improvement in the business and pulls forward the expected return to pre-pandemic revenue levels. Citi also revises estimates upwards, assuming only a -20% decline in revenue in the fourth quarter of FY20.

The broker assesses the acquisition of Ascot Radiology will be 4.5% accretive to earnings per share in FY21, while Macquarie considers the acquisition is consistent with the company's growth strategy and will broaden the offering in the Auckland market.

Wilsons welcomes the acquisition, as Ascot Radiology has almost doubled earnings since 2017, when Abano Healthcare sold its stake, retaining an Overweight rating and $4.65 target.

Credit Suisse notes the price is not cheap but concedes this is a strategic tuck-in asset and pays to the notion of widespread distressed asset sales in radiology. Integral Diagnostics expects an operating earnings contribution of $5.3-6.1m in FY21.

Following completion of the acquisition the broker calculates FY21 gearing at 2.0x, which provides scope for additional acquisitions. Ascot Radiology, the company's second acquisition in New Zealand, has nine clinics in Auckland and contracts with 22 doctors.

There are three Buy ratings and two Hold on FNArena's database. The consensus target is $4.42, suggesting 6.6% upside to the last share price.

*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.*

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

TREASURE CHEST

# Treasure Chest: BlueScope Poised For Rebound

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. BlueScope Steel stands out as a tactical buy for several brokers as global demand for steel recovers.

**-Economic stimulus measures globally should underpin steel demand**
**-A material pick up in US automotive sales needed**
**-First quarter of FY21 expected to be the low point**

By Eva Brocklehurst

BlueScope Steel ((BSL)) continues to defy the pessimists and several brokers believe there is an opportunity in the stock, given the market appears to be pricing in depressed earnings for the foreseeable future.

Moreover, as economies slowly open up and governments across the globe engage with economic stimulus, amid low interest rates, there is increased confidence in what is being done to restore activity.

Along with that will come demand for steel. Credit Suisse has conducted a review across the BlueScope business segments and, while reducing estimates for FY21 because of lower steel spread assumptions (the difference between the raw cost and finished price) and softer Australian volumes, believes the business is well placed to deliver ahead of consensus forecasts.

The trading environment is uncertain but the broker considers there is a value opportunity on even a partial restoration of what could be considered reasonable mid-cycle trading conditions in earnings, and there is upside for those willing to look beyond the current pandemic-affected demand and spread pressures.

Significantly, while some operations completely ceased during the height of the pandemic, such as in New Zealand, or were curtailed (India, Malaysia), **Australian steel products, the largest component of the business, continued to operate**.

Goldman Sachs expects improvement in steel spreads over coming months with a more consistent supply/demand environment. The first half outlook is now more positive than previously assumed and the broker upgrades FY21 estimates by 31%. FY21 is now considered to be the first in a three-year recovery back to more normal earnings.

Global Steel

The steel sector, globally, has re-rated in recent weeks although, for a further re-rating and material improvement in share prices, the broker believes there will need to be evidence of improved earnings in terms of both spreads and volumes.

Overall, demand remains lower than prior to the pandemic but early curtailments on the supply side have mitigated a potential oversupply. Goldman Sachs calculates the average sector enterprise value/EBITDA (operating earnings) multiple has rallied materially, to around 6.5x, and is now at levels not seen since early 2017. Still, this is below the multiples experienced at the start of the recovery from the GFC in 2009.

While there were some concerns in March and April that rising inventory in China would again flood the seaborne market and put downward pressure on spreads, this appears to have been largely unfounded. Goldman Sachs assesses east Asian spreads have re-based at floor levels and are set to deliver a sustained rebound to the middle of the US$130-210/t range.

In the US, a reignition of automotive production has helped sentiment and supported recent pricing. US steel spreads have found a floor at around US$300/mt, assisted by regional supply reductions and some pricing tension is now expected to re-emerge.

Credit Suisse concedes it is difficult to make an assessment of North Star, the company's US business, particularly in the knowledge that 50% of its sales go to the automotive industry. A re-start of that industry in the US is positive but a material pick up in sales will be needed to restore demand volumes to pre-pandemic levels, in the broker's view.

Ord Minnett agrees steel spreads at North Star have stabilised, although capacity utilisation remains below 55%. Hot rolled coil prices have risen about 10% since the start of May.

Australia

The pandemic is unlikely to have had a material impact in Australia as it appears construction activity that had already started, or was fully funded, continues unabated. The risk lies with the first half of FY21, Credit Suisse asserts, amid a lag in future activity decisions. The broker points out the alterations & additions market accounts for around 20% of Australian volumes and the first quarter of FY21 is expected to be the low point.

Yet, **recent channel checks by Goldman Sachs provide visibility through to August and confirm that concerns regarding a hiatus in demand have passed**. The effective control of viral activity across the Australian market and absence of stage 4 restrictions have ensured residential construction has continued.

The economic slowdown and lack of new activity does present some concerns for the December half, while the broker believes the Australian government's new $688m home builders stimulus should help.

Meanwhile, non-residential construction demand has been relatively weak and concerns over office over-supply have meant very few new projects have started. Nevertheless, engineering remains well supported as local governments seek opportunities for infrastructure stimulus.

Agriculture stands ready for a recovery in demand as the drought breaks and steel use is likely to increase with reconstruction following the bushfires. Hence, Goldman Sachs is now forecasting domestic steel demand to be down just -5-10% across the December half.

Importantly, BlueScope has the balance sheet to ensure it can navigate the current challenges and Credit Suisse assesses it is well-positioned to prosper as a genuine cyclical stock that is leveraged to macro improvement in aggregate recovery in demand. For Ord Minnett the worst is behind BlueScope, in terms of steel pricing, and the stock stands out as a "tactical trade" into the recovery.

Goldman Sachs, not one of the seven stockbrokers monitored daily on the FNArena database, upgrades to Buy from Neutral, with a target of $14.95. The database has three Buy ratings and three Hold. The consensus target is $11.47, suggesting -7.3% downside to the last share price.

*Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story* *contains unashamedly positive feedback on the service provided.*

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

## TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with FNArena Ltd with respect to your use of its FNArena website, its weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on its website, or anywhere else, from time to time.

Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to “FN Arena” and “FNArena” means reference to FNArena Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. FNArena Ltd is the owner of the FN Arena website and brand name.

3. Reference to “we” or “us” is reference to FNArena.

4. Reference to “this website” or the “FNArena website” means reference to www.fnarena.com, and includes reference to FNArena’s weekday news periodical, Australian Broker Call, as well as any other publications (including articles) FNArena may publish on this website, or anywhere else, from time to time.

5. Reference to “news periodicals” means reference to FNArena’s weekday periodical, Australian Broker Call, as well as any other periodicals FNArena may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to “publications” in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes FNArena’s weekday periodical, Australian Broker Call, and any other periodicals FNArena may publish from time to time.

7. Reference to a “visitor” means, you, a visitor to this website, and includes a subscriber to Australian Broker Call as well as any other publications or periodicals FNArena may, from time to time, publish through its website.

8. FNArena is a media company which employs financial journalists to report financial news. FNArena’s journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in FNArena’s news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations FNArena reports on this website are not the opinions of FNArena or any of its journalist or other employees. FNArena is ONLY and specifically a

matter-of-fact reporter of industry signals suggesting price direction probability of some shares. FNArena simply delivers the information – it does not create it.

9. Although FNArena obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. FNArena does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by FNArena, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. FNArena publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. FNArena is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and FNArena will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FNArena website, FNArena's publications and/or periodicals have not been recommended by FNArena. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by FNArena, do not constitute a recommendation or endorsement by FNArena with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FNArena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and FNArena shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by FNArena from time to time, or in any other publications FNArena may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold FNArena responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. FNArena does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. FNArena strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. FNArena shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall FNArena be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FNArena website, and any or the FNArena's publications and/or periodicals.

19. As a condition of use of the FNArena Website, FNArena's publications and periodicals, you agree to indemnify FNArena and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FNArena website, FNArena's publications and periodicals. If you are uncertain about this agreement or the contents of the FNArena's website, or are dissatisfied in any shape or from, with the content of the FNArena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FNArena website, FNArena's publications and periodicals.

20. FNArena may, from time to time, publish advice, opinions and statements of various third parties, other than the ten stock brokers, and various other information and content providers. FNArena does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FNArena website may contain links and pointers to websites maintained by third parties. FNArena does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services provided by the third party link owners or operators. FNArena has no control over any websites that we might link to and does not

take responsibility for their quality, content or suitability.

22. FNArena is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by FNArena of any products or services advertised. FNArena does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from FNArena whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does FNArena endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. FNArena is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. FNArena reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. FNArena reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FNArena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. FNArena shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FNArena website, including the publications and periodicals, is subject to copyright with all rights
reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from FNArena.

29. All original content is the copyrighted property of FNArena.


fn arena
PASSIONATE ABOUT FINANCIAL NEWS
Financial News for the Bright and the Uneducated. And for everybody else in between.
FN Arena News
Building the Future of Financial Journalism
www.fnarena.com
Trials are free and without any obligation