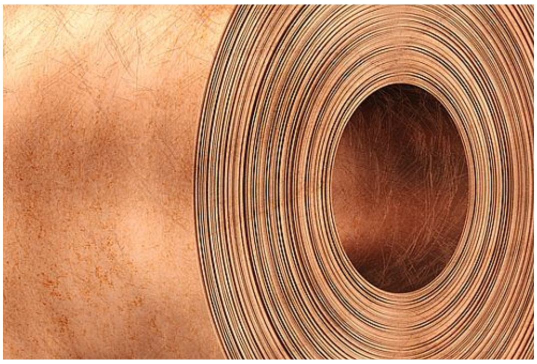
WEEK 13

STORIES TO READ FROM FNArena

Thursday, 28 March 2024

A Premier Result, With De-Mergers Next



Preparing For Copper Price Upside

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Financial News, Data & Analysis

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AUSTRALIA

The Market In Numbers - 23 Mar 2024

The Market In Numbers: Look under the bonnet and what do you see?

For most investors, whatever goes on in financial markets is experienced through their own portfolio and personal matters of interest.

The below detailed overview in raw numbers and calculations might assist with assessing trends and currents that might not be apparent from daily volatility and movements.

All index data are ex dividends. Commodities are in USD.

Australia & NZ

Index	22 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
NZ50	11978.620	1.80%	2.02%	1.77%	1.77%	0.52%
All Ordinaries	8026.30	1.29%	0.84%	2.51%	2.51%	8.44%
S&P ASX 200	7770.60	1.31%	0.93%	2.37%	2.37%	7.88%
S&P ASX 300	7723.20	1.28%	0.94%	2.49%	2.49%	7.91%
Communication Services	1557.90	-0.12%	-2.40%	-1.91%	-1.91%	1.33%
Consumer Discretionary	3575.80	0.41%	-0.40%	10.36%	10.36%	21.47%
Consumer Staples	12052.70	-0.51%	-0.92%	-2.09%	-2.09%	-9.34%
Energy	10475.70	1.35%	0.52%	-1.38%	-1.38%	-3.25%
Financials	7395.60	1.44%	2.03%	10.08%	10.08%	18.91%
Health Care	42384.40	0.57%	-1.32%	0.10%	0.10%	2.65%
Industrials	7038.10	1.36%	0.17%	2.51%	2.51%	3.55%
Info Technology	2295.20	0.54%	3.58%	25.22%	25.22%	25.46%
Materials	17599.50	2.35%	0.23%	-9.70%	-9.70%	-2.40%
Real Estate	3730.00	1.88%	6.13%	11.42%	11.42%	22.54%
Utilities	8197.10	-0.33%	2.12%	0.21%	0.21%	-6.15%
A-REITs	1693.20	2.04%	6.42%	12.70%	12.70%	24.99%
All Technology Index	3089.60	1.05%	0.49%	14.68%	14.68%	27.85%
Banks	3057.80	1.72%	1.72%	10.01%	10.01%	22.47%
Gold Index	6909.50	1.45%	10.72%	-6.22%	-6.22%	4.40%
Metals & Mining	5731.00	2.41%	0.29%	-11.38%	-11.38%	-5.39%

The World

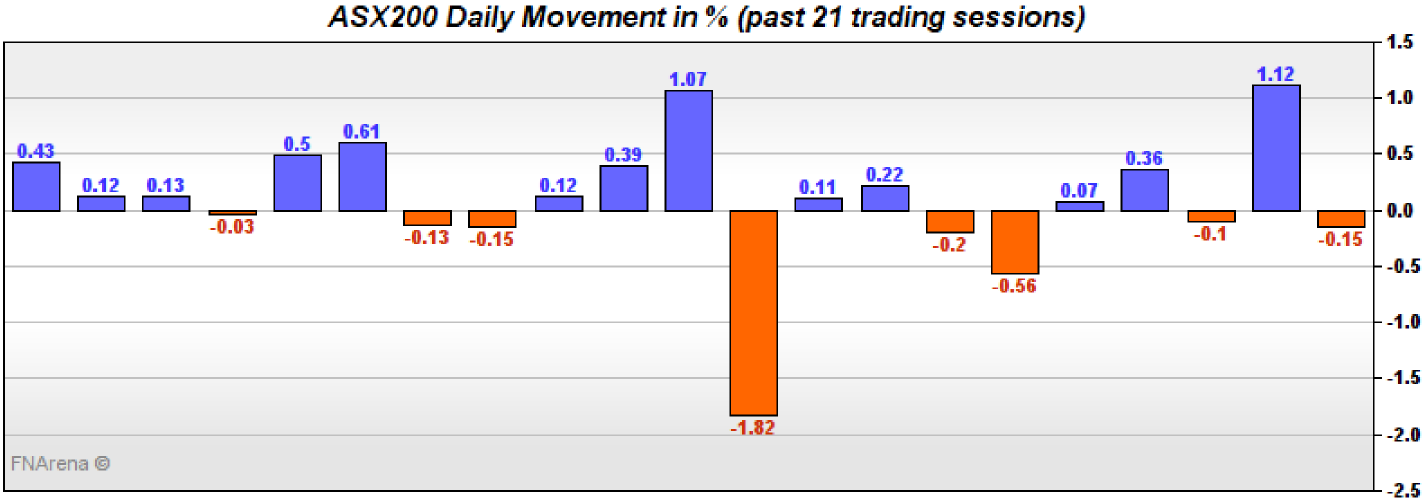
Index	22 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
FTSE100	7930.92	2.63%	3.94%	2.56%	2.56%	5.30%
DAX30	18205.94	1.50%	2.99%	8.68%	8.68%	12.74%
Hang Seng	16499.47	-1.32%	-0.07%	-3.21%	-3.21%	-12.78%
Nikkei 225	40888.43	5.63%	4.40%	22.19%	22.19%	23.20%
DJIA	39475.90	1.97%	1.23%	4.74%	4.74%	14.73%
S&P500	5234.18	2.29%	2.71%	9.74%	9.74%	17.61%
Nasdaq Comp	16428.82	2.85%	2.09%	9.44%	9.44%	19.15%

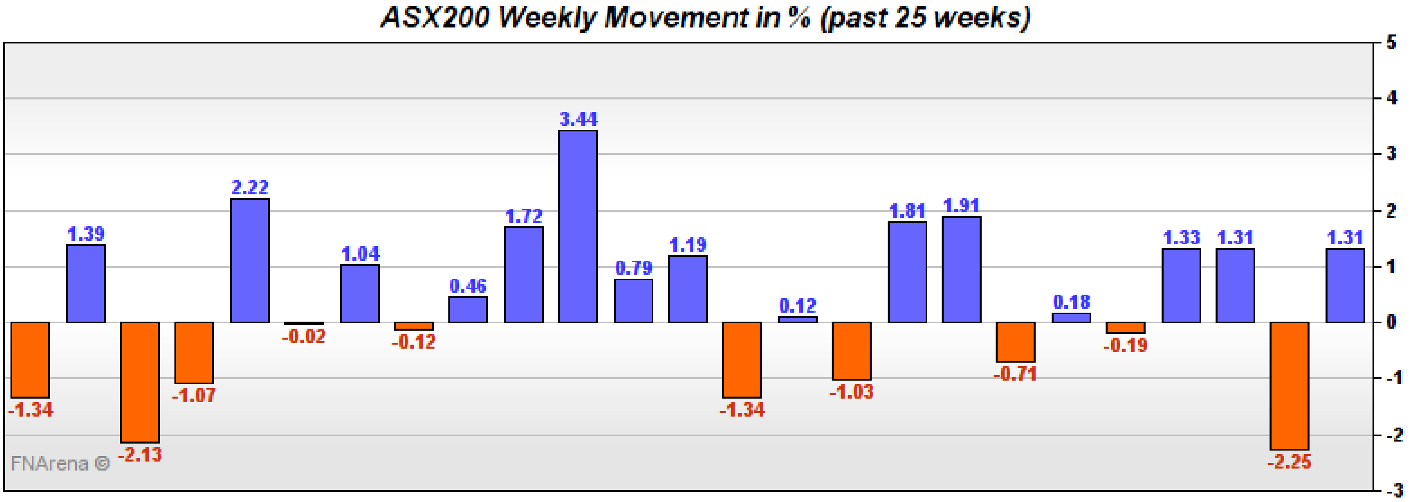
Metals & Minerals

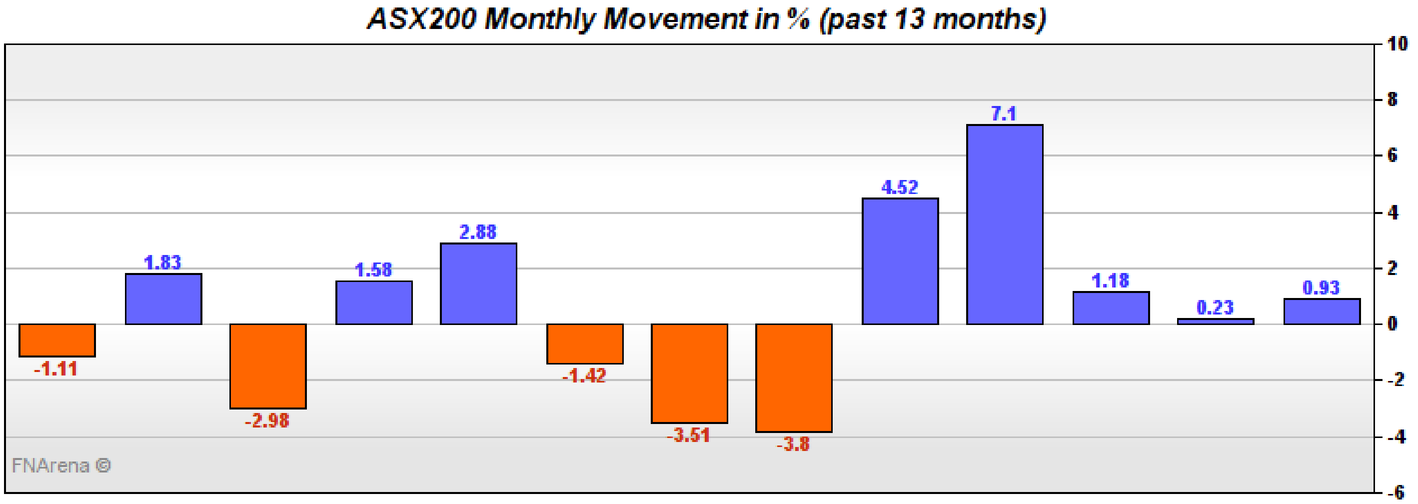
Index	22 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
Gold (oz)	2180.90	0.86%	7.25%	6.67%	6.67%	14.30%
Silver (oz)	24.69	-0.36%	10.17%	1.27%	1.27%	9.59%
Copper (lb)	4.0365	0.65%	6.03%	6.00%	6.00%	8.60%
Aluminium (lb)	1.0395	2.43%	5.38%	6.91%	6.91%	8.53%
Nickel (lb)	7.8948	-3.36%	-0.94%	6.16%	6.16%	-11.29%
Zinc (lb)	1.1399	-0.93%	4.90%	1.36%	1.36%	8.71%
Uranium (lb) weekly	86.00	-7.53%	-9.47%	0.00%	0.00%	53.02%
Iron Ore (t)	110.13	-0.73%	-3.29%	-20.33%	-20.33%	-3.32%

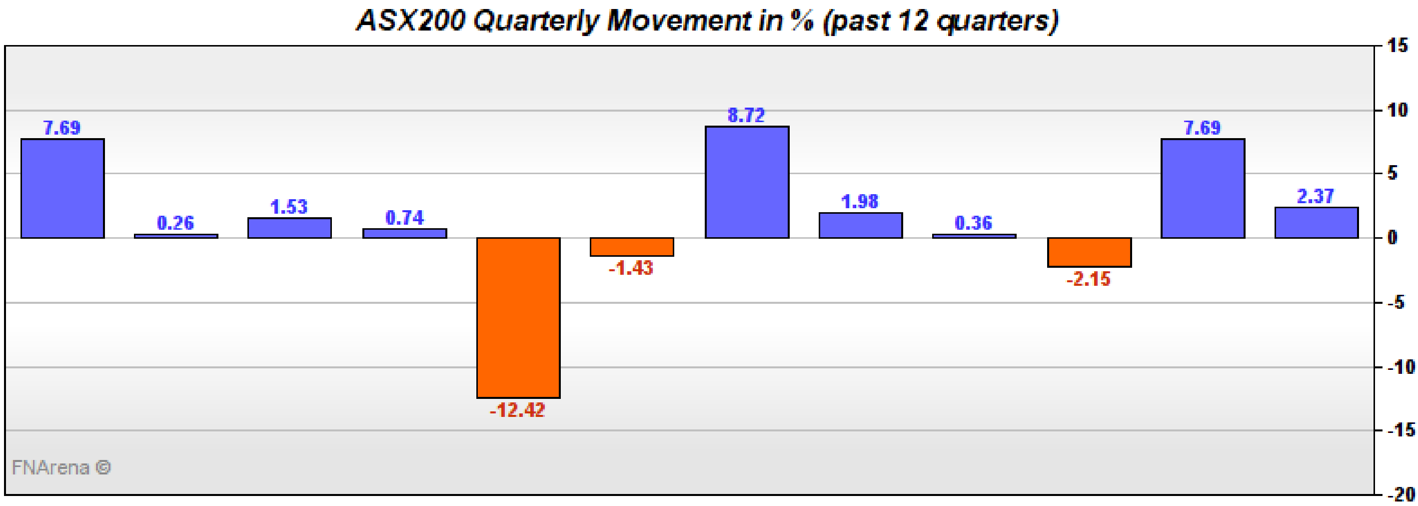
Energy

Index	22 Mar 2024	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2024)	Financial Year To Date (FY24)
West Texas Crude	80.89	-0.22%	3.22%	9.59%	9.59%	15.79%
Brent Crude	85.61	0.54%	2.58%	8.01%	8.01%	15.21%









The composition of above rankings and calculations is fully automated, based on raw data. Investors are advised to find context, interpretation and background elsewhere.

FNArena is not responsible for any glitches, omissions or data errors. This feature is not investment advice. It is offering a quick status on raw price movements for information purposes only.

FNArena welcomes comments and suggestions at info@fnarena.com

AUSTRALIA

A Premier Result, With De-Mergers Next

Premier Investments' first half earnings surprised brokers amidst a cost of living crisis. Management announced plans to separate the two growth drivers.

-Premier investments H1 beats on earnings
-Cost control applauded
-Growth plans for Smiggle and Peter Alexander
-Planned de-mergers could unlock value

By Greg Peel

Premier Investments ((PMV)) operates apparel chains Just Jeans, Jay Jays Portmans, Jacqui E, Dotti and Peter Alexander, along with Smiggle, which sells stationary and other ancillaries mostly aimed at kids. The company also has a 26% stake in Breville Group ((BRG)) and a 28% stake in Myer Holdings ((MYR)).

The company reported $209.8m in first half retail earnings yesterday, ahead of $200m guidance provided at its AGM, also beating consensus forecasts.

The earnings beat came despite a fall in group sales of -3.4% -- greater than expected – with Portmans the worst performer (-16% year on year) and Smiggle equally disappointing (-4%). Peter Alexander surprised to the upside (+7%).

Earnings exceeded expectations due to gross margins holding up better than expected. This was achieved by "impressive" management of cost of goods sold and the cost of doing business as consumers face cost of living pressures. Management kept inventory tight and rent and employee expenses well contained despite lower sales.

<u>Demergers</u>

While Premier's legacy apparel brands have tended to just chug along, the stars of the retail stable in recent times have been Peter Alexander, which specialises in sleepwear, and Smiggle.

Management reiterated its growth plans for retail, including a new loyalty program by this Christmas, 20 new and larger format Peter Alexander stores in Australia/New Zealand, two new Peter Alexander stores in the UK, and a dedicated UK website, 30 new Smiggle stores in existing markets (A&NZ and UK), and a wholesale partner in Indonesia to open 100-plus stores.

More generally, Smiggle is targeted for future offshore growth.

But Premier wants to get rid of Smiggle, and Peter Alexander. More specifically, management is working towards a de-merger of Smiggle into a separate listed entity by January 2025 and exploring the prospect of doing the same with Peter Alaxander sometime in 2025.

The de-mergers have been met with varying broker views.

If the de-mergers were to proceed, says Morgan Stanley, “we should see a meaningful valuation unlock”.

Jarden questions whether the company wouldn’t be better off going the way and de-merging Apparel into another entity, thus minimising dis-synergies. Jarden nonetheless expects either strategy would result in a re-rate.

Citi says “We will look for further detail as to why Premier is looking to demerge these growth businesses separately”.

[dianomi_video]

<u>The Outlook</u>

Last year brokers were warning against investment in the consumer discretionary sector given the cost of living crisis brought about by inflation and its subsequent impacts, being much higher mortgage costs and increasingly higher rents. While this has proven to some extent true, the February result season, and interim results to now, have shown that well-managed companies have weathered the storm when others have not.

The key to good management has largely been reduced, or at least contained, costs, as sales have declined, as well as being careful with price increases. In the latter case, the easing of covid-induced supply constraints, which has contributed to disinflation (but not overall deflation) has helped.

Premier Investments’ performance is one example of cost control amidst flagging sales, and strong management has been applauded by all brokers. KMD Brands ((KMD)), which owns the Kathmandu and Rip Curl clothing brands, reported recently and was accused of poor execution.

Similar good/bad results amongst retailers were evident in the February result season.

The question now is whereto from here. Brokers acknowledge the upcoming tax cuts, and expected RBA rate cuts by year-end, provide an improving macroeconomic backdrop for consumers. Ord Minnett agrees these factors improve the near-term outlook for consumer spending and sales for cyclical retailers, but suspects the market is expecting a much more pronounced recovery.

We note that yesterday’s Westpac consumer confidence survey for March showed a decline to a pessimistic 84.4 on its index, with 100 being the neutral level.

Ord Minnett further expects soft demand for fashion in the second half of fiscal 2024, as sales volumes gradually normalise towards long-term trends.

Ord Minnett suggests Premier shares trade at a “significant premium” and retains a Sell rating.

On the other hand, UBS is more confident now of earnings margin expansion beyond FY24 and suggests sales can return to growth post a weak first half, noting undemanding year-on-year comparables and new store growth.

UBS is thus more confident Premier can sustain its premium and upgrades to Neutral from Sell.

Goldman Sachs is forecasting 3.5% group sales growth in the second half, expecting no growth for the other apparel brans collectively but 7% growth for Peter Alexander and 10% for Smiggle on easier comparables and new store openings. However, Goldman does not expect another half of strong margins, forecasting a decline of -9.5% year on year.

Goldman Sachs retains a Sell rating.

Jarden also suspects costs will be harder to control in the second half, weighing on margins. This broker is also less upbeat on Smiggle, as value-focused families shift to lower value-options such as Kmart ((WES)) in

Australia and Primark in the UK, given signs of share loss in the first half.

Jarden sticks with Neutral.

Strong leadership, multiple growth levers, ample cash at hand, plus de-merger benefits, all support Petra Capital's Buy rating.

Citi and Morgan Stanley are also focused more on the valuation re-rate expected from de-mergers in supporting their Buy and Overweight (respectively) ratings.

Macquarie is yet to update on the result but has a Neutral rating, leaving a mix of two Buy or equivalent, two Hold and one Sell ratings among brokers monitored daily by FNArena. The consensus target between those brokers has risen to $29.14 from $26.90, but targets range from Ord Minnett's (Sell) $20.50 to Morgan Stanley's (Buy) $38.00.

Goldman Sachs (Sell) has a target of $25.10, Jarden (Hold) has $32.00 and Petra Capital (Buy) has $34.25.

COMMODITIES

Preparing For Copper Price Upside

Analysts have positive views on potential upside for the copper price based on recent news out of China and longer-term fundamentals.

-Copper prices at the beginning of an upside run, according to market analysts
-Chinese smelter agreement a key supply side catalyst, says UBS
-Underlying copper market fundamentals are also positive
-Copper price forecasts and stock picks

By Mark Woodruff

Copper's bull run is only just beginning, according to ING Bank, despite lingering short-term demand concerns, after prices recently rallied to one-year highs as major smelters in China pledged to control capacity after a collapse in treatment and refining charges.

UBS also envisages a protracted period of supply constraint, resulting in material and sustained copper price upside , while Macquarie last week raised its copper price forecasts due to supply shortages against a relatively robust demand backdrop.

In a rare agreement among Chinese copper smelters, production will be jointly cut (according to recent media reports) to cope with shortages of raw material. UBS had previously noted such a move would be a key supply-side catalyst to trigger a break to the upside for the copper price.

While this broker acknowledges views are mixed on what a sharp decline in Chinese treatment and refining charges means for the copper price, the speed and magnitude of the decline likely reflects disruption to mine supply and depletion of concentrate inventory, resulting in panic buying in the spot market.

Spot prices for treatment and refining are now at record lows, down more than -80% since the beginning of the year.

As smelter capacity additions have been in the pipeline for a long time, UBS believes they are a less likely cause of the fall in charges.

Should overcapacity in smelting be the reason for these lower treatment charges, the analysts note the outcome wouldn't necessarily be bullish for the copper price.

If enough copper units (concentrate and scrap) are available, capacity additions would typically result in a lift in total refined output, explains UBS.

<u>Prior to the Chinese smelter news</u>

Prior to the news on treatment and refining charges, UBS had been pivoting towards a more constructive view on copper, in the belief the market was closer to a fundamental inflection point.

Earlier in March, the broker noted material downgrades to 2024 mine production guidance since the beginning of the year. While this suggested limited supply growth, copper price upside had been capped by weak physical markets due to strong refined output and lacklustre demand.

These conditions had created a buying opportunity, according to the analysts, given the (now correct) expectation refined supply would come under pressure in the near-term due to shortages of concentrate, and because traditional drivers of copper demand would improve, supported by restocking.

Back in late-February, ANZ Bank also expected an inflection point in central bank monetary policies would trigger a broader near-term improvement in sentiment for copper.

The bank then forecast the beginning of an interest rate easing cycle in the third quarter of 2024 would create tailwinds for commodity markets in the second half of the year.

Moreover, ANZ suggested unplanned disruptions in supply would likely remain high as producers struggle with high costs and falling quality issues. Ongoing political risks were also considered high, putting new mine development at risk.

Despite the economic backdrop casting a shadow over base metals markets, the bank highlighted underlying fundamental indicators were indicating copper's physical market was not seeing any weakness.

The big picture for copper

Copper is one of the most important base metals, in ANZ Bank's view, because of its use in many sectors.

The bank highlighted figures from the Copper Development Association showing the construction sector consumes around 46% of all copper, while 21% goes into the electrical industry and about 16% into transportation. The remaining 17% is used in consumer products and industrial machinery and equipment.

Demand for copper will be further helped by an acceleration in the energy transition, noted ANZ, with annual installed photovoltaic capacity reaching a record high in 2023.

China's power industry is also important for copper as it consumes around a third of the country's supply.

Copper is very ductile and a good conductor of electricity and heat, making it an excellent material for wiring, electrical cabling and electrical generators.

Despite growth slowing for electric vehicles (EVs) globally, sales are still headed for another record year in 2024, and the bank noted increasing usage will drive copper demand higher.

ING Bank also highlights copper is used in everything from EVs to wind turbines and power grids.

The metal is a key component used in electric motors, batteries and wiring, as well as charging stations.

Importantly, copper has no substitute for its use in EVs, wind and solar energy, highlights ING, and its appeal to investors as a key green metal should support higher prices over the next few years.

Last year's rising demand for renewables and EVs in China has already offset the slump from the more traditional sectors such as the property market, and the bank anticipates this shift in demand drivers will continue in 2024.

ING also believes an improvement in the ailing property sector in China will be key in supporting copper's next move higher.

Forecasts

ING points out microeconomic dynamics are starting to look more constructive for copper amid a tightening supply outlook, while the demand is expected to slowly improve in 2024, especially via the green energy sector.

For the short term, the bank suggests upside to copper prices might be capped by macroeconomic drivers, including ongoing demand concerns in China and lingering uncertainty over US monetary policy.

Copper prices will rise to US$8,700/t in the second quarter of 2024 (seasonally the strongest quarter for copper demand) from US$8,400/t in the first quarter, forecasts ING.

While prices will peak in the fourth quarter at US$9,000/t, according to the bank, they are expected to remain volatile as the market continues to respond to macroeconomic drivers, including the pathway for US interest rates and Chinese policies.

UBS predicts a meaningful deficit in 2024 of more than 300,000 tonnes, driven by a sharp slowdown in supply, which will more than offset the expected deceleration in global copper demand growth.

The probability is low for a strong rebound in mine supply of more than 5% in 2025, according to the analysts, and if/when the market moves into deficit in the second half of 2024, tightness is likely to persist for an extended period.

Latest supply-side developments give the broker conviction physical tightness will emerge when demand recovers.

UBS forecasts a US$4.50/lb (around US$9,900/t) copper price in 2025 and US$4.75/lb (circa US$10,500/t) in 2026.

A pick-up in demand will be needed to tighten a currently weak physical market. Rate cuts triggering restocking in Europe/US and a recovery in Chinese exports are the key to drive an improvement in demand from 'traditional' end uses, explains the broker.

More supportive macroeconomic data out of China, interest rate easing by the Federal Reserve and US dollar weakness would also drive positive investor momentum, in the analysts' opinion.

ANZ Bank's short-term target for copper (forecast in late February) was US$9,000/t, with an expectation prices would lift above US$10,000/t over the ensuing year.

Just last week, Macquarie increased its 2024 and 2025 forecasts for copper by 11% and 4%, respectively, driven by supply shortages against a relatively robust demand backdrop. The long-term price estimate was also increased by 1% to US$8400/t.

For 2024, Macquarie notes its forecast of US$4.09/lb is 4% higher than the consensus estimate.

Stock picks

Outperform-rated Sandfire Resources ((SFR)) is Macquarie's key copper producer pick with the Motheo operations in Botswana ramping-up on time and on budget and expected to reach 5.2Mtpa capacity in the first half of this year.

The company has a strong organic growth pipeline, notes the analyst, with copper production increasing to around 107kt in FY25 from 84kt. UBS also has a Buy rating for Sandfire Resources ((SFR)).

From among Ord Minnett's research coverage of resources, Sandfire Resources and (for copper/gold) Evolution Mining ((EVN)) are preferred exposures on a near-term view, while AIC Mines ((A1M)) and Aurelia Metals ((AMI)) are seen as representing the best copper/gold opportunities in the medium-term.

This broker points to a valuation disconnect between current equity trading for copper companies on the ASX and recent transactions multiples. It's thought investors will benefit as the disconnect unwinds and the appetite for small cap exposures improves.

FEATURE STORIES

Rudi's Comprehensive February 2024 Review

A compilation of stories relating to the February 2024 corporate reporting season in Australia, including FNArena's final balance for the season.

Content (in chronological order of publication):

By Rudi Filapek-Vandyck

Healthcare, REITs, Uranium & Banks

Never underestimate the power of sentiment, or the attraction of rising prices. And with US equity indices setting fresh all-time records, the economics team at National Australia Bank summed it up nicely on Tuesday morning, Sydney time:

Don't stop me, 'Cause I'm having a good time, Having a good time. (Queen)

However, there's also danger in simply assuming the share market's current run is purely sentiment-driven with little else supporting it otherwise. This week's strategy update from **Canaccord Genuity's chief investment officer in Australia, Tony Brennan**, is a case in point.

As the risk for a hard landing in the US, and with it a severe correction in global equities, has diminished, Brennan's preferred asset allocation has increased exposure to shares, while reducing the weights of cash and bonds in the model portfolio. If there is weakness on the horizon, as expected by some, Brennan will be looking to further allocate funds to equities.

In a macro-sense, the recommended weight for equities in the model portfolio is now Neutral (was Underweight) and if there is a correction coming, exact timing unknown of course, that allocation is likely to shift to Overweight.

Have share markets now received the proverbial get out of jail card? Definitely not, says Brennan, but risks have diminished and this needs to be accounted for. This is also why the allocation shift has only moved to Neutral.

It is still plausible the US economy is due for weakness and the same goes for corporate earnings, but markets are forward-looking argues Brennan, and support will be found in the prospect for interest rate cuts at some point thus year. Canaccord Genuity therefore suggests any corrections on the horizon are likely to be of a mild character as lower interest rates support valuations, a recovery in economic momentum and in corporate profits.

Within this context, **US equity strategist Mike Wilson at Morgan Stanley** offered the following observation:

"While lower-quality cyclicals outperformed during the final two months of 2023, we believe this was mainly driven by short-covering and performance-chasing into year-end rather than a more sustainable change in leadership based on a full reset in the cycle.

"So far in 2024 the laggards of 2023 are back to lagging and the winners are back to winning. When in doubt, it pays to go with the highest probability winner. In this case, it's high-quality growth."

The Healthcare Come-Back

In Australia, the sector that is increasingly being nominated for a comeback in 2024 is healthcare. It would definitely fit the "high-quality growth" label Mike Wilson is referring to.

This week's sector update by analysts at **RBC Capital** added yet more fuel to the healthcare-is-poised narrative that has been creeping into investors' group think. On RBC Capital's assessment, top line growth is back, while costs are being controlled, and upcoming competitive risks are much better understood.

RBC Capital is certainly not the first with its sector call. Cochlear ((COH)) shares are now trading above $300. CSL ((CSL)) shares have once again crossed the $290 mark and gone are the days of seeing ResMed ((RMD)) shares languishing around $21 on GLP-1 hysteria.

Cochlear, whose valuation is deemed unjustifiable by all and sundry, is expected to release a smashing interim result in February, if RBC Capital's prediction proves correct, while ResMed is expected to disappoint. We will know on Thursday when the CPAP manufacturer releases December quarter financials and unofficially opens corporate results season in Australia.

RBC Capital's sector update did lead to a number of upgrades and downgrades in ratings, with both Cochlear and Fisher & Paykel Healthcare ((FPH)) downgraded to Underperform because of too-high valuations. Both are also nominated as the least preferred exposures, for now.

Capitol Health ((CAJ)) was downgraded to Neutral on a rising share price. Too early to get overly excited, suggests the report.

Australian Clinical Labs ((ACL)) and Regis Healthcare ((REG)) have both been upgraded to Outperform and elevated to sector favourites, alongside Ramsay Health Care ((RHC)) and Sonic Healthcare ((SHL)).

The CSL Excitement

Competitive pressures from GLP1's and elsewhere are better understood and they arguably won't make a dent in growth numbers for the likes of ResMed and CSL in the short term, but RBC Capital seems less confident about any impact longer term.

No such considerations were in play when healthcare analysts at **Wilsons** updated on CSL this week. In anticipation of positive AEGIS-II Phase III trial data, of which public release is believed to be "imminent", Wilsons added 18% to its price target, now at $352.64. Given where CSL shares are trading at (see above), the broker's rating remains Overweight.

An 18% increase for potentially positive trial data might seem like a fat finger error, but analysts and company management have been talking about the underlying product, CSL112, for years now.

It has been touted CSL's next blockbuster development. As Wilsons reminded investors this week: the best part of $1bn has been invested in this 18,200-patient study that, if all goes according to plan, will prove CSL112 cuts the risk of a secondary, and often fatal, cardiac event for patients that have had their first heart attack.

Assuming all goes to plan, Wilsons estimates peak sales of US$2.3bn annually for CSL in the US and the European market. At peak, CSL112 will represent 12% of group EBIT and 20% of free cash flow. In its own right, a successful CSL112 could be worth $131 per share unrisked to CSL shareholders.

It's not difficult to see the big impact from a positive trial outcome (and getting excited about it in advance).

REITS & Banks

Similar to healthcare, REITs and small cap companies generally are widely considered but logical hunting grounds for the year ahead but in all cases the same warning applies: there will still be winners and losers inside sectors that have lagged the broader market in 2022 and 2023.

Real estate analysts at Citi, in a preview to the February reporting season, have nominated their sector favourites in National Storage REIT ((NSR)), Ingenia Communities Group ((INA)), and, still, Goodman Group ((GMG)).

Candidates for a negative surprise in February include Mirvac Group ((MGR)), Charter Hall ((CHC)), Charter Hall Long WALE REIT ((CLW)), and GPT Group ((GPT)).

In contrast, sentiment and forecasts for Australian banks are skewed to a negative outcome in FY24, also because share prices continue to defy gravity. CommBank ((CBA)) shares surged to a new record high this week. Did I mention "sentiment" and the attraction of rising share prices earlier?

Last week I wrote the following on basis of early-year sector assessments from Citi and Morgan Stanley: https://fnarena.com/index.php/2024/01/17/treasure-chest-banks-exuberance/

(For those who pay attention to these things, my story was subsequently picked up and republished by the business section of The Australian newspaper).

This week banking analysts at Goldman Sachs and Macquarie have essentially doubled down on the same warning that share prices might be too high, too early on too much optimism.

Uranium & Small Caps

In the materials space, combining mining and energy, lots of doubt has crept in as far as the outlook goes for crude oil prices in 2024 and beyond, but support for higher-for-longer iron ore prices has only further grown, in blatant contrast to what has happened to share prices of BHP Group ((BHP)) and Rio Tinto ((RIO)).

Among public admissions on X (formerly Twitter) some portfolios are sitting on losses of -75%, Australian investors have yet again learned a harsh lesson about commodities and cyclicality through a general de-rating of the lithium space. But there's always hope, and a fresh opportunity, as also illustrated by Tuesday's review of the **uranium sector** by **Shaw and Partners**.

The market remains structurally under-supplied, find the analysts, and it's difficult to see what will stop the price of uranium from rising further. Shaw can see a price of US$150/lb on the horizon, though not necessarily tomorrow or even this year. Spot uranium peaked at US$136/138 in the prior bull market that ended in 2007.

The price subsequently bottomed out around US$20/lb as Fukushima happened and has more than doubled over the year past to now beyond US$100/lb. Projecting a higher price for uranium has had a significant impact on Shaw's forecasts and valuations for ASX-listed (soon to be) producers and would-be producers.

Paladin Energy ((PDN)) remains the broker's preferred exposure, although it is by no means the "cheapest" in the sector. Paladin will be restarting production at Langer Heinrich (Namibia) shortly.

Shaw and Partners cover six uranium-related stocks listed on the ASX and only one is not rated as Buy; Boss Energy ((BOE)). The broker thinks those shares are already overvalued, that's why.

The other four companies are Silex Systems ((SLX)), Peninsula Energy ((PEN)), Lotus Resources ((LOT)), and Bannerman Energy ((BMN)).

Returning to the aforementioned Small Caps Bear Market (let's acknowledge it has been brutal), in December Shaw and Partners released its **10 Best Ideas** to benefit from small caps' revival in 2024.

The selected ten:

-AIC Mines ((A1M))
-Austin Engineering ((ANG))
-FireFly Metals ((FFM)), previously AuTeco (AUT)
-Chrysos ((C79))
-Gentrack Group ((GTK))
-Metro Mining ((MMI))
-MMA Offshore ((MRM))
-Peninsula Energy
-ReadyTech Holdings ((RDY))
-Silex Energy

Rudi Interviewed: Megatrends A Go-Go

In late January, I participated in Tech2024, a series of expert interviews on the outlook for technology companies in the year ahead, and beyond. The video of that interview can be viewed at https://ausbiz.com.au/ (sign up and logging in is required).

In addition, I can be followed on the AusbizTV platform via https://ausbiz.co/RudiFV

Below is a curated transcript of that 13 minutes interview.

Interviewer Danielle Ecuyer: My next guest says not all tech companies are good investments, and not all beneficiaries are labeled tech. For more Rudi Filapek-Vandyck from FNArena joins me now. Rudi, it's really great to have you here. I like to ask the guests to explain what is the process that you go through for stock selection?

Rudi Filapek-Vandyck: In my case it's probably a little bit different from most other people. I like to own stocks that can be kept in portfolio for longer than next week, or next month, hopefully for the next number of years. So for me, it's very important that I look at the prospective growth of companies. And I find that more important than a cheap looking valuation in the short term.

Interviewer: Okay. So within the context of that, you published a book in 2015, which is a great book, and it certainly opened my eyes about this whole concept of megatrends, growth and technology. So just share some insights that you established then.

Rudi: I've been writing about this since 2015. And I think too many people are too busy with valuation on a micro-scale: whether a stock is cheap or not; whether interest rates go up or down; and whether markets have a correction or not; or are they in a bubble?

I think the most important message for investors today, as it was in 2015, is that we are going through a period of technological innovation that is pretty much unprecedented in history. We have, however, one potential precedent: the 1920s. What we remember about the 1920s is what happened next in the 1930s. But the 1920s itself were absolutely fabulous for equity investors.

Society changed. Innovation changes society, and that means you actually create megatrends. Megatrends are new developments in society that will support companies that are riding the wave of that trend for many, many years on end. Most industrials and other companies have a few good years but then growth peters out. If you successfully identify megatrends, and you successfully pick the quality companies inside those trends, you can keep those companies in portfolio for multiple years on end.

If people go back to 2015, they can clearly see that has been the case for more than just a few companies. Yes, shares move up and down with interest rates, currencies and because of other influences, but at the end of the day, share prices move from the bottom left corner on price charts to the top right hand corner, and that's exactly what you want as an investor.

For me, that's the type of company you want to own as a long term investor who doesn't want to switch every five minutes into a new discovery.

Interviewer: Your point about labeling is really interesting. As a classic example, people look at secular themes from the top down, like clean energy. They say, wow, this is off to the races, and they dive into an ETF and then they discover all is not necessarily rosy. Does the same thing apply with technology?

Rudi: Absolutely. We are going to look back in 10 years time, to today or to 2015, and we'll conclude why didn't we see these developments coming? Why haven't we been more exposed to this? What is happening, essentially, is the technological innovation is coming through. As a first result, the stock exchange in Australia has changed, a lot. The ASX used to be all about financials and resources, and a little bit of industrials on top. Now we have a lot more technology on the stock exchange, and those who complain we don't have technology should open their eyes.

The other thing, of course, is we get these mega-trends, because of the process I just explained, and it's not just technology companies that are benefiting from those megatrends. Another observation to make is: don't get too bogged down in labeling. Technology is fast becoming a fact of life for most companies, even those who are far, far away from what we would regard as being a technology company.

It doesn't turn these companies into technology companies. I do remember, a few years ago, we had this public discussion whether Domino's Pizza ((DMP)) was a technology company or a pizza deliverer. As it turned out, Domino's was a pizza deliverer trading on a technology company's PE ratios – it's not quite the same.

I do think it's symptomatic of what is happening: technology becomes ever more increasingly important for all businesses. If you want to have a long term investment strategy, and you incorporate mega-trends, don't get bogged down simply on a company carrying the label of technology.

One company I have owned for many, many years is NextDC ((NXT)). Officially, it's a technology stock, in practice it's not. Nevertheless, I like it because it's carried by one of the strongest megatrends in the market. Another example is Goodman Group ((GMG)). Most people would regard Goodman Group a REIT, or a property developer, which, of course, it is, but Goodman is benefiting from one of the strongest megatrends globally.

That gives you an idea you don't have to stick with the stocks that officially have a technology label. Also, biotechnology has 'technology' in its name and it too is technology. One of the industries to look at, of course, is healthcare. Many companies are labeled as healthcare, but in practice, they often are technology.

Interviewer: I think that's such an important point that you draw out and it's particularly relevant with artificial intelligence, now it is being rolled out across so many different industries. So by definition, if investors just look at the big names in AI, they may be missing a whole lot of other opportunities.

Rudi: Absolutely. At the very beginning, it means a lot of companies will have to make lots of investments. What you see in the first phase is the so called pick and shovel providers for the industry are the initial beneficiaries. Later onwards, it's going to define the winners from the losers in every single sector. So quality and the ability to invest become increasingly important.

The other thing, of course, is that while we don't have an Nvidia on the Australian stock market, if you look into the finer details there's this relatively small cap stock, Dicker Data ((DDR)), that happens to be the exclusive distributor of those chips in Australia. So we do have Nvidia on the local stock exchange.

Interviewer: Let's throw some names out there, something like Car Group ((CAR)) by way of example. People would have thought, oh, it's just an online portal to sell cars, but maybe REA Group ((REA)) and Car Group are two great examples of there's a lot more going on beneath the hood?

Rudi: I've been doing the megatrend technology approach now for quite a while. The three of Seek ((SEK)), Car Group and REA Group were always on my radar. They are the so-called previous wave of technology stocks on the ASX. What is important here is that the winner takes all and there's a flywheel effect that benefits those companies. When you are the market leader, you can do a lot more than number two and three in the same sector.

We're now coming into a new wave of technology stocks, and we have new names coming up. Nevertheless, another example is TechnologyOne ((TNE)) and that's still one of the best performers on the stock exchange.

Companies that are maturing more recently in Australia include the likes of Altium ((ALU)) and WiseTech Global ((WTC)). We also have, in the healthcare sector, Pro Medicus ((PME)). The reason why I mention those stocks is because I believe these are amongst the highest quality, best performers we have on the stock exchange.

Two things you need to remember here: if you're constantly reading the Intelligent Investor by Benjamin Graham, you will never invest in those stocks. You cannot value them on the same principles as you do with banks, resources and your traditional industrials. That's number one.

The other element is these stocks usually outperform expectations, and they have been so far. So what's the best strategy to get on board? In my view, if you own them already, by all means, don't get too bogged down about the short term and stay on board. If you don't own them, do what I do: You wait for a significant correction to come through.

For example, for reasons I won't explain here, I did no longer own shares in WiseTech Global. To my delight, last August the market sold out of the stock. Guess who was buying? I think that's the strategy investors should have. Once you're on board, you just wake up with a smile every day and worry less. I mean, yes, the 1920s ultimately ended with the 1930s, but that's a worry, I believe, we might have to revisit later on. It's little bit too early for that at this stage.

Interviewer: I asked a previous guest the same question: Do investors underestimate the strength and longevity of secular trends?

Rudi: Yes, people don't understand a megatrend makes it so much easier for a decent quality management at a decent quality company to create shareholder value, and to continue creating shareholder value over multiple years. It's very difficult for your standard company to do that. Usually, what you see in practice, is companies do it for a few years, or sometimes even less, and then growth becomes more difficult to achieve. When you have a megatrend just carrying you along, it makes the task a lot easier. And I mean: a lot easier.

But, of course, you still have to distinguish quality from the lesser quality ones because, ultimately, quality will drive you through the good times and the bad times. It's particularly in the bad times when the difference becomes very, very visible in portfolios.

Interviewer: Unfortunately, one last question: Australians love their dividends. They love their yield. It's quite bizarre there's been so much investment moving into big tech in the US that doesn't pay dividends. Investors buy it for growth. Yet, for some reason, there seems to be this mental block here in Australia. How do investors get over that hump?

Rudi: They have to realise that even with dividends -and I write about this on a regular basis- even with dividends, it still remains important that the company grows. There are plenty of examples out there of companies that pay dividends and grow and thus will trade on higher multiples and therefore not offer you the same yield as another company.

But if you keep the shares for years, you actually end up with a higher total return and often also with a higher income from dividends as well, because those dividends grow faster. There are technology stocks that pay dividends. Apple pays dividends. Microsoft does. In Australia, the likes of TechnologyOne; they do pay dividends. You just have to combine that with a not overly overpriced share price, and still with growth underneath.

Interviewer: Fantastic Rudi, as always wonderful analysis. Very insightful. Thank you so much for joining Tech 2024.

February Trepidation

Every reporting season has its own background and characteristics and this year's investor dilemma yet again consists of positive sentiment led by general belief interest rates and bond yields will fall this year.

This is a positive for equities generally, but economies and corporate profits are not in an upgrade cycle just yet.

Some three months ago, global equities looked relatively "cheap" but a double-digit percentage rally into late January without much of an uptick in earnings forecasts has pushed up price-earnings multiples above longer-term averages, and that's usually when the investor community starts getting cold feet.

We have been here before. Both February and August last year had been preceded by firm rallies, only for share prices to deflate again when corporate profits did not justify the multiples at which markets were trading.

Maybe it's no coincidence local share market moves have become noticeably more volatile in February?

The past five trading days each have seen the ASX200 move by 0.90% or more, of which only two sessions in positive direction. The problem with macro-inspired market rallies is that, eventually, company fundamentals need to catch up, or else the share price will (by weakening).

Aussie Banks

Probably the best way to illustrate this month's investor dilemma is through the major banks in Australia.

Operationally, the banks are still in pain with margin pressure continuing to weigh on cash profits. Consensus forecasts are anticipating falling EPS numbers in combination with static dividend payouts, yet the banks are on a roll because of RBA rate cuts that haven't arrived as yet.

The "banks are expensive" is a commonly heard phrase these days. Investors need not look any further than CommBank ((CBA)) whose share price briefly touched $118 on Wednesday last week, more than 20% above FNArena's consensus price target of $91.86.

Does CommBank truly deserve to be the world's most highly valued mortgage lender?

For good measure: shareholders need not be concerned about the shares needing a reset of at least -20% in order to become good value again. What those who value CommBank shares in isolation always miss out on is the sector premium the local leader commands versus its lower-quality peers.

In other words: CommBank shares trade relative to share prices of National Australia Bank ((NAB)), ANZ Bank ((ANZ)) and Westpac ((WBC)), and always at a premium. Understanding CBA means one has to look at its share price through the lens of that relative sector premium.

If we look at share prices of the other three, we see all are currently trading above consensus target. The smallest valuation premium is presently granted to ANZ Bank shares which are only trading 2.4% above the average target set by six brokers monitored daily by FNArena.

This set-up suggests at face value there's more downside risk hiding in that "expensive" looking CBA share price than there is in ANZ Bank shares, but history has shown plenty of examples when the opposite occurred. As said: Australian banks tend to move in tandem, including relative premia and discounts, that form over longer periods of time.

There's a whole graveyard underneath Martin Place in Sydney of sector analysts that have predicted the demise of CommBank shares and their persistent sector premium. At the same time, the current premium vis-a-vis the rest of the sector seems well above average, suggesting this time there may well be less downside in ANZ Bank & Co if/when the next downward move arrives.

For many years I used the Big Four banks in Australia as the obvious measure for investor sentiment generally. With all four share prices above consensus, take it from me, market sentiment is running 'hot'. But hey, that's what happens when we all start buying shares on the prospect of interest rate cuts later in the year.

It should therefore not surprise, shares in BHP Group ((BHP)), Rio Tinto ((RIO)), Fortescue Metals ((FMG)), Macquarie Group ((MQG)), Aristocrat Leisure ((ALL)), and numerous others are all trading around or above targets. If you're not a member of the Eternal Bulls Club, it's fairly natural to feel a little bit uneasy when looking at the local share market set-up today.

But it's equally important to understand that PE ratios, and the forecasts on which they are based, are not a static concept. And reporting season, even if it entails mostly half-yearly updates in Australia, will offer plenty of 'beats' and 'misses' that subsequently trigger upgrades and downgrades to forecasts (and thus to valuations).

Another consideration to make is whether a little bit of weakness is such a bad thing after what has been another stellar few months. I am making the point because on my observation, which spans multiple years, those companies that are truly great quality achievers tend not to fall as deeply as others. They tend to recover from weakness more quickly too.

The risk you run as an investor who's too eager to sell out and secure profits at the top, is that any subsequent weakness remains rather benign, thus creating an automatic barrier to get back on board, with the share price quickly running away.

The likes of REA Group ((REA)) tend to weaken post the release of financials, in particular when shares rally in the lead-up. But look again twelve months later, and the price is yet again a lot higher.

Selling high and buying low turns out a lot more difficult when you're not concentrating on low quality, small cap explorers and developers.

Laggards Are Back

Late last year I suggested healthcare and REITs looked destined for a come-back, and the past three months have not disappointed. ResMed ((RMD)) shares have been the best performer in the All-Weather Model Portfolio, and CSL ((CSL)) -whatdayaknow- has already revisited the $300-plus region.

Contrary to the names mentioned earlier, both share prices are still well-below consensus targets and with ongoing potential for positive newsflow in 2024, I'm not even thinking about securing profits at this stage.

For my updated thoughts on ResMed, read the story I published on January 31 (see bottom today's story).

The best description I came across is from analysts at Wilsons who described what has happened in between last August and the release of December quarter financials by the company as "irrational fear of the improbable".

Those curious about what a potential positive outcome from CSL's AEGIS-II Phase III trial can do to the share price, read my Rudi's View story from January 24:
https://fnarena.com/index.php/2024/01/24/rudis-view-healthcare-reits-uranium-banks/

The resurgence of both healthcare stalwarts does highlight an important question for investors: is 2024 the year to own last year's laggards? If the answer is 'yes', it also reflects positively on REITS, on small and mid-cap stocks, on most commodities, and on Emerging Markets.

I am inclined to think this year's come-backs won't be a universal move and it's probably wise to remain selective.

I note, for example, there are still significant question marks surrounding pathology and radiology services providers. This suggests it may yet be too early to get overly excited about what a company such as Sonic Healthcare ((SHL)) can achieve in the short term.

Investors are being reminded time and again not all healthcare companies are made from the same cloth. For every long-term success story through Pro Medicus ((PME)), Cochlear ((COH)), ResMed and CSL there are many more disappointments through Ramsay Health Care ((RHC)), Healius ((HLS)) and others, while prior high-flyers Nanosonics ((NAN)) and Ansell ((ANN)) continue to operate in struggle street.

The picture won't be much different for REITs, I suspect, or for smaller cap companies. The domestic economy has plenty of headwinds to deal with. Companies are still battling higher costs, be it through labour, interest rates, funding, supply chains, or otherwise. Not all sectors are impacted equally, but smaller companies tend to be more exposed, and have smaller buffers (if they have any).

Local mining services providers and contractors are mostly smaller cap companies and one question investors have on their mind is whether last year's disaster for lithium and other parts of the smaller-cap commodities space will show up in this month's market updates from companies such as Imdex ((IMD)), Emeco Holdings ((EHL)), and NRW Holdings ((NWH)).

Among REITS, it has been remarkable but Goodman Group ((GMG)), despite its outperformance and relative sector premium, has remained the sector favourite for most property sector analysts in Australia. The share price seemed to be facing a ceiling above $24 in January but more recently another leg upwards has ensued on further data centre newsflow.

In case you haven't caught up yet: Goodman Group is the most exposed ASX-listed large cap to the megatrend that is also supporting the likes of Amazon, Microsoft and Nvidia in the USA: data centres. Other local exposures include NextDC ((NXT)), Macquarie Technology ((MAQ)), Megaport ((MP1)) and smaller cap Global Data Centre Group ((GDC)).

As also reiterated in my recent interview with AusbizTV (link at bottom), megatrends remain firmly on my radar. And I am far from the only one. It is no coincidence shares in NextDC, Macquarie Technology and Global Data Centre Group are all trading at or near all-time record highs.

Goodman Group shares could be in the same boat if it weren't for the fact they were casually trading at much higher levels pre-GFC. Post near-death experience in 2008 and the subsequent rebirth into today's high quality, high achieving local sector leader, the shares are setting new record highs post GFC.

Another short-term boost may well be related to the potential inclusion of Goodman shares into the FTSE EPRA Nareit Global Real Estate Index. Following a change in eligibility criteria, Citi analysts think this year's inclusion looks like a shoe-in, potentially triggering another wave of buying from passive investors who benchmark against that index.

When it comes to dividends, always important for Australian investors, the outlook is the worst it has been since covid-impacted 2020. Banks are either expected to reduce their payout a little, or increase it by a minuscule amount. But dividends might be due for a positive surprise from iron ore producers, insurers, REITs, consumer discretionary and potentially even media companies.

For potential take-over targets, medical devices company Clarity Pharmaceuticals ((CU6)) is widely regarded a "sitting duck" waiting to be snapped up by big pharma.

Bapcor ((BAP)) seems like a franchise in deep trouble, but management departures and disappointing newsflow are no longer pushing the share price into further weakness. Investors trying to look beyond the immediate outlook to when the turnaround arrives, potentially?

It will be a feature this reporting season, no doubt, but there will also be plenty of fireworks either way. I think a smart investor is keeping a portion of his funds in cash this season, as volatility is already picking up and there will be plenty of punishments when results are released, of which at least a few will be excellent opportunities for longer-term oriented portfolios.

August last year opened up one such opportunity in WiseTech Global ((WTC)) shares, as well as in ResMed. What will it be this month?

Start preparing by drawing up your personal wish list.

February Trepidation, Part Two

Part One ended with: "Start preparing by drawing up your personal wish list."

John, a subscriber, had asked for my "most preferred" stocks in each of the market's prime segments. John's question was unrelated to my suggestion, but I spotted an opportunity to share more of my personal favourites, so here it goes (list of sectors provided by John):

-Information Tech: TechnologyOne ((TNE))

-Healthcare: CSL ((CSL))

-Materials: BHP Group ((BHP))

-Real Estate: Goodman Group ((GMG))

-Telecommunications: NextDC ((NXT)), I have taken a broad interpretation of 'telecommunication', stick with Telstra ((TLS)) for yield/income

-Utilities & Infrastructure: Transurban ((TCL))

-Discretionary: Breville Group ((BRG))

-Staples: Woolworths ((WOW))

-Financials: Macquarie Group ((MQG)), or, specifically among banks, CommBank ((CBA)); as I always like to highlight, it's the only bank in Australia that has performed for its shareholders since the GFC. That's a fact, not an opinion.

-Energy: I don't have a preference in the energy sector. (I never invest in it). For anyone with a positive longer-term view: Karoon Gas ((KAR)) might be the most leveraged to the oil price on the ASX, with Jarden estimating every US$5 move in the price of oil translates into 32c in EPS for the company (in each direction).

-Industrials: this is essentially a loose amalgamation of largely small cap companies of various kinds and colours. Transurban is, strictly taken, officially part of this group. Put a gun to my temple and I'll say, okay, okay, pick Brambles ((BXB)).

As per my *modus operandi*, none of the above is an invitation to start buying any of the stocks mentioned. But if you have to start drawing up a list of quality achievers that are as yet not in your portfolio, but could be added in case of share market weakness, I think the above would be a great starting point.

Goes without saying: all have my preference with a longer term focus in mind (not necessarily at today's share prices).

Paying subscribers have 24/7 access to my curated lists of quality, sustainable achievers on the ASX: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

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Stockbroker Morgans' list of Best Ideas on the ASX has undergone a few changes ahead of the February reporting season. Have been removed (because of share prices rallying): Westpac ((WBC)), Wesfarmers ((WES)), Goodman Group, Santos, and Super Retail Group ((SUL)).

In their place came only two fresh additions: Woodside Energy and Camplify Holdings ((CHL)).

The updated selection contains 31 companies, including Macquarie Group, CSL, QBE Insurance ((QBE)), Transurban, Aristocrat Leisure ((ALL)), Qantas Airways ((QAN)), ResMed and NextDC. Only two resources companies are included, Mineral Resources ((MIN)) and South32 ((S32)), and two REITs; Dexus Industria REIT ((DXI)) and HomeCo Daily Needs REIT ((HDN)).

Among the smaller cap names selected are GQG Partners ((GQG)), Acrow ((ACF)), Lovisa Holdings ((LOV)), Tyro Payments ((TYR)), Objective Corp ((OCL)), Inghams Group ((ING)) and three of the local travel agencies; Corporate Travel Management ((CTD)), Flight Centre ((FLT)), and Helloworld ((HLO)).

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As far as February results are concerned, **Morgans' strategists** continue to see room for upside surprises, anticipating quality of earnings will come into focus this month, not just the quantity of it, as investors will increasingly start paying attention to corporate fundamentals.

Have been identified as Key Tactical Trades this month: CSL, ResMed, a2 Milk ((A2M)), Domino's Pizza ((DMP)), Tyro Payments, and Megaport ((MP1)).

Also, cyclical names that "look interesting" include Acrow, GQG Partners, Alliance Aviation ((AQZ)), Baby Bunting ((BBN)), and Santos.

Investors looking to benefit from the anticipated rotation into smaller cap companies are advised to consider Helloworld, Credit Corp ((CCP)), IPH Ltd ((IPH)), Clinuvel Pharmaceuticals ((CUV)), Veem ((VEE)), Vulcan Steel ((VSL)) and DGL Group ((DGL)).

Morgans is equally convinced REITs are making a comeback in 2024. Preferred ideas are Goodman Group, Qualitas ((QAL)), HomeCo Daily Needs REIT, and Dexus Industria REIT.

Morgans had singled out Pro Medicus ((PME)) and The Star Entertainment Group ((SGR)) for potentially negative outlook statements, while Megaport had been identified for a disappointing market update. The latter has since been proven wrong with this week's quarterly trading update.

A positive bias towards ResMed has proven correct, but Domino's Pizza keeps disappointing. The latest market update by GQG Partners proved strongly positive.

Morgans favourite technology exposure is currently Ansarada Group ((AND)).

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Stock pickers at UBS have predicted potential for negative surprise from Bapcor ((BAP)) and Objective Corp ((OCL)). Bapcor did issue another profit downgrade, but the share price enjoyed a positive response on the day. Too many positioned for an even more negative update?

At risk of showering investors with a negative outlook, according to UBS, are Eagers Automotive ((APE)), APM Human Services International ((APM)), Autosports Group ((ASG)), and, still, Bapcor. APM Human Services has been in a down-cycle for at least six months, resulting in two severe profit warnings.

On the more optimistic side, UBS sees potential for a positive surprise coming from Corporate Travel, Flight Centre, Hansen Technologies ((HSN)), Megaport, and Siteminder ((SDR)). Candidates include Infomedia ((IFM)), Inghams Group, NRW Holdings ((NWH)), NextDC, and Sercorp ((SRV)) through a better-than-anticipated guidance for the period ahead.

Smaller cap companies that are very much liked either way include Breville Group, GrainCorp ((GNC)), GUD Holdings ((GUD)), Kelsian Group ((KLS)), Ridley Corp ((RIC)), and Webjet ((WEB)).

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Over at **Barrenjoey, 18 High Conviction stock ideas** have been identified at the start of February:

-Cheap mining exposure: IGO Ltd ((IGO)) and Perseus Mining ((PRU));
-Best in class global franchise: ResMed and Xero ((XRO));
-Earnings recovery: Incitec Pivot ((IPL)), QBE Insurance and Service Stream ((SSM));
-Cheap growth: Pinnacle Investment Management Group ((PNI)), Cettire ((CTT)), Pepper Money ((PPM)), Viva Energy Group ((VEA)), Reliance Worlwide ((RWC)) and Brambles;
-Quality franchises: National Australia Bank ((NAB)), The Lottery Corp ((TLC)), Hansen Technologies and GQG Partners;
-Preferred REIT: Lifestyle Communities ((LIC)).

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Citi's freshly updated list of **global convictions** contains two ASX-listed companies; Mineral Resources and Stockland ((SGP)).

Other names included are the London Stock Exchange, Boeing Co, Intuitive Surgical, and Capgemini.

Elsewhere, Citi's sector analysts this week issued warnings about small cap non-bank lenders, such as Pepper Money ((PPM)), Resimac Group ((RMC)) and Latitude Group ((LFS)), and companies reliant on selling new cars, including dealerships such as Eagers Automotive ((APE)) and Peter Warren Automotive ((PWR)).

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Small cap specialists at Goldman Sachs are keeping a watchful eye on outlook commentary to gauge how much of an impact the economic slowdown might have. The ability to withstand margin pressure, and preferably increase margins sits, high on the team's wish list.

Goldman Sachs' preference lays with those smaller caps that enjoy structural growth tailwinds and that can still perform under more challenging conditions. Such companies include Lifestyle Communities, Macquarie Technology ((MAQ)), TechnologyOne, and Life360 ((360)).

As far as February results are concerned, the team has identified four favourites, hereby ranked in order of preference: Macquarie Technology, IPH Ltd, Life360, and ReadyTech Holdings ((RDY)).

Two candidates singled out for a negative outcome are Dicker Data ((DDR)) and Inghams Group.

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Analysts at Wilsons are expecting outperformance from Pinnacle Investment Management (confirmed), EQT

Holdings, formerly Equity Trustees ((EQT)), Pro Medicus, NextDC, Corporate Travel, Monash IVF ((MVF)), Avita Medical ((AVH)), and Austosports Group.

Two candidates have been identified for a negative surprise: Strike Energy ((STX)) and a2 Milk Co.

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Jarden too has communicated its favourites among Australia's emerging companies, which is simply a fancy description for smaller and mid-cap companies on the ASX.

The analysts are anticipating positive surprises from both AUB Group ((AUB)) and PSC Insurance ((PSI)) in the insurer brokers segment, while Perpetual ((PPT)) remains the favourite among fund managers.

With ongoing robust supply and demand dynamics, and in contrast to Citi's warning, Jarden still very much likes car dealers Eagers Automotive, Peter Warren Automotive, and Autosports Group ((ASG)).

Mortgage servicing platform operator Pexa Group ((PXA)) should finally start generating better news flow, while similar expectations surround IDP Education ((IEL)).

IP services provider IPH Ltd ((IPH)) is, simply put, considered too cheaply priced.

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Over at Shaw and Partners, analysts are pointing out a global shortage in olive oil is pushing up prices and keeping momentum positive for producers. Cobram Estates ((CBO)) should benefit too.

The broker's Large Cap Model Portfolio has selected Altium ((ALU)), CSL, Evolution Mining ((EVN)), James Hardie Industries ((JHX)), Goodman Group, Metcash ((MTS)), Qantas Airways, South32, Treasury Wine Estates, and Xero.

Among smaller caps ("emerging companies"), the broker's selection includes AIC Mines ((A1M)), Austin Engineering ((ANG)), Chrysos ((C79)), FireFly Metals ((FFM)), Gentrack ((GTK)), Metro Mining ((MMI)), MMA Offshore ((MRM)), Peninsula Energy ((PEN)), ReadyTech Holdings, and Silex Systems ((SLX)).

February 2024 Is A Blue Sky Affair

Investor sentiment in early 2024 is probably best described as: good news is still good, of course, but bad news can be good too, as long as it is not too negative.

Investors in the local share market are once again reminded how powerful a driver general sentiment can be.

At face value, the ASX200 might only be up slightly year-to-date (up 0.7%), which seems rather disappointing when compared against the raging bull market that seems to be dominating indices in the USA, but underneath, at the individual stock level, the local February results season is basking in a generally supportive environment.

Early signs are companies are meeting or beating market expectations and, equally noteworthy, investors seem prepared to overlook short-term niggles and imperfections, instead focusing on better prospects ahead, and on getting on board once the results release is out of the way.

Results seasons in Australia have increasingly become a second-half (of the month) phenomenon and so the first twelve days of February only offer a brief snippet of what the rest of the season might have in store. But there's no room for debate the early signals look extremely supportive of an overall pro-risk taking environment.

Up until Friday, the **FNArena Corporate Results Monitor** had assessed 21 market updates and no fewer than 11 have beaten market forecasts with a further nine reporting in line. The one "miss" came from REA Group ((REA)) which on broad-based appreciation still released a "solid" performance, carried by "robust" growth and ongoing prospects of continued strong growth momentum ahead.

Most analysts covering the sector acknowledged operational momentum had actually surprised to the upside. The one blemish was management at Australia's number one property portal flagging there will be higher costs in the year ahead as the company spends more to solidify its future growth path.

Two things to keep in mind: share prices respond to how results compare to expectations, which is not necessarily a great indicator for what the future of a company looks like. Spending more means lower growth in profits which is often, though not always, taken as a negative by short-term minded traders.

As it happens, REA Group shares sold off on day one, rallied on the following day, and then retreated slightly on Monday for an overall relatively flat trajectory that has dominated the shares thus far in 2024. It is worth noting REA shares have almost doubled in price since mid-2022 and rallied circa 29% since late October.

Trading on forward-looking PE ratios of respectively 54x and 45x for this year and next, the average target price of $172.74 sits below today's share price. But as a high-multiple, market-leading quality growth company on the ASX, REA Group shares should benefit from RBA rate cuts and lower bond yields later in the year.

As such, REA Group shares might well be the poster child of current market sentiment, and indicative of what to expect, generally, from the coming three more weeks.

Share prices for all of AGL Energy ((AGL)), Audinate Group ((AD8)), Boral ((BLD)), Cettire ((CTT)), Champion Iron ((CIA)), Nick Scali ((NCK)), News Corp ((NWS)) and ResMed ((RMD)) -all having reported better-than-expected performances- went up as investors are keen to reward positive news.

Share prices might still go up even if market updates are not quite universally positive, or suffer a minor retreat only, which could have triggered a different outcome under less-rosy circumstances. Think Amcor ((AMC)) and Charter Hall Long WALE ((CLW)).

Underneath day to day share price moves, the ASX200 is pricing in 16x the average EPS forecast for the twelve months ahead, which is above the historical average of circa 14.5x, as also shown by the fact the average forward-looking dividend yield is now below 4% against a long-term average of circa 4.5%.

Industrials ex-Financials are on average trading on a forward PE of 22.5x.

Market consensus is positioned for negative EPS growth for the full financial year ending on June 30th. But the new trend is for less negative/upwardly revised forecasts, and that's another positive in a market looking for future optimism.

Another source to further stimulate that general optimism are stockbroker recommendations for individual stocks. Under more 'normal' conditions, and despite general misconception, the majority of stock ratings tends to sit on Neutral/Hold with Buy and Sell percentages fluctuating in line with moving share prices.

Since the covid-pandemic in 2020, however, the largest percentage sits firmly in Buy and equivalent ratings, while overall Sell ratings remain low by historical standards. Highly concentrated momentum among large caps and a savage bear market for small caps can serve as an explanation.

In 2024 this means there are plenty of Buy ratings to choose from for investors looking to re-allocate some of their cash on the sideline.

FNArena's Corporate Results Monitor: https://fnarena.com/index.php/reporting_season/

Conviction Calls

RBC Capital's two top pick favourites among small caps on the ASX are Life360 ((360)) and Accent Group ((AX1)).

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Small-cap analysts at Jarden have nominated Temple & Webster ((TPW)) as their key pick ahead of results this month.

Jarden equally likes Lovisa Holdings ((LOV)), Universal Store Holdings ((UNI)), Data#3 ((DTL)) and Dicker Data ((DDR)).

Both EVT Ltd ((EVT)) and ReadyTech Holdings ((RDY)) carry short-term risk of disappointment, but both are positively rated for longer-term potential.

Jarden simply cannot get excited about Kogan ((KGN)). Amazon and Temu will eat Ruslan Kogan's breakfast, lunch and dinner over time, of that Jarden analysts remain convinced.

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Analysts at **Morgan Stanley** lined up their **small cap candidates** for major surprises and disappointments this month.

Have been identified for a positive announcement:

-Dicker Data
-Jumbo Interactive ((JIN))
-Lovisa Holdings
-Premier Investments ((PMV))
-SG Fleet ((SGF))

Had been nominated for disappointment:

-Bapcor ((BAP)), which has been confirmed since. Note: no share price weakness has ensued (quite the opposite).

February Results - Stocks To Watch

Healthcare is back, at least such is one conclusion to draw from Q2 results released by ResMed ((RMD)) and an upgrade to guidance by Cochlear ((COH)).

Sector-leader CSL ((CSL)) released a disappointing trial update for its long-awaited CSL112 product under development on Monday, but most sector analysts expect robust growth numbers when the company updates on its six-monthly performance on Tuesday (tomorrow).

Sector analysts at **Citi** are equally optimistic about potential margin increase for Ramsay Health Care ((RHC)).

The analysts have more reservations about what to expect from the likes of Healius ((HLS)), Sonic Healthcare ((SHL)), Integral Diagnostics ((IDX)) and Australian Clinical Labs ((ACL)) this month.

Nanosonics ((NAN)) remains Sell-rated, as are Cochlear and Pro Medicus ((PME)) but the latter two are purely valuation related.

Sector analysts at **Evans and Partners** had singled out Cochlear for a positive surprise and that was truly delivered. The same analysts are preparing for negative surprises from Ansell ((ANN)), Ramsay Health Care, and Healius.

Evans and Partners has Speculative Buy ratings on small caps 4D Medical ((4DX)), Nova Eye ((EYE)), Neuren Pharmaceuticals ((NEU)), and PYC Therapeutics ((PYC)). Opthea ((OPT)) is viewed negatively.

Goldman Sachs has kept Sonic Healthcare on Sell, with Neutral ratings for the other pathology operators, arguing risk for short-term disappointment remains high.

Macquarie has Outperform ratings for CSL (sector favourite), Capitol Health ((CAJ)), Integral Diagnostics, Monash IVF ((MVF)), PolyNovo ((PNV)), Regis Healthcare ((REG)), and ResMed.

Morgan Stanley has Overweight ratings for CSL, Sonic Healthcare, and EBOS Group ((EBO)) with negative outlooks for Healius and Integral Diagnostics.

Negative surprises on costs could well see companies such as Healius and Ramsay Health Care disappoint this season, warns Morgan Stanley.

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The interest rate cycle is turning, assure real estate analysts at **Citi**, and this will translate into renewed investor interest for **REITs**.

Citi sticks with a preference for structural earnings growth, supported by improving demand, tailwinds to operational growth, and relatively muted impact from finance costs.

Citi's sector favourites are Goodman Group ((GMG)), National Storage ((NSR)), Lifestyle Communities ((LIC)), Ingenia Communities Group ((INA)) and Stockland ((SGP)).

For the February results season generally, it is likely rising debt costs and lower asset values will continue to dominate how investors view the sector.

Citi's nominations for potential negative newsflow include Mirvac ((MGR)), Charter Hall ((CHC)), Charter Hall Long WALE REIT ((CLW)) and GPT Group ((GPT)).

Charter Hall Long WALE REIT already reported and its future now remains closely linked to management's ability to sell a further -$500m in assets.

Sector analysts at **Barrenjoey** believe AREITs are now more properly valued. The sector still trades some -17% below Net Tangible Assets (NTA), but there's still a correction in asset values taking place, and earnings and dividend growth generally look constrained for the next 1-2 years.

Preferred large cap exposures are Goodman Group, Stockland, and Scentre Group ((SCG)).

Over at **Evans and Partners**, the preference goes out to specialist REITs with the top three favourites: Arena REIT ((ARF)), RAM Essential Services Property Fund ((REP)), and Waypoint REIT ((WPR)).

Sector preferences at **Macquarie** reside with Charter Hall, GPT, Goodman Group, Qualitas ((QAL)) and Arena REIT.

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The in-house forecast at **Citi** is that the next broad-based recovery for **base metals** won't announce itself until the closing quarter of calendar 2024.

For the Australian share market this means iron ore is to remain in focus throughout most of the year (if we exclude ultra-specialised, mini-cap segments such as uranium and lithium).

Rio Tinto ((RIO)) is the broker's preferred exposure.

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When it comes to local **gambling** ("gaming") companies, analysts at **Evans and Partner**s stick with preference for Aristocrat Leisure ((ALL)) first, second choice Light & Wonder ((LNW)). Aristocrat does not report this month.

With Sky City ((SKC)) having updated not that long ago, no major disasters are anticipated when the casino operator reports.

The Lotteries Corp ((TLC)), on the other hand, might not quite be able to meet market forecasts, but Evans and Partners is forecasting a much better second half.

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In a preview to February results, analysts at **Wilsons** are anticipating strong results with potential for upside surprise from Pinnacle Investment Management ((PNI)) -since confirmed- EQT Holdings ((EQT)), Pro Medicus, NextDC ((NXT)), Corporate Travel Management ((CTD)), Monash IVF, Avita Medical ((AVH)), and Autosports Group ((ASG)).

Wilsons identified Strike Energy ((STX)) and a2 Milk ((A2M)) for potential downside risks.

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To expect strong results from **insurers and from insurance brokers** appears to be a universal forecast from analysts covering both sectors. As far as I can tell, QBE Insurance ((QBE)) and AUB Group ((AUB)) are the two most nominated favourites.

Unrelated, but there also is a general consensus Qantas Airways ((QAN)) shares are severely under-priced.

While optimism is certainly on the rise for companies dependent on **consumer spending**, especially post market updates by Nick Scali and JB Hi-Fi ((JBH)), there remains scepticism in other corners about the outlook for spending later in the year, and whether recent strength can be relied upon further out.

Analysts at **Wilsons** have identified Accent Group and Baby Bunting ((BBN)) as two key opportunities, while also retaining a positive outlook for Adairs ((ADH)), Harvey Norman ((HVN)), The Reject Shop ((TRS)), and KMD Group ((KMD)).

Rudi Interviewed: Ongoing Potential In Technology & Growth

It has become the 'unofficial' tradition in recent years: an interview with Livewire Markets ahead of yet another corporate reporting season in Australia. Below is a sub-edited transcript from the pre-February results season interview that took place on February 7. The video is available on Livewire and on YouTube.

Interviewer Ally Selby: Hello and welcome to Livewire's newest series Views from the Top – a series dedicated to bringing you the best of the best ideas and insights from those at the top of their game. Today we're very lucky to be joined by FNArena's Rudi Filapek-Vandyck for a deep dive into the reporting season and what you can expect. Thank you so much for joining us today, Rudi.

Rudi Filapek-Vandyck: It's a pleasure.

Interviewer: You told me I would be surprised by what you have to say today – so I am both excited and nervous, but let's get straight into it. The big picture – the market is looking through all the headwinds that we're seeing right now and betting big on rate cuts in 2024. Is there anything wrong with sticking to consensus?

Rudi: It's not necessarily wrong, but we have been here before, just a short memory back – February last year and August last year. In both cases, the setup was basically the same. We get a big rally leading into the reporting season and then, of course, the reporting season turns out to not be good enough to sustain the share prices and then we erase all the gains we had. And then the process starts again.

It's not inconceivable we will have a similar process. We have rallied on macro considerations. There's not an upgrade cycle happening in economies or profits, but there are two things I think that are different now. One is the carrot of interest rate cuts. Whether that is short-term or medium-term, the carrot is there and I think that will, to a certain extent, support share prices.

The other thing is that – while it's very early days – we've actually made a good entrance into the reporting season. The reporting season starts really slowly and gradually in Australia. So we have a very small sample, but the early signs are there that companies are tending to do better than forecast or at least meet expectations. So far so good. Again, it's a small sample, but at least we've had a good start.

Interviewer: Okay, we'll get into some of that granular detail later on. I want to talk about what you expect going forward. We saw value being tipped as the area of the market that would outperform in 2023. It didn't. Growth and momentum outperformed instead. What can investors expect this year and did that surprise you?

Rudi: In my view, and that's probably a little bit different from the majority of experts, we're going through quite an exceptional era of technological innovation. I've made the comparison a number of times in the past. The best comparison we have is the 1920s.

The 1920s were a great era of technological innovation. It also meant it was a great era to be a shareholder in the share market. And a lot of companies, of course, had tremendous growth on the back of new developments that were essentially reshaping society, and the share market and economies too.

We are going through a similar phase now. As a consequence, high growth driven by megatrends and technological innovation is not going to go away. So this whole discussion about whether we should go into value, which basically is either cyclicals or old economy companies, or high growth companies that promise the future, I think this whole discussion is a bit warped.

On occasion, we will see the pendulum swing between those two extremes in the share market. But I think on average, longer-term, sustainably, I think you can't ignore the fact that we are going through this tremendously exciting time. Technology should be on everyone's radar. Those companies will continue to perform and they will never be priced at nine times next year's profits.

Interviewer: Another area of the market that everyone says investors should be looking at right now are small caps. Do you agree with that?

Rudi: It's a universal forecast, small caps, and it's not such a difficult one. We've had two years of a tremendous bear market for small caps and you don't have to be a genius to work out at some stage that corrects itself. So small caps, yes. Other universal forecasts are the comeback of REITs, yes. The comeback of healthcare, yes – in particular quality healthcare. The comeback of small-cap resources and the comeback of emerging markets.

All those forecasts are probably correct, but they won't be universal.

I think the mistake investors will make is thinking that by default there are only gains to be made in small caps. Or that there are only gains to be made in REITs. Or that there are only gains to be made in healthcare stocks. That will not prove to be the case.

I think investors should be selective. The most important thing to add is that there's still a lot of growth and upside to be had out of large caps, out of growth stocks, out of technology, and that will not disappear. So I think the best strategy for this year is diversification across all those themes, not just picking one of them because, again, it won't be universal and it won't be all at the same time, every single time throughout the year.

Interviewer: If it's not universal, which companies do you think will outperform then within those sectors?

Rudi: Well, I just mentioned healthcare. Healthcare is always on my radar. I think we've already seen that with ResMed ((RMD))…

Interviewer: But that's also been a consensus call…

Rudi: Well, if it was that easy, we don't want to pay a dollar for everyone who was not in ResMed. CSL ((CSL)) is also making a comeback – it's visual on price charts – it's above $300 now. The market is also preparing for a very strong result in Cochlear ((COH)).

Outside of that sector, we have the REITs. The last three months or so have already seen some share prices move there. The market leader is Goodman Group ((GMG)); this company continues to perform. Again, expectations remain positive.

If you go to small caps, we have the laggards, the ones that haven't performed or maybe a little bit and that's where everyone's attention will go, of course. Looking through all the forecasts ahead of February, companies that are often mentioned are the travel industry – like Corporate Travel ((CTD)) and Webjet ((WEB)). A company that is definitely often mentioned is Hansen Technologies ((HSN)). Everyone sees that as a quality company with its share price not moving.

We just mentioned ResMed; my candidate for the next ResMed-like recovery might be IDP Education ((IEL)). At the moment the market is very unsure about how to deal with the uncertainty and once the situation becomes clearer, I think that could potentially lead to the next rebound, though not necessarily in February. It might require more time.

There's also the other side of the small caps and I just mentioned growth, technology, and megatrends. There's quite a group of relatively small-cap companies that already have performed. I think the mistake investors could make is thinking they're done with their growth because they still have a lot of growth in front of them. Obvious candidates, as far as I'm concerned, are NextDC ((NXT)) and Macquarie Technology ((MAQ)).

Depending on where you put exactly your demarcation between a small cap or a mid-cap, I also think Steadfast Group ((SDF)) and AUB Group ((AUB)) – the insurance brokers – look very good, still.

Then you have the financial platform operators, Hub24 ((HUB)) and Netwealth Group ((NWL)). The mistake investors could make is thinking, because these have all performed to date, there won't be anything coming beyond what already is in the share price. I think that would be a mistake.

Interviewer: You talked before about share prices not performing as expected post a company beating or missing expectations last year. What can investors expect this year?

Rudi: That is the big unknown. Because we are trying, as a community of investors, to look beyond the short term. We are looking forward to better times ahead, in the second half and in 2025. That's the big question.

Admittedly, we've seen, for example, with a disappointing market update by Bapcor ((BAP)) that the share price did not fall, it actually went up. So that could be good news.

I still think we will see some fireworks here and there. And for that reason, I think it's only smart to have a little bit of cash on the sidelines. If I can go back to last year, both ResMed and WiseTech Global's ((WTC)) share prices sold off quite heavily. I bought both. We will see more opportunities coming up this year. You don't know in advance which ones. So the best strategy is to have some cash and if it happens, buy and be comfortable.

Interviewer: We'll get to your cash holding a little bit later on. I know it's a spicy subject. Where are our expectations too high right now? Where could we see some of those fireworks?

Rudi: How long is a piece of string? We will have to find out, and as I said, we don't know how the market is going to respond to disappointments and surprises, but as an investor you have to know your strategy. Is your strategy to sit in undervalued assets and then wait for them to get to fair value? Or, in my case, are you comfortable holding companies that have many years of growth ahead of them and even if they dip or fall in price after the results, it doesn't bother you?

For example, two of my favourite stocks would be TechnologyOne ((TNE)), which is not reporting this month, and REA Group ((REA)), which does report in February. Often what happens is share prices fall after the companies report results. For me, that's never a problem. If I don't have enough shares, I buy more. If you look back 12 months later, the share price is higher.

So how you respond to that is basically defined by the type of investor you are and what exactly your strategy is. My strategy definitely is that I will keep my eyes open for those structural growth companies. If they do dip in share price, I might consider buying more shares or, if I don't own them, I might actually buy the shares.

Interviewer: You talked about having a little bit of powder on the side just in case any companies sell off on the day. Last August, and I think also last February, you told us you were holding 18% cash, which is quite a lot of cash. How much cash are you holding today and have you put any of that money to work?

Rudi: So, last year I was pretty confident, don't ask me why, but I was pretty confident those rallies we saw each time leading into a reporting season would prove futile – that those rallies were basically running on fumes and it would not be sustained. Twice I was correct. But the second time, after August, I started looking differently at the market and I decided to use some of that cash.

From memory, I've been buying shares in WiseTech Global, REA Group, Hub24, ResMed and Goodman Group; pretty much the companies I mentioned earlier. So I've been putting some money to work. I basically halved my cash level, it's around 9% now.

Is that a lot? Well, if you consider that I own about 20 stocks in my portfolio, 9% is two times five percent, four and a half, to be more precise. It can also be three times three.

So is it a lot? It's not, because I would still have to be selective in how to allocate that money assuming I'm going to allocate it in full after this reporting season. That may not necessarily be the case, I can be patient.

I do think the overall environment, at least for the time being, has changed. I think the bias is now less to the downside than it was last year. Even though last year the real downside didn't come through, except for some individual companies. As long as you can avoid the real disasters, and you can be confident in using share price weakness, like, for example, with ResMed and WiseTech Global, I think you're doing quite a good job in allocating your capital.

Interviewer: Okay. Last question for you today, Rudi. We like to ask all our guests what's something they've learned in their years in markets or from those connections they've made after decades working in similar roles. What's your view from the top?

Rudi: I learned a lot over the past two years or so from the share prices of CSL and ResMed. Both did not perform for a while. What I noticed is so many people are focused on price and on charts. When you are only focused on price action and on charts, you never get to the bottom of what a company consists of, what makes a company tick.

Unless you get to that point, you'll find it very difficult to understand why ResMed at $21 is an excellent opportunity. Or that CSL at $248 or however low it was, even at $260 or $280, is an excellent opportunity. The charts will not tell you that – the price action will not tell you that.

You have to try to get to the bottom of what makes a company. Sometimes the fundamentals of a company longer-term and the share price action diverge. At that point, it is very important to understand the fundamentals of a company. I've learned from the past few years there are so many people who are being led by price action and by charts. They literally don't understand the company. You have to question if you are an investor or a trader, whether that is the right way of approaching the share market.

Interviewer: Okay, well I've absolutely adored this chat today. Rudi, thank you so much for your time.

<u>More Winners Than Losers In Mid-February</u>

Reporting seasons in Australia have become a second half (of the month) tsunami affair and by this time twelve months ago the **FNArena Corporate Results Monitor** had already covered close to 100 results against 68 only as at Friday.

The week ahead will see circa 40% of the ASX200's market capitalisation report financials, followed by a long tail of mostly smaller cap peers lined up for the final week.

By the time the dust settles, the Monitor will have made post-result assessments for close to 400 ASX-listed companies.

In brief: a lot can happen between now and the end of the month as far as final judgments are concerned, but there's no denying the optics are positive thus far, and so too are the early signals and statistics.

The FNArena Monitor has 'beats' running above 41% -well above average- and 'misses' at 11%, well below average.

To put both numbers in perspective: February last year saw 33% of all companies missing market forecasts with only 29% beating expectations. The numbers for August were much more balanced; 28% 'misses' versus 29%

'beats'.

The heavy skew towards 'beat's and 'meets' in the first half this time around has unmistakably injected renewed optimism into what already was a risk-on environment led by the prospect of lower interest rates later in the year.

So where does this apparent turnaround in operational dynamics stem from?

It starts with reduced expectations on weakening economic indicators, but as it turns out, operational conditions in many instances are not as dire as could be, and many a management team has become better at managing cost pressures and supply-chain challenges. Many of the 'beats' to date have occurred on better-than-forecast margins.

Even then, it should not go unmentioned the biggest surprises in the first two weeks have occurred at the top line -revenues!- which suggests rather strongly economic momentum overall is in better shape.

It has triggered more optimism from the local strategy team at Morgan Stanley which is now suggesting corporate profits in Australia are bottoming, with positive implications for what comes next.

As far as the optics are concerned, 'meets' and 'beats' have overwhelmingly received positive rewards, while most punishments for results that didn't quite make the mark have largely remained benign.

Quality (And The Lack Thereof)

There are always exceptions, of course, and Monday's shock market update by Lendlease ((LLC)) might serve as a timely reminder that a 'cheap' looking share price is not a watertight guarantee for a positive return, certainly not for this former corporate high flyer that has been in Struggle Street for many years now (and its share price in an elongated slide downwards).

For someone who has come to appreciate the importance of corporate quality, Lendlease has, many years ago already, become one of your typical examples of a corporate *has been*. I do understand that for your typical value bargain hunter such considerations are not important, but those investors are yet again left licking their wounded ego this week.

Staying with the theme, it is my observation certain companies tend to always have plenty of room for operational misses and disappointments, with just about every results season revealing more niggles, unanswered questions and imperfections.

It doesn't mean such companies cannot generate a positive end outcome, but one cannot help but think those management teams require a lot of support from the sector and the economic cycle.

It's probably fair to say: beware when conditions change!

The first two weeks have seen more imperfections revealed in corporate results from insurers QBE Insurance ((QBE)) and Insurance Australia Group ((IAG)), as well as by Ingham's Group ((ING)), Telstra ((TLS)), and Seven West Media ((SWM)).

To be fair: a number of perennial corporate strugglers are finally turning the corner, or so it appears, including AMP ((AMP)), Downer EDI ((DOW)), and Magellan Financial ((MGF)).

February already has seen some spectacular share price responses, including for AGL Energy ((AGL)), Cettire ((CTT)), GQG Partners ((GQG)), Nick Scali ((NCK)), and Temple & Webster ((TPW)); all starting from arguably too lowly valued share prices guided by too low expectations.

Equally noteworthy have been the strong gains booked by shares in Audinate Group ((AD8)), Goodman Group ((GMG)) and Seven Group ((SVW)); none of whom looked particularly 'cheap' prior to the results release.

In particular small cap Audinate and blue chip Goodman Group are teaching investors an important lesson into how successful business transformations lead to (much) higher corporate valuations.

It wasn't that long ago when shares in Audinate were tracking sideways around the $8 mark. They are now trading above $20.

Goodman Group shares to many looked 'expensive' around $24. Now analysts are suggesting the future lays above $30. Clearly, the momentum to build more high-tech data centres around the world remains strong and Goodman Group is fully grabbing that opportunity.

To those who have been burned badly in lithium and in nickel, the message is not every megatrend is the same. Plus, of course, one simply cannot remove the cyclicality from commodities. Always is, always has been.

One striking negative thus far have been dividend announcements with companies including the ASX ((ASX)), Insurance Australia Group, QBE Insurance, and Whitehaven Coal ((WHC)) not simply missing expectations, but often also paying out less than in the year prior.

Macquarie has identified cyclical retailers and the media sector as the early season's respective winners and losers.

Not unimportant for overall market sentiment: Macquarie also notes large cap companies are front and centre of this month's positive surprises, with guidances provided by companies proving more powerful than EPS upgrades for post-release share price rewards.

Thus far, most guidances provided contain a positive undertone and Macquarie suspects many companies are still erring on the cautious side, in particular those reporting December-half numbers.

February Opportunities

Looking through the small list of corporate punishments thus far this month, it quickly becomes clear most disappointments have been caused by the profit margin missing market forecasts, though other reasons include higher spending, a recent acquisition underperforming, short-term guidance being too cautious and, in some cases, a little bit of everything.

While such disappointments lead to share price weakness in the immediate aftermath of the financial release, investors would be well aware there are cases in which significant share price weakness opens up longer-term opportunity through a lower purchase price.

Below are a number of such 'opportunities' according to analysts covering the sector and the company.

Breville Group ((BRG)) – As a major beneficiary of covid lockdowns and the trend to work-from-home, Breville Group shares are still trading below the levels witnessed in 2020 and 2021. This month's financial update missed market consensus, also because management refused to price discount and opted for margin protection instead.

While questions linger how much of the disappointment in half-yearly sales has been caused by the cost-of-living crisis that is dogging consumers worldwide, analysts suggest investors should take guidance from the strong growth achieved over numerous years.

There is plenty of market share still up for grabs, plus unexplored new geographies for what ultimately might be seen as more of a 'tech' story than purely discretionary retail.

The obvious observation to make is post-release share price weakness hasn't lasted for long.

CSL ((CSL)) – No need to debate it: the newsflow surrounding Australia's largest and most successful biotech is no longer 100% positive, but maybe investors should simply concentrate on 80% of this multinational that turned up in great shape in recent H1 results?

Management's track record suggests margin improvement will be achieved. Is the acquired Vifor really the dud Wilsons believes it is? I think we can all still remember the scepsis that followed the acquisitions of Behring and Seqirus and both have since grown into the major drivers supporting the aforementioned 80% of the business.

The failure of CSL112 has been a major disappointment as success would have provided CSL with another blockbuster product that would have facilitated the next phase of accelerated growth, but as every Buddhist knows, sh*t happens, on occasion, and life moves on.

The world needs more plasma, and related products, and CSL remains a key player, globally.

James Hardie ((JHX)) – Forgotten are the days of asbestos scandals and of management lying in local courts, James Hardie on occasion is labeled probably Australia's highest quality cyclical, but that doesn't stop the company from occasionally disappointing.

The company's future is closely intertwined with the building and renovating of properties in the USA where its fibre board solutions should continue grabbing market share.

A strong quarterly performance has been followed up with a conservative-looking guidance from management for the closing three months of FY24. Immediate punishment followed on the day, which has since been partially reversed.

Pro Medicus ((PME)) – February 2024 proved a whole new experience for shareholders in Pro Medicus. The shares can actually fall as well!

Given the enormous rally in Pro Medicus shares, 100% up since mid-2022, and the lofty multiples that became the result of it, it was always a big ask from management to release financial numbers that would yet again force analysts to upgrade forecasts.

It didn't happen, and the share price tanked by more than -20% in response. Are the shares still 'expensively' valued? Yes. Will they weaken much further? That's anyone's guess.

What hasn't changed is this remains one of the highest quality growth stories on the ASX, and that trajectory has not yet met its Waterloo, not by a long shot.

The question then becomes: at what point should investors sitting on the sideline decide to get on board? The answer to that question is very much determined by what the market decides to do in the short term.

Maybe those waiting to get on board are safest when moving through small steps?

Seek (SEK) – Out of the three dominant platform companies on the ASX -also including Car Group and REA Group- Seek has traditionally proved much more volatile and prone to temporary disappointments.

The simple explanation is that Seek is not as dominant in its core market and the company needs to fend off a lot more competition.

In practice, this amounts to more investment and more spending to stay on top of the pile for job advertisements. Is it the cyclicality of the labour market that caused this month's disappointment as management had to concede weakness in listings proved a lot greater than anticipated?

Those with a supportive mindset suggest it's time to start concentrating on better times ahead, because as day follows night, and the Australian economy starts improving again in, say, six months' time, labour market dynamics should pick up again.

That message has not completely been lost with Seek shares equally partially reversing the punishment that followed the release of H1 financials.

Other suggestions made include Beach Energy ((BPT)), as surely the ex-Santos CEO is going to right this ship, GUD Holdings ((GUD)), because problems at Auto Pacific Group will be fixed, and Data#3 ((DTL)) on cyber security and AI exposure, the forthcoming recovery in PC sales, but above all, the strong connection with Microsoft product sales.

By closing time on Monday, the **FNArena Corporate Results Monitor** had assessed a total of 82 financial results, of which 30 (36.6%) have beaten forecasts, 31 (37.8%) reported in line and 21 (25.6%) delivered a disappointment.

Thus far, the numbers don't look substantially different for the ASX50, the ASX200 and all reporters combined.

Week 3: Not As Good, But Not Bad

As the local corporate results season went through its third week, it became obvious the heavy skew towards positive surprises could not be maintained.

As it turned out, the busiest week of the season (involving some 40% of the ASX200 market cap) saw the number of misses and disappointments rise quite quickly, without destroying the positive sentiment that has prevailed throughout this season.

To illustrate what is happening in February, we might as well rely on the **FNArena Corporate Results Monitor**.

-Week One had total 'beats' on 52.4% with only one disappointment from REA Group ((REA)) on a strong performance with increased investments to be made.

-By the end of Week Two the Monitor had 'beats' on 41% -still strong by historical standards- with disappointments rising to 22%, still low by historical comparisons.

-By Friday, week three ended with 'beats' on 38% and 'misses' on 28%.

To put some perspective around these numbers: if they were maintained throughout the closing week, this would still be the third best February season since 2014, as far as percentage of 'beats' is concerned.

But then the percentage of misses is also the fourth highest for the period.

Conclusion: it's a polarised market out there, and results season is showing just that.

TOTAL STOCKS:		282
Beats 100	In Line 103	Misses 79
35.5%	36.5%	28.0%

Total Rating Upgrades:	35
Total Rating Downgrades:	40
Total target price movement in aggregate:	3.03%
Average individual target price change:	2.94%
Beat/Miss Ratio:	1.27

By late on Monday, as I am writing this week's update, the percentages have changed to 36.3% 'beats' and 26.7% 'misses'.

Still, those with a positive outlook can seek solace from the fact nearly three out of four corporate releases either meets or beats forecasts. Plus the number of spectacularly negative market updates a la Nuix ((NXL)) or Appen ((APX)) or EML Payments ((EML)) in the past has remained quite limited thus far.

That said, most investors would still like to avoid share price punishments for the likes of Corporate Travel Management ((CTD)), Lendlease ((LLC)), Strike Energy ((STX)), The Star Entertainment Group ((SGR)), Nanosonics ((NAN)), and MA Financial Group ((MAF)) if they can.

Overly popular Pro Medicus ((PME)) can claim the title of fastest recovery this season.

After releasing interim results that simply weren't splendid enough, the subsequent punishment lasted three days, before the shares rallied back to just under $100. Still well below the $111 price level pre-result, but also well above the below-$40 level from mid-2022, and the mid-$70s level in late October last year.

Zooming in on the large percentage of earnings beats, consumer related businesses have on average posted better-than-forecast performances, online marketer Kogan ((KGN)) the latest example on Monday, with strong results also coming from multiple quality growth companies, including those carried by megatrends such as data centres (it's not solely a US phenomenon).

Examples are a-plenty; from Block ((SQ2)) to Aussie Broadband ((ABB)), Bega Cheese ((BGA)) and a2 Milk ((A2M)), to Audinate Group ((AD8)), Cochlear ((COH)) and ResMed ((RMD)), to Goodman Group ((GMG)), to Car Group ((CAR)), to Ampol ((ALD)), ARB Corp ((ARB)), Cettire ((CTT)), JB Hi-Fi ((JBH)), and Wesfarmers ((WES)), and numerous others.

The turnaround story this month looks like it might be the spectacular reversal of fortune through new management at Bravura Solutions ((BVS)). Another eye-catcher was delivered by Cobram Estate Olives ((CBO)).

Overall, many businesses managed to outperform not necessarily because of more sales, but more so because management teams have developed a better grip on cost control.

Cost control and better margins are closely inter-connected. **Better margins** have proved the secret formula for more 'beats' than 'misses' this month.

The Negatives

Are there any obvious negatives that are worth paying attention to?

A remarkably large number of **dividend payouts** went backwards and/or missed expectations. While in various cases this was related to the need for a step-up in investments, this is far from the complete picture and will need to be investigated further.

UBS strategists report, on their numbers some 29% of reporters to date have paid out less than last year, while 35% has lifted their dividend payment.

Also important is companies reporting a **loss in operational momentum** into the fresh calendar year.

This has put a number of such companies among the disappointers this month. But even if it didn't, a worsening of sales volumes is probably the number two of big risks that hovers over the outlook for the rest of the year.

The number one risk is undoubtedly connected with central banks' intentions to start cutting interest rates, when the time is right.

Those with a more cautious bent in their character might consider better corporate dynamics are likely to keep such interest rate cuts further away into the future.

The **burden from high interest rates** remains one source for disappointment, still, and remains one big headwind for many an A-REIT, together with the ongoing process of **asset values deflating**. Offices remain the source of most pain for the sector.

As far as sectors go, resources stand out through negative forecasts and negative adjustments to forecasts, though telecommunication isn't exactly covering itself in glory either.

Staples disappointed through Woolworths Group ((WOW)) and spin-off Endeavour Group ((EDV)) while lots of uncertainty remains for smaller cap credit providers a la Humm Group ((HUM)) and Latitude Group ((LFS)), as well as specific sections of the healthcare sector.

Miners and energy companies stand out as the worst two sectors this month in terms of share price action.

IDP Education ((IEL)) and the lithium sector remain under heavy scrutiny from shorters.

Operational dynamics remain strong for building materials, contractors and engineers, insurers and insurance brokers.

Underlying, and despite the strong bias for beats & meets, earnings forecasts are, on balance, not improving.

The consensus forecast for FY24 EPS is still a negative -5.5%, having lost -0.6% thus far this month.

The consensus EPS forecast for FY25 is a positive 4.3%. The average local share market PE ratio sits around 16.2x, at the upper level of the historical range outside of the covid-years. The average dividend yield has crept up to 4%.

One of potential sources for further relief for corporate margins is a seeming **stabilisation in labour market dynamics**.

UBS strategists report of the companies the broker monitors, 72 have suffered FY24 EPS downgrades post results release, versus only 60 receiving a consensus upgrade. Six out of every ten companies reporting see their sales trajectory slowing with most management commentary referring to customers battling with cost of living pressures.

On UBS's number crunching, only 18% of companies has thus far increased guidance, while 19% has lowered guidance. No less than 92% of companies has reported a rising cost for servicing debt.

Meanwhile, corporate activity is unusually elevated with Alumina Ltd ((AWC)), one of the longest listed commodity producers locally, reporting a take-over approach from JV-partner Alcoa.

Today's news follows similar announcements regarding CSR ((CSR)), Superloop ((SLC)), Altium ((ALU)), Ansarada Group ((AND)), Boral ((BLD)), APM Human Services International ((APM)), Southern Cross Media ((SXL)), Link Group ((LNK)), Perpetual ((PPT)), Pact Group ((PGL)), Volpara Health Technologies ((VHT)), Pacific Smiles ((PSQ)), and Adbri Group ((ABC)), plus a few smaller deals.

The local index is up less than 1% from the 1st of January.

A full analysis of the season will be conducted next week.

Investing Is About The Future

The local December-half results season in February had its own script in mind, as also illustrated by the interim result release from California, USA headquartered Life360 ((360)) on March 1st.

It's not often Australian investors see a sizeable earnings 'beat' being rewarded with a 38.5% rise in the share price, not to mention the double digit follow-through that occurred on the following Monday.

By the market's close 7.87% of that follow-through was left for a 46%-plus gain over two days, which neatly summarised what February 2024 was mostly about:

-both analysts and investors had been too cautious in many instances, which provided a platform for big corrections upwards

-a two-year bear market for smaller cap companies also meant share prices proved too low

-consumer spending is still fine, both locally and overseas

-management teams have a much better grip on limiting cost growth

-the sky is literally the limit for technology companies, both large and small

That seldom witnessed melt-up experience for shares in Life360, provider of tracking services for family members and pets, is the result of an undervalued starting point in combination with operational momentum that has forced analysts to significantly upgrade forecasts, valuations, and price targets.

According to **FNArena's The Short Report** total short positions in the stock were less than 1.5% prior to the market update.

For investors, to understand the full message emanating from the Life360 share price explosion, both items supporting the share price move are equally significant.

I would actually argue the second part is the most important factor as numerous other technology-driven companies have equally enforced significant upward corrections in operational estimates and share prices, without starting from a beaten-down, too low share price level.

Spoiler alert: it is not just a smaller cap phenomenon either.

Goodman Group ((GMG)) has been one of my personal favourites in the local share market for numerous years and with a market capitalisation of circa $57.9bn it is one of the largest index constituents on the ASX.

Yet, its financial release too put a rocket under the share price and left analysts in awe, scrambling back to the drawing board to remodel upgraded forecasts and valuations.

It wasn't that long ago when investors on my X feed were seen discussing whether Goodman Group shares at $24 were 'fair value' or 'expensive'. Now the shares are trading above $30, backed by significant increases in analyst valuations. The current high-marker is Citi with a price target of $32.50.

It goes without saying, Goodman's story did not start last month, or even last year. Australia's largest property developer has gradually transformed itself into a large funds manager and developer of mission-critical assets for key customers, such as Amazon, around the globe.

That large hyperscale warehouse with all the latest modern technologies embedded inside that is facilitating Amazon's e-commerce expansion worldwide has probably been designed and build by Goodman Group.

That operational transformation has not gone unnoticed, of course, and what was once a share price judged by the dividend yield on offer is now priced as a growth stock.

At the current share price, the forward-looking yield is no more than 1% with price-earnings (PE) ratios of 29x and 27x on forecasts for FY24 and FY25, respectively.

Those numbers look way over-the-top for what is, officially, Australia's number one REIT. Those who look at Goodman Group from a pure property-REIT perspective have been calling the shares overvalued for many years now, to no avail.

It reminds me of the long-winded discussions whether US-listed Tesla is an ordinary car manufacturer or a multi-platform technology innovator.

As it turned out, the market cares not what misguided labels are being used by dyed-in-the-wool value investors who refuse to accept that **technological disruption and innovation have become the two major driving forces**inside the global economy during the present decade.

In Goodman Group's case, the positive carry from exposure to the steady awakening of e-commerce, a process with a very long tail, is now combining with the faster-than-anticipated acceleration in demand for data centres on the back of the world's investment race into generative AI.

Industrial property development (think those warehouses) remains Goodman Group's main bread-and-butter, alongside funds management, but data centres are re-shaping the company's future.

Data centres currently make up some 37% of work-in-progress, which is circa double the percentage from pre-covid, and compares with circa 25% share in September last year.

By next financial year already that percentage is expected to exceed 50%.

The secret sauce, so to speak, is that margins on data centres are a lot higher (roughly double those on warehouses, at circa 60%), hence Goodman Group as a whole is looking towards accelerated revenues on increased margins.

That can only mean one thing: a (much) higher valuation. *Quod erat demonstrandum* in February.

Adding some extra colour to the above: Goodman Group's work-in-progress amounts to circa $13bn, so the numbers involved are large, really large.

No double-guessing why Craig Scroggie, CEO of data centres operator NextDC ((NXT)), appears at media interviews with an extra spring in his step these days.

NextDC is equally enjoying operating at the right place, with the right business model, and the right track record and client base to find itself overwhelmed with demand for more and bigger data centres.

In case anyone still had any doubts: generative AI is awakening a seldom witnessed tsunami in fresh technology and hardware investments. Investors in US equities are already familiar with the theme as the likes of Nvidia, Microsoft, ASM Lithography and AMD have been propelled into a different stratosphere on the back of enormous growth in demand.

The February results season locally has effectively communicated to investors in Australia: the new era of tomorrow's future is real and tangible, and the ASX has major beneficiaries too.

Apart from the companies mentioned, these also include Macquarie Technology ((MAQ)), Megaport ((MP1)), and Dicker Data ((DDR)), as well as Car Group ((CAR)), Cochlear ((COH)), Hub24 ((HUB)), Netwealth Group ((NWL)), REA Group ((REA)), ResMed ((RMD)), WiseTech Global ((WTC)), and others.

Companies mentioned in the second half of that sentence are not necessarily carried by the same megatrends as are Goodman Group and NextDC, but they are equally disrupting the status quo and using technology to successfully reshape the world to their advantage, enjoying the prospect of many more years of strong growth ahead.

Discretionary retailers delivered many positive surprises during the season past, predominantly because analysts' forecasts were proven too cautious despite widespread mortgage stress and a cost of living crisis, but technology has been the real outperformer in February, as also identified by analysts at Macquarie.

Share price gains of 48%, 32% and 29% respectively for Megaport, WiseTech Global and NextDC underpin that statement, but underneath the surface all have enjoyed significant increases in forecasts, which has propped up market forecasts overall throughout the season, in multiple ways.

Let's not get side-tracked by labeling or what makes a technology company or not: Goodman Group's consensus target lifted in February to $29.11 from $23.90 (up 21.70%), NextDC's price target jumped to $18.77 from $15.23 (up 23%), Life360's target is now $13.62 versus $10.44 pre-result (up 30%).

As we are in the process of finalising reviews, updates and statistics for the February season, it becomes clear early euphoria on surprises delivered by discretionary retailers has not been sustained throughout the rest of the month.

The numbers have kept on worsening with the percentage of 'beats' sliding, and sliding, and sliding to circa 33% with 27.5% disappointing and the remaining 39.5% reporting and guiding in line.

What is important in this context is the **FNArena Corporate Results Monitor** assesses on a wholistic methodology, taking into account forecasts versus actual outcome, but also qualitative items, forward guidance, dividend payout, trading updates, et cetera.

Simply reporting a slightly better-than-expected net profit on a lower tax rate and reversal of a prior provision won't cut the mustard and if you happen to report a fantastic performance with a subdued outlook, well, you're in the naughty basket too.

What is worth highlighting is the overall percentages look less attractive if we limit our assessments to the ASX50 and the ASX200. The 50 largest cap companies generated decidely more misses (41%) than beats (29.5%) while the numbers for the ASX200 can almost be summarised as one third-one third-one third.

Thanks to the small caps thus, the season overall hasn't been too bad.

Reporting seasons usually take a slice out of earnings forecasts, reducing the market's average, but this time around, Macquarie reports, the net forecast has remained unchanged, with technology and discretionary retailers the two sector stand-outs.

Also pleasing is the fact price targets on average, and in aggregate, have gained throughout the month.

Prior seasons have seen targets fall or hardly gain on a net outcome. The last time we registered notable target gains was in August 2021.

The main detractors in February have been resources, media, and healthcare, while telecommunication proved a rather weak performer too. Both materials (miners) and energy are the worst performers in share prices as well as in reductions to forecasts.

Post February, the strongest growth forecasts reside with technology (by multiple arm's lengths, see the above for explanation), with utilities second and healthcare third. The lowest forecasts are reserved for energy (worst), materials, and financials.

Among notable disappointments were Newmont Corp ((NEM)), South32 ((S32)), Whitehaven Coal ((WHC)) and even Alumina Ltd ((AWC)), which ironically serves partner Alcoa in its acquisition intention.

Also remarkable is that Altium's ((ALU)) release would have seen severe share price punishment, if the stock wasn't under a heavy premium take-over bid.

In quant terms, Mid-Cap stocks have been the place to be, with Growth coming second. Dividend payers proved a recipe for disappointment, no doubt reflecting the many dividend cuts and disappointments throughout the month.

For the latest updates: https://fnarena.com/index.php/reporting_season/

What looks expensive today might well look a whole lot more attractive in the months ahead. Share markets seldom move in an uninterrupted straight line upwards.

There will be volatility and share price weakness. Investors not yet on board with some of the strongest growth stories on the ASX should draw up their wish list and wait for opportunity to come.

Your typical value investor, of course, would rather talk about insane, hyped-up valuations and the formation of the next bubble. Horses for courses!

Always make sure you know your own investment objectives and your own risk appetite and strategy.

Investing in well-oiled growth companies trading on higher valuations is not by default a higher-risk strategy. I'd argue buying cheap looking, low quality companies when the world around them is changing rapidly is.

As they say, different narratives is what maketh the market. The world is changing right in front of our eyes.

Being part of that change is a choice, as is not being part of it.

Also, **FNArena's The Short Report**: https://fnarena.com/index.php/analysis-data/the-short-report/

All-Weather Model Portfolio

The All-Weather Model Portfolio, carried by positive share price moves for the likes of Goodman Group, NextDC and Hub24, gained 4.72% in February (of which 0.35% from dividends).

Combined with the 2.82% gained in January this takes the year-to-date return to 7.54% versus the ASX200 at circa 2%.

As a reminder, in December the Portfolio 'only' gained 5.12% against the ASX200's total return of 7.25%, but the return over the full twelve months of 2023 compares favourably; 20.24% against 12.07% for the index.

With a focus on quality & sustainable growth, the Portfolio by default always has exposure to multi-year growth paths and modern-day megatrends.

It is my view the February reporting season has further vindicated the common sense behind such strategy focus.

Conviction Calls

RBC Capital updated its global best investment ideas but no matter how hard we looked for an Australian inclusion, it was not to be.

Goldman Sachs' APAC Conviction List delivered three familiar names; Lynas Rare Earths ((LYC)), Woolworths Group ((WOW)) and Xero ((XRO)).

Renesas Electronics, poised to acquire ASX-listed Altium ((ALU)), is also included.

Morningstar's selection of Best Stock Ideas has undergone a few changes, with Bapcor ((BAP)) and Pexa Group ((PXA)) both added and the departure of Westpac ((WBC)), WiseTech Global and Kogan ((KGN)).

All three removals have enjoyed strong share price performances.

Have kept their spot on the list in Australia and New Zealand:

-a2 Milk Co ((A2M))
-ASX Ltd ((ASX))
-Aurizon Holdings ((AZJ))
-Domino's Pizza Enterprises ((DMP))
-Fineos Corp ((FCL))
-Lendlease ((LLC))
-Santos ((STO))
-TPG Telecom ((TPG))
-Ventia Services ((VNT))

as well as Newmont Corp and ResMed ((RMD)).

Healthcare Under The Scanner

Technology companies and discretionary retailers might have crowned themselves as Champions during the local reporting season in February, post-season the focus among analysts goes mostly out to Healthcare and REITs, two market segments that have largely been on the nose ever since the world decided covid is just something you deal with.

The irony that healthcare services are among the most persistent victims of what became an enormous global health scare back in 2020, now in the fourth year post pandemic, shouldn't go unnoticed. Reality does have a way of carving out its own pathway, ignoring forecasts made and solidly beating human imagination.

Double irony: healthcare had been by far the best performing segment on the ASX pre-covid, with local sector leaders CSL ((CSL)), ResMed ((RMD)), Cochlear ((COH)) and Sonic Healthcare ((SHL)) delivering above-average returns for long-term oriented portfolios.

In their slipstream followed a queue of smaller-cap performers, including Ebos Group ((EBO)), Fisher & Paykel Healthcare ((FPH)), Nanosonics ((NAN)), and others.

In 2024, it's much more slim pickings to identify outperformers in the sector, or even 'performers' if we exclude brief, short-term share price moves. Pro Medicus ((PME)) and the aforementioned Cochlear have turned into stand-out exceptions, but their ongoing attraction has now become a public debate revolving around 'valuation' and 'true sustainable growth perspectives' for the years ahead.

In a market that likes to reward companies for reliable, oversized growth with no negative surprises, and both healthcare outperformers are certainly part of that group of companies locally, there will always be that investor dilemma of how much premium is too much?

The more interesting question for most investors relates to the rest of the sector: when can we expect the return of healthcare as a solid, reliable provider of strong growth, with no material negative surprises? Call it the good old days, when ResMed, believe it or not, was one of the best performers on Wall Street with a total return in excess of 1000% over ten years.

There's no denying, the operational context for many healthcare companies has changed. There's also no denying share prices for the past three years are reflecting exactly that.

Bugbears include the advent of competing treatments and medications, such as GLP-1s, the modern day miracle weight loss solution (for now), but equally so budget constraints for governments, for hospitals, and for households, fewer GP visits, and a marked pick-up in general costs.

Margin pressure has become the new focal point for the industry at large. Most analysts, and management teams at the helm of these companies, remain confident today's margins will improve in the years ahead, but maybe not to the levels witnessed pre-covid.

This will have consequences for general valuations, and for investors' enthusiasm to invest in the sector.

History shows, what usually happens when a sector remains under the pump for a longer-than-expected period, there usually follows a number of wash-out events, whereby the weakest, lower-quality and most vulnerable business models implode as the relentless pressure builds.

Recent events at Healius ((HLS)), which have driven the share price to its lowest level in more than 23 years, is such an outcome. Once again, also, investors have been reminded of the dangers of owning cheap-looking sector laggards for no other reason than the 'price'.

So let's assume we have cash to spare, and we are hopeful the current spell over the healthcare sector will not prove permanent. Where should we be looking to invest?

I asked the analysts.

The local market leader, CSL ((CSL)), has for many years carried the halo of 'probably the highest quality growth stock on the ASX' but general appraisal has gone silent as the share price keeps reverting back to the $280 price level in line with disappointing margin recovery to date and more negative market updates.

Spending more than US$1bn on developing and trialling CSL112 and ending up empty-handed is not something witnessed every day either locally or elsewhere.

The acquisition of Swiss company Vifor, costing circa US$11.7bn, has not been a grand success either, at least not in the initial phase of ownership. Vifor is being challenged in some of its key products.

Losing the label of apparent immortality has made the local analyst community noticeably less enthusiastic too. Model portfolios have scaled back their allocations, albeit generally in small gestures. Some analysts, like those at Wilsons, have now turned super-critical of the business, labelling Vifor a 'dud' and questioning CSL's small base for future growth.

The majority, however, focuses on the 80% of CSL that is performing well, with ongoing prospects for robust growth and recovering margins; plasma collection and vaccines.

Some analysts might remind investors when CSL acquired Seqirus (loss-making vaccines operation from Novartis) in 2015, the market was equally non-enthusiastic, at first, which allowed for positive surprise.

An investment in Australia's largest biotech, and the country's number three largest company by market cap, relies on belief management can deliver on the promised margin recovery, while integrating and growing Vifor, and grabbing opportunities elsewhere, including from Vifor's pipeline of products under development.

As is often the case in these matters, the outlook for CSL shares is now closely intertwined with investor sentiment and the general perception is the shares don't genuinely move. In other words: a catalyst is needed, some good news. Under such circumstances, patience is a virtue.

FNArena's consensus target sits at $313.40, suggesting double-digit upside if sentiment, on balance, remains supportive in the year ahead. CSL remains a cornerstone inclusion in the FNArena/Vested Equities All-Weather Model Portfolio.

Macquarie

The healthcare team at Macquarie still has CSL as its most preferred healthcare exposure, followed by ResMed ((RMD)) and Monash IVF Group ((MVF)).

The resurrection of ResMed shares has been nothing short of spectacular once the shorters' GLP-1 scaremongering was replaced with a better understanding of the risks and potential consequences further down the road for medical equipment manufacturers such as ResMed. But there's also still the ongoing struggles at key competitor Philips, which will return to the US market at some point.

Most importantly, ResMed management got the message post August results season last year, and they made certain there would be upward movement in the company's margins this time around. It worked!

The message emanating from the ResMed experience is that investors want to see tangible evidence of margin recovery three years after the covid pandemic subsided. And if enough evidence is shown, the share price gets rewarded.

ResMed remains among the favourite stocks in the sector for many analysts teams researching the sector locally.

Monash IVF enjoys a positive rating from all four brokers monitored daily by FNArena. The consensus target sits at $1.56, circa 7.8% above today's share price (on Monday).

Morgan Stanley

The healthcare team at Morgan Stanley has also nominated CSL and ResMed as the two local sector favourites.

Morgan Stanley's preference lays with the large caps in the sector, with Monash IVF the sole small cap that carries an Overweight rating, the highest possible in this broker's ratings universe.

Equally worth noting: Ebos Group is also rated Overweight.

Morgan Stanley prefers to avoid Healius and Integral Diagnostics ((IDX)) on margins and elevated labour costs.

The analysts remain skeptical about the short-term outlook for Sonic Healthcare ((SHL)), having endured a series of disappointing market updates, but are prepared to retain an Overweight rating for the shares (on a longer term horizon).

Macquarie analysts are not so kind. They have Sonic Healthcare as their second least preferred sector pick, only preceded by Cochlear (on a too elevated valuation).

UBS

Conversely, healthcare analysts at UBS include Sonic Healthcare in their Top Three sector favourites, alongside Telix Pharmaceuticals ((TLX)) and CSL.

Sonic Healthcare is not a CSL, not in the slightest, but both share a common theme: the underlying core business is performing. At some point, we can but presume, most of the negatives will be left behind in the past and the market's attention will be drawn to the positive core.

UBS has only one genuine dislike; Cochlear. This time it's not the share price. The broker sees a potential threat from a product still in development by Moderna. If the upcoming phase III trial is positive, UBS can see a similar market response as was the case with GLP-1s for both ResMed and CSL last year.

Citi

The highly regarded team of sector analysts at Citi has more dislikes than favourites, also because share prices for Cochlear and Pro Medicus are simply considered too elevated to not warrant a Sell rating.

Other Sells carry too many unanswered questions; Ebos Group, Nanosonics, and Healius.

Citi's two favourites are Australian Clinical Labs ((ACL)) and ResMed.

Wilsons

Healthcare analysts at Wilsons still like ResMed and Cochlear, but here the analysts are prepared to move into the smaller cap space in order to find additional opportunities.

Such opportunities, Wilsons believes, include Telix Pharmaceuticals, Clarity Pharmaceuticals ((CU6)), Neuren Pharmaceuticals ((NEU)), Mayne Pharma ((MYX)), Immutep ((IMM)), Percheron Therapeutics ((PER)), Nanosonics, Avita Medical ((AVH)), PolyNovo ((PNV)), and Mach7 Technologies ((M7T)).

Evans and Partners

The order of larger cap preferences at Evans and Partners is ResMed on top, followed by Cochlear, CSL, Sonic Healthcare, Fisher & Paykel Healthcare, Ramsay Health Care ((RHC)), Ansell ((ANN)), and Healius last. Among smaller caps, the favourite is Integral Diagnostics.

Private hospitals operator Ramsay Health Care ((RHC)) delivered a positive surprise in February, but post share price reset general skepticism dominates. It has been a long while since this company came out with genuinely good news, outside of asset sales to reduce the debt burden or a financial performance that wasn't as bad as feared.

Ansell is only half-healthcare, at best, and that division is still suffering from post-covid hangovers. Similar to Healius, it is no surprise management is restructuring operations.

Sigma Healthcare's ((SIG)) future is now closely linked to the (effectively) reverse take-over by major client and shareholder, Chemist Warehouse. This company is scheduled to report financials on March 21.

According to analysts' forecasts post the February results season, healthcare is one of the strongest growing segments for the years ahead, led by Pro Medicus, CSL, ResMed, and Cochlear. The sector was equally mostly disappointing in February, including through Pro Medicus and CSL.

No doubt, the latter has tempered the market's enthusiasm in the immediate aftermath. Now the big question is: can the former outperformers start performing again, or do investors have to be patient for much longer?

Almost forgot to mention: ResMed too has remained a cornerstone inclusion for the All-Weather Model Portfolio. Plus healthcare services should be among key beneficiaries of AI in the decade ahead.

February 2024; The Final Verdict

In the end, corporate releases generally proved better-than-feared, though share prices were equally supported by positive sentiment.

Hold a big carrot in front of financial markets, in this year's context: the prospect for interest rate cuts, and underlying sentiment finds it a lot easier to look beyond short-term stumbles and hiccups.

But does any of this make the February results season a "good" one, or even a "positive" one?

On CommSec's data-crunching, expenses in aggregate are growing at 6% annually while revenues only increased by 3%. This is why winners and losers throughout the month were largely defined by the management team's ability to rein in costs.

And as most management teams, three years post global pandemic, lockdowns and supply chain bottlenecks, have formed a tighter grip on operational dynamics, the bias turned towards more positive surprises. Subdued economic forecasts and low expectations beforehand also assisted companies with meeting or beating expectations.

In a season mostly defined by cost control, one would expect many metrics to show deterioration, and February truly played to that script. Back to CommSec's data: in February 81% of companies reported a profit, continuing the down-sloping trend since August 2022 and below the long-term average of 87%.

CommSec also reports this is the lowest outcome in seven consecutive reporting seasons. Aggregate profits have fallen by -35%. Less than half of all companies (49.6%) managed to grow profits versus a long-term average of 58%, but February signaled a marked improvement on the two seasons of last year.

This, naturally, weighs on available cash with total levels dropping by -25% over the year. Dividends retreated, but only by a net -2%. Of those paying out a dividend, 52% increased it, against 29% reducing their dividend and 19% holding it steady.

The ASX200 members have declared $33.9bn to be paid out in coming months, compared with $34.8bn a year earlier. More companies are still increasing their dividends, but the percentage is sliding steadily.

The market consensus forecast is for aggregate EPS to fall by -5.5% for the year to June 30th, with a positive follow-up to the tune of 4% in FY25.

A lot will hinge on economic momentum between now and then. Or maybe not. Analysts at Macquarie believe investors can be optimistic because more companies are able to keep costs under control and this should result in upgraded forecasts before the August season.

Already, on the broker's data gathering, more companies issued improved guidance in February than those who felt the need to temper expectations, with the largest contingent maintaining full year guidance. 82% of companies provided some kind of guidance, report the analysts, albeit not always quantified in numbers.

"Overall", concludes Macquarie, "the lack of major negative surprises in reporting season is probably enough to support Australian equities, so long as the cycle continues to improve and investors can look forward to Fed rate cuts and Stage 3 tax cuts in 2024."

Market analysts at Wilsons believe costs and the ability to control costs will continue defining corporate winners and losers over the coming 6-12 months.

Wilsons: "Despite cost deflation/disinflation being evident for freight and some raw materials, other key costs of doing business (CODB) line items have remained relatively sticky including wages, rent and other overheads (e.g. energy, IT expenses). A number of these CODB headwinds will remain prominent in 2H24 and FY25."

The final verdict of the **FNArena Corporate Results Monitor** is that 32.8% of corporate results proved better-than-expected while another 39.3% proved in line, leaving the remaining 27.9% to disappoint either through earnings, margins, forward guidance or a combination of multiple factors.

Seeing one third of result releases surprising positively is good for the soul and investor sentiment generally, for sure, but in the context of all reporting seasons we've covered since August 2013, and given expectations were low beforehand, it's not a tremendously fantastic outcome.

History shows February usually delivers more surprises than disappointments, and the number of 'beats' can run as high as 47%. February's percentage sits among the lowest from the past eleven years. The percentage of 'misses' (27.9%) is the fourth highest over that period.

CommSec's forecast is for "the Aussie sharemarket to drift through to mid-year as rate cut validation is amassed. The S&P/ASX 200 index is expected to be trading in 7,750-8,050 point range near the close of 2024."

M&A Is Back (With A Vengeance)

Even the more casual observer would have noticed the high number of announcements regarding acquisitions and mergers this year, with troubled AI (?) company Appen ((APX)) the latest target on the ASX.

Analysts at **Morgan Stanley** believe it's only the beginning of what might well turn into a genuine tsunami in the months and weeks ahead.

The simplest explanation for the rapid pick-up in overall M&A activity is it has been very quiet for quite a while in this regard, as rising bond yields, central banks tightening and concerns of economic recession kept most corporate boardrooms in defensive mode. But now most of these scary headwinds are dissipating, companies are ready to explore buying growth again.

What adds to Morgan Stanley's confidence is overall activity has been so far below-trend, a simple reversal back to the 2014-22 average already implies a significant number of deals needing to be concluded. A 50% rise in M&A globally is easily on the agenda, the broker surmises.

The statistical 'undershoot' in recent years is estimated between -US$4-11trn. On the analysts' own data, corporates currently hold in excess of US$5trn in cash, while private markets have US$2.5trn of dry powder, on top of the observation that markets are once again open for new equity raisings.

Sectors identified as most ready for action include healthcare, staples, technology, and real estate. Europe, it looks like, will be the key epicentre of the global M&A revival.

However, judging from year-to-date activity in Australia, investors locally need not fear the fresh bonanza in corporate M&A might bypass the ASX. Already, more than 20 companies locally have attracted M&A interest, and many more are likely to follow.

The list below of M&A announcements is no doubt incomplete:

-A2B Australia ((A2B))
-Adbri ((ABC))
-Altium ((ALU))
-Alumina Ltd ((AWC))
-Ansarada Group ((AND))
-APM Human Services International ((APM))
-Appen ((APX))
-Azure Minerals ((AZS))
-Boart Longyear ((BLY))
-Boral ((BLD))
-CSR ((CSR))
-Genex Power ((GNX))
-Link Group ((LNK))
-Newmark Property REIT ((NPR))
-Origin Energy ((ORG))
-OreCorp ((ORE))
-Pacific Smiles ((PSQ))
-Pact Group ((PGH))
-Perpetual ((PPT))
-Probiotec ((PBP))
-Qantm Intellectual Property ((QIP))
-Southern Cross Media ((SXL))
-Superloop ((SLC))
-Task Group Holdings ((TSK))
-Virgin Money UK ((VUK))
-Volpara Health ((VHT))

One fund manager for whom all of the above is nothing but music in the ears is **Tamim Asset Management**; last year the manager decided to refocus the small cap portfolio towards potential M&A targets, and that switch in strategy has been handsomely rewarded already.

Stocks held in portfolio when news broke of a corporate approach include Link Administration, Pacific Smiles, Probiotec, Qantm Intellectual Property, Superloop, Task Group Holdings, and Volpara Health. Stocks held and explicitly nominated for that next announcement include Ainsworth Game Technology ((AGI)), Bravura Solutions ((BVS)) and Praemium ((PPS)).

Conviction Calls

Post February reporting season, analysts at **Morgan Stanley** have started to nominate their Key Picks in the mid and small cap space on the basis of reported results and anticipated outlook.

The two first nominations made are Accent Group ((AX1)) and SG Fleet ((SGF)).

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Market strategists at **Wilsons** believe Australian tech stocks should remain an important part of an investor's portfolio, but after stellar performances in many instances, it is also time to become more selective.

Strong earnings growth remains the key, the strategists argue, as meaty-looking PE ratios shrink naturally with high growth numbers being achieved.

Wilsons provides the example of Xero ((XRO)), whose forward-looking PE ratio stood at no less than 200x five years ago. Today, the PE has shrunk to 83x; still high, but a lot lower than what it was. (The numbers quoted are different from FNArena's, but that's not the issue here).

Most importantly, highlight the strategists, the share price has grown over that period from $50 to $130 for an annualised return of circa 21%.

Core message: there are serious failings in focusing on the PE only when strong growth, combined with upward revisions to future forecasts, can propel the share price a lot higher.

Wilsons suggests tech stocks are well-placed to continue outperforming the broader market over the medium-term, but investors will need to do their homework on valuations relative to the growth achieved, also: how much of the future is already priced in? Factors that could lead to higher earnings growth should equally be considered, as well as the overall financial health of the companies involved.

Wilsons' two Top Picks are Xero and Netwealth Group ((NWL)).

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Guardians of the Core Model Portfolio at **stockbroker Morgans** have added additional exposure to Sonic Healthcare ((SHL)) and Washingon H Soul Pattinson ((SOL)).

The Growth Model Portfolio has increased weightings for ResMed ((RMD)) and NextDC ((NXT)).

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Remarkable: portfolio positioning and selection of most preferred stocks at **Barrenjoey** has not changed one iota over the February reporting season.

Barrenjoey market strategist Damien Boey is concerned there's too much momentum-chasing going on in the share market with Australian equities driven mainly by safe-haven rotation away from China.

The preference lays with large-caps, quality and value rather than growth or momentum.

Barrenjoey's Bucket List of preferred exposures consists of:

-Aristocrat Leisure ((ALL))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Incitec Pivot ((IPL))
-Insurance Australia Group ((IAG))
-Ebos Group ((EBO))
-Lynas Rare Earths ((LYC))
-Medibank Private ((MPL))
-Mineral Resources ((MIN))
-nib Holdings ((NHF))
-Northern Star ((NST))
-Pilbara Minerals ((PLS))
-Steadfast Group ((SDF))
-Perseus Mining ((PRU))
-Qantas Airways ((QAN))
-QBE Insurance ((QBE))
-Rio Tinto ((RIO))
-Sandfire Resources ((SFR))
-Santos ((STO))
-South32 ((S32))
-Stanmore Resources ((SMR))
-TechnologyOne ((TNE))
-Telstra ((TLS))
-Viva Energy Group ((VEA))

In general terms, the Barrenjoey strategist believes markets are too sanguine about correlations and risks for the year ahead, running hard on positive expectations and thus opening up vulnerability when alternative scenarios unfold.

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While **Ord Minnett** might be white-labeling Morningstar research, the retail stockbroker still employs a number of in-house analysts, as well as in-house market strategists.

The latter allows the broker to select and publish its own Conviction List, which currently includes:

-Alliance Aviation Services ((AQZ))
-Cosol ((COS))
-EQT Holdings ((EQT))
-GQG Partners ((GQG))
-Lindsay Australia ((LAU))
-Ramelius Resources ((RMS))
-Regis Healthcare ((REG))
-Select Harvests ((SHV))
-SRG Global ((SRG))
-Supply Network ((SNL))
-Waypoint REIT ((WPR))
-Webjet ((WEB))

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Canaccord Genuity's Model Portfolio has added Scentre Group ((SCG)) and Stockland ((SGP)) while also removing Amcor ((AMC)) and The Lottery Corp ((TLC)).

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Post the February results season, **UBS's list of Most Preferred** ASX-listed exposures has added Reliance Worldwide ((RWC)), Coles Group ((COL)), Universal Stores ((UNI)), and Rio Tinto with all fresh inclusions believed to have delivered solid earnings beats, with signs of cost control, the broker explains.

UBS strategists are worried falling inflation is not by default a positive during a time when top-line growth is decelerating for large chunks of the Australian economy.

All in all, taking into account the fresh updates and insights from February, UBS strategists have upgraded Industrials to Portfolio Overweight, where the sector joins Infrastructure & Utilities, Insurance and Technology.

Consumer Discretionary has been upgraded to Neutral, while Mining has been downgraded to Neutral. Both sit now alongside Consumer Staples and Energy.

Healthcare has been downgraded to Underweight, joining Banks and Real Estate.

The list of Most Preferred exposures has lost BHP Group ((BHP)), Qantas, Seven Group ((SVW)) and Woolworths Group ((WOW)).

The rest of the list now consists of:

-AGL Energy ((AGL))
-Orica ((ORI))
-Origin Energy
-AUB Group ((AUB))
-Computershare ((CPU))
-nib Holdings
-QBE Insurance
-CSL
-Harvey Norman ((HVN))
-Seek ((SEK))
-Telstra
-Transurban ((TCL))
-Webjet
-WiseTech Global ((WTC)
-Worley ((WOR))
-Xero

Plus the above mentioned new additions.

UBS also has a list of **Least Preferred** exposures, from which CSR (take-over pending) and Westpac ((WBC)) have been removed, while Bega Cheese ((BGA)) and CommBank ((CBA)) have been freshly added.

The remaining inclusions are:

-ASX ((ASX))
-Bank of Queensland ((BOQ))
-Cochlear ((COH))
-Domain Holdings Australia ((DHG))
-Super Retail ((SUL))
-Vicinity Centres ((VCX))

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Strategists at **Wilson** also work with a list of **Most Preferred Equities** on the ASX. That list has been enlarged with Breville Group ((BRG)), Goodman Group ((GMG)), and Collins Foods ((CFK)).

Were already included in the selection: IDP Education ((IEL)) and Worley ((WOR)).

Have been removed: Steadfast Group, Sandfire Resources, and Amcor though all three remain in Wilsons' Australian Equities Focus Portfolio.

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Small cap analysts at **Goldman Sachs** have picked Life360 ((360)) and Macquarie Technology ((MAQ)) as their two favourites.

Regarding Life360, the analysts expressed their conviction that stock's re-rating has only just begun.

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Small Cap specialists at UBS have equally used the February results season to sharpen their focus, leading to the following selection of Key Picks:

-GrainCorp ((GNC))
-GUD Holdings ((GUD))
-Imdex ((IMD))
-Kelsian Group ((KLS))
-NextDC
-Ridley Corp ((RIC))
-Siteminder ((SDR))
-Webjet

From a macro perspective, UBS notes small cap 'growth' outperformed 'value' throughout the season and forward PEs generally for small caps have re-rated by circa 4 percentage points to an average of 21x.

On the flipside, more earnings forecasts for small caps were downgraded than have been upgraded.

Selective Opportunities Among Discounted REITs

Central bankers will lower interest rates, though the exact timing remains unknown. Bond markets will try to anticipate these reductions and rally in advance, lowering bond yields as a result.

Bank shares in Australia have rallied hard and many suggest today's share prices are unwarranted given the weak fundamentals that dominate the sector, including a benign outlook 18 months out.

That other source for regular investment income, A-REITs listed on the ASX, is still offering securities trading at a discount to underlying asset values. No double-guessing why the local REITs sector remains on many an investor's radar.

In February, REITs as a group outperformed the broader market by no less than 4.3% (returning 5.1% against 0.8% for the ASX200).

As per always, the devil hides into detail, as the sector is operating under a cloud of ongoing threats, headwinds, (valuation) traps, and challenges.

Bond yields might be below last year's peak, but they are still high and for many REITs the costs from carrying debt is restricting how much can be paid out to shareholders.

Many in the sector are effectively ex-growth, for the period ahead, as price inflation, devaluing assets and polarising consumer spending offer additional negatives.

In some cases, asset sales are the only way out of the stasis.

One additional factor to keep in mind is that while your average REIT is trading at a discount to implied asset valuations, the general consensus is there will be further asset devaluations occurring in the year ahead, though maybe not as large as is currently priced in.

Post the February results season, which offered positive surprises, led by sector-leader Goodman Group ((GMG)), as well as predictable disappointments, we run through updated sector assessments by those analysts whose daily job revolves around REITs and investing in them.

Evans and Partners

Sector analysts at Evans and Partners thought Goodman Group dominated the good news delivery in February while the rest of the sector was mostly treading water.

There is no doubt in the analysts' mind, the sector offers great opportunities longer term, though investors generally might hold off for a while longer until more clarity exists around where bond yields and central banks cash rates are heading, and exactly when.

Evans and Partners likes to highlight the specialist players in the local REITs sector, with the broker's Top Three Favourites post February being Arena REIT ((ARF)), Dexus Industria REIT ((DXI)), and Waypoint REIT ((WPR)).

Jarden

Put in a simplistic analogy, most REITs have been forced to play defense over the past three years, meaning all attention from management teams inside the sector (outside of Goodman Group) has gone out to keeping costs down, re-financing debt, revaluing assets (and divestments), managing empty offices, and making sure any damage done is absorbed without causing too much distress for shareholders.

Analysts at Jarden have tried to identify those REITs that might be ready to switch into offensive mode again, as these should see added growth and rising shareholder payouts, while others might still be forced to dig in heels and wait for better momentum to arrive.

On the positive spectrum, Jarden analysis suggests, we find National Storage ((NSR)), HMC Capital ((HMC)), Lifestyle Communities ((LIC)), Goodman Group, Ingenia Communities Group ((INA)), Arena REIT, and Stockland ((SGP)).

On the other side of the analysis, the likes of Charter Hall Long WALE REIT ((CLW)), Centuria Office REIT ((COF)), Charter Hall Social Infrastructure REIT ((CQE)) and Dexus ((DXS)) are still very much regarded as inside a forced upon defensive *modus operandi*.

When it comes to "valuing" the sector, analysts at Jarden believe it is imperative investors take into account the still mounting pressure on cash flows, be it through incentives offered (to attract tenants), capex, or other items that are not included in reported funds from operations (FFO) data.

On Jarden's data crunching, operating cash flows as a percentage of FFO fell in February, including for Lifestyle Communities, Stockland, Goodman Group, Dexus, Ingenia Communities Group, Mirvac Group ((MGR)), Region Group ((RGN)), BWP Trust ((BWP)), Scentre Group ((SCG)), and National Storage.

While this does not by default spell bad news ahead for all mentioned, the potential for further deterioration should still have investors' attention.

Jarden's analysis has identified those REITs that look positioned for above-average, strong growth in the years ahead (2024-28); Lifestyle Communities, Ingenia Communities Group, HMC Capital , Goodman Group, Charter Hall ((CHC)), and Stockland.

REITS for which achieving growth above inflation looks like a struggle include Charter Hall Retail REIT ((CQR)), Charter Hall Social Infrastructure REIT, Centuria Office REIT, BWP Trust, and Charter Hall Long WALE REIT.

Summing it all up, Jarden's sector favourites post-February are National Storage, Vicinity Centres ((VCX)), Scentre Group ((SCG)), Ingenia Communities Group -all Buy-rated- and Overweight-rated Goodman Group, Charter Hall, Region Group, Charter Hall Retail REIT, Arena REIT, HomeCo Daily Needs REIT ((HDN)), Centuria Industrial REIT ((CIP)), Stockland, and Lifestyle Communities.

The team at Jarden is not so keen on Mirvac Group, Centuria Capital Group ((CNI)), Centuria Office REIT, Charter Hall Social Infrastructure REIT, Charter Hall Long WALE REIT, GPT Group ((GPT)), Dexus, or BWP Trust.

In a separate analysis, Jarden analysts concentrated on REIT fund managers which enjoyed a fantastic five-years up until H1 FY23, but are now, as anticipated, struggling with falling asset prices and reduced sector activity overall.

Jarden believes the year ahead -H2 FY24 and H1 FY25- will likely still remain challenging for this particular part of the sector, but a robust recovery is anticipated for the subsequent years with current headwinds (bond yields, interest rates) to turn into tailwinds.

On Jarden's assessment, Goodman Group deserves its sector premium, also because the outlook for data centres demand is accelerating.

Charter Hall looks the most attractive, also because of its strong track record in the past.

HMC Capital remains full of promise but maybe too much has already been priced in and Centuria Capital is believed to be facing significant headwinds from its capital structure.

Morgan Stanley

Analysts at Morgan Stanley remain concerned about heavy capex plans for Dexus and Vicinity Centres, which raises balance sheet risks for in particular Dexus.

Most preferred exposures are Goodman Group, Stockland, and Charter Hall. Two other Overweight-rated REITs are Scentre Group and Centuria Capital Group.

In terms of asset devaluations, Morgan Stanley sees another round of devaluations happening by August this year.

Only then, the analysts surmise, will investors be able to assume the worst might have passed for the sector (in the current rate hike cycle).

Morgans

Stockbroker Morgans' preferred REITs are unchanged from pre-February: Dexus Industria REIT and HomeCo Daily Needs REIT. Both provide exposure to the industrial and convenience retail sub-sectors.

The likes of Goodman Group and HMC Capital were downgraded to Hold during reporting season as share prices rallied hard.

Morgans does see small cap opportunities in HealthCo Healthcare & Wellness REIT ((HCW)) and Hotel Property Investments ((HPI)) with both screening as undervalued.

Macquarie

Macquarie prefers Charter Hall, Mirvac and Goodman Group among the large caps, and Qualitas ((QAL)) and Centuria Industrial REIT ((CIP)) among the smaller players in the sector.

Industrial remains this broker's most preferred sub-sector, while Office remains least preferred.

Macquarie does not like Vicinity Centres, Scentre Group, or Charter Hall Long WALE REIT.

One scenario that is on the analysts' mind is that economic growth might well re-accelerate and this would have negative consequences through rising bond yields (yet again).

Macquarie's preference thus lays with quality and active names offering earnings growth that can help offset the negative valuation impact were bond yields to surprise on the upside.

Macquarie also points out most REITs have limited debt expiries over the coming 1-2 years, with a large contingent expiring in FY26.

This noticeable step-up in debt expiries applies in particular to Scentre Group, Dexus, Vicinity Centres, HomeCo Daily Needs REIT, Mirvac and Goodman Group.

Most REITs use bank facilities, while commercial paper is a significant source of liquidity for Scentre Group.

As bank facilities are more likely to be renewed, the average debt maturity for the sector has declined to 3.7 years. In June last year the average was 3.9 years. Twelve months earlier, the comparative average stood at 4.6 years.

If one were to assume more negative scenarios ahead for the sector, Macquarie believes Mirvac, Dexus, Vicinity Centres, and HomeCo Daily Needs REIT would be most at risk from a medium-term liquidity perspective.

Citi

Citi reports Australia continues to benefit at the macro level from high population growth, driven by immigration.

This has positive follow-through impact on retail activity and assets, housing prices and rental growth, demand for self-storage space, as well as logistics services.

The February results season highlighted artificial intelligence (AI) and strong demand for data centres as additional positives providing strong incentives for further investments.

Investors are all too aware, suggest Citi analysts, cap rates should become a tailwind for A-REITs over the next 12-24 months.

Echoing the cautiously optimistic mood that also dominated Citi's 29th annual Global Property CEO Conference, the broker's coverage of A-REITs includes many Buy ratings and only one Sell, carried by BWP Trust as the share price trades above the broker's $3.40 price target.

Buy ratings are for GPT Group, Stockland, Charter Hall Retail REIT, Abacus Group ((ABG)), Ingenia Communities, Goodman Group, Charter Hall Group, Growthpoint Properties Australia ((GOZ)), National Storage, Qualitas Real Estate Income Fund ((QRI)), and Abacus Storage King ((ASK)).

Citi analysts highlight underneath ongoing macro debates about investing in and the outlook for the sector generally, on-the-ground trends in many property sectors remain steady, with solid demand and leasing continuing in residential, retail, industrial, and data centres.

Risks remain, with Citi identifying supply (sunbelt apartments, life science, and industrial), office leasing, pressure from costs/expenses, select tenant health concerns, and a slow transaction market.

Conviction Calls & Best Buys

Macquarie's update on the energy sector, published on Monday morning, suggests share prices for many in the sector seem too low.

The in-house, Houston-based sector strategist has upgraded WTI oil price forecasts to US$80.34/bbl in 2024 and US$68.75/bbl in 2025. The flipside is that spot LNG prices have been downgraded.

Macquarie's key picks in the larger upstream segment are Santos ((STO)), Beach Energy ((BPT)) and Karoon Energy ((KAR)).

In the mining sector, updated simultaneously, Macquarie analysts expressed their positive view on aluminium, nickel, lithium, met coal, and copper (not so for iron ore and thermal coal).

Large-caps favourites are South32 ((S32)) and Rio Tinto ((RIO)). The preference is for Northern Star ((NST)) over Newmont Corp ((NEM)) and Evolution Mining ((EVN)). Arcadium Lithium ((LTR)) and Mineral Resources ((MIN)) are preferred over Pilbara Minerals ((PLS)) and IGO Ltd ((IGO)).

Among mid-caps, Macquarie likes Sandfire Resources ((SFR)), Nickel Industries ((NIC)), Patriot Battery Metals ((PMT)), Coronado Global Resources ((CRN)), and Westgold Resources ((WGX)).

Among contractors and engineers, Macquarie's Outperform ratings are reserved for Worley ((WOR)), Ventia Services Group ((VNT)), Monadelphous ((MND)), Service Stream ((SSM)), and Maas Group ((MGH)).

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The team of **mining analysts at Morgan Stanley** has equally expressed its sector preferences. The following seven companies are rated Buy:

-Rio Tinto
-29Metals ((29M))
-Alumina Ltd ((AWC))
-South32
-Whitehaven Coal ((WHC))
-Regis Resources ((RRL))
-Deterra Royalties ((DRR))

Two companies are rated Underweight; Pilbara Minerals and Fortescue Metals ((FMG)).

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Morgan Stanley analysts continue to drip feed their post-February favourites among ASX-listed **small and mid-cap companies**. The number of Key Conviction Calls amounts to five so far:

-Accent Group ((AX1))
-Hub24 ((HUB))
-Johns Lyng Group ((JLG))
-Siteminder ((SDR))
-SG Fleet ((SGF))

****

Jarden's Key Picks, identified before the February results tsunami, delivered three winners and one disappointing outcome.

All of Temple & Webster ((TPW)), Lovisa Holdings ((LOV)) and Universal Store Holdings ((UNI)) saw their market updates rewarded through sharp share price increases, but Data#3 ((DTL)) failed to deliver.

Post season analysis has identified 16 Best Ideas from about 110 ex-ASX100 companies under the broker's coverage. Noteworthy: Temple & Webster, despite having experienced a 30% rally in the share price, remains the broker's Number One Favourite.

Other Key Picks include Lovisa, Siteminder, IDP Education ((IEL)) and Universal Store, as well as Inghams Group ((ING)), Light & Wonder ((LNW)) and NRW Holdings ((NWH)).

In the healthcare sector, Jarden likes Telix Pharmaceuticals ((TLX)) and Regis Healthcare ((REG)). Among REITs the Best Ideas have been identified as National Storage and Ingenia Communities Group. Energy & Mining delivers Karoon Energy and Capricorn Metals ((CMM)).

Other favourite picks are Domain Holdings Australia ((DHG)) and Pepper Money ((PPM)).

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Jarden's team of **healthcare analysts** currently has one Buy rating, reserved for Telix Pharmaceuticals, with Overweight ratings for CSL ((CSL)), ResMed ((RMD)), Regis Healthcare, and Aroa Biosurgery ((ARX)).

Healius ((HLS)) is the only stock carrying a Sell rating.

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Morgans has reviewed the **financial services sector** (financials ex-banks) which generated the following ranking (all are Add-rated, starting from the most preferred first):

QBE Insurance ((QBE)), Computershare ((CPU)), Suncorp Group ((SUN)), Generation Development ((GDG)), Challenger ((CGF)), Tyro Payments ((TYR)), MA Financial ((MAF)), and Kina Securities ((KSL)).

The broker's preferences inside **Technology, Media & Gaming** has seen a few changes post February. Technology favourites remain NextDC ((NXT)) and Objective Corp ((OCL)), with Ansarada ((AND)), currently under take-over interest, replaced with AI-Media Technologies ((AIM)).

Within the online and classifieds/media space, Seek ((SEK)) and Camplify Holdings ((CHL)) remain the broker's key picks. In gaming, Aristocrat Leisure ((ALL)) has been replaced with Jumbo Interactive ((JIN)).

In the **consumer discretionary** segment, Morgans' preference lays with Beacon Lighting Group ((BLX)), Lovisa, and Universal Store.

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UBS's Buy ratings among **consumer-oriented companies** include Endeavour Group ((EDV)), Metcash ((MTS)), Treasury Wine Estates ((TWE)), and Universal Store.

The two Sell ratings are reserved for Premier Investments ((PMV)) and Super Retail ((SUL)).

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Macquarie's number one **technology** stock on the ASX is Megaport ((MP1)).

Facts & Fiction About Gold

If there had been an official Top Ten list of most disappointing trading & investment ideas these past number of years, no doubt gold would have been nominated by many.

Look no further than the share price performance of global industry stalwarts Newmont Corp and Barrick Gold over the past five years or so. Those are truly ugly looking price charts, mostly heading in the wrong direction.

The situation for ASX-listed gold miners and explorers is more diverse, and a number of them have participated in the general equities rally from October lows, also carried by the recent rally in the price of gold bullion, but volatility overall has been exceptionally large.

Many an investor who's had the courage and the tenacity to stay on board these past number of years would be feeling bruised and brutalised, and not necessarily vindicated as of today.

As per usual, the devil hides in the details.

Gold bullion, typically priced in USD, has actually performed quite well. Total return for Global X's ETF GOLD has been 11.93% per annum over the past five years, and 7.99% p.a. over the past decade. In comparison, total return for the ASX200, including dividends but not franking, has been 8.75% over five years and 8.21% over ten.

And now for the Big Surprise: VanEck's Gold Miners ETF, which comprises of 53 internationally listed gold miners, mostly in Canada, the USA, Australia and South Africa, has only generated 5.51% per annum these past five years. As indicated, the return from many individual companies has been far, far worse.

Conclusion number one: the outlook for gold does not by definition equal the outlook for producers of the metal. This is one lesson that needs to be learned and re-learned by investors time and time again.

For good measure: there are times when the return from gold miners exceeds the performance of gold bullion; this usually occurs when gold is in favour, experiencing a bull market. Hence, the indication from gold miners underperforming the metal is gold has not been in a bull market these past number of years.

That makes sense as the USD price first reached above US$2000/oz during the early covid panic in 2020 and only recently, upon the third attempt, has the price of gold managed to surge away from it.

Here the irony is, of course, once the panic subsided and the worst of the global pandemic had been relegated to the past, the world economy was confronted with an outbreak of consumer goods inflation, which did not result in gold outperforming.

This would have been another Big Surprise to many: the ruling narrative is gold acts as a safeguard against inflation. But when inflation did announce itself, gold ducked for cover!

Let's get this straight: does gold act as a trade-off against inflation?

The short answer is: yes. But the correct answer is: not in the way many think it does.

And herein lies the apparent enigma surrounding gold. To most investors who buy into the narrative of gold protects wealth versus inflation, this means when inflation goes up, so too should follow the price of gold.

A detailed analysis of gold's behaviour in the past reveals that's simply not how it works.

Admittedly, when looking at gold's performance in the 1970s, for example, it seems, at *prima facie*, that's how gold protects against inflation. But the true driver, even back then, is the so-called ***real yield*** on US Treasuries. To determine that real yield, we simply compare inflation with the US bond yield.

In today's context, consumer price inflation in the US is trending down from circa 8% in early 2022 to an estimated below-3% later this year. If the Fed's projections prove correct, the CPI should be back around 2% in 2025. In the same respect, the yield on the US ten-year Treasury rallied to 5% last year, and is currently around 4.20%.

We don't have to consult a mathematical genius to see the real yield is now in positive territory; the CPI is trending below the ten-year yield. History suggests this is not a beneficial environment for gold. Bullion benefits most when the real yield is negative, i.e. when CPI exceeds the yield available on the US bond market.

But simply drawing such conclusion is to deny financial markets' foresight. Equities have been rallying on the prospect of central banks lowering their cash rates. It requires no stretch at all to assume gold too is already looking forward to official cash rates falling later in the year.

With lower cash rates and lower inflation numbers come lower bond yields, and also lower real rates as bond yields eventually fall more than inflation. This is the core projection expressed by Fed economists and many of their peers elsewhere.

In a slower-growing world economy, and that pathway on longer-term trendlines hasn't changed, the long-term equilibrium is estimated at circa 2% annualised inflation and bond yields at circa 2.50%.

This only leaves a real rate of 50bps at the equilibrium; well below the averages from the past. It's also not difficult to see how quickly the real rate can possibly shrink to zero again, or return in the negative.

A valuable lesson for investors: it's not what the numbers look like in the here and now that determines the outlook for a financial asset such as gold. It's the destination on the horizon that outweighs the present. When real rates move from positive to negative, that's when gold thrives. When a reasonably firm positive real rate is shrinking in size, i.e. falling towards zero, that's equally a positive for gold.

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The full list consists of:

-Accent Group ((AX1))
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Risk-On Bubble & Mid-Caps Outperformance

The term is, in my humble opinion, used too often, too quickly, and too easily these days, but fact remains US equities are now officially in 'bubble' territory.

That is, **Citi's proprietary bubble indicator** is signalling US equities are now in a bubble. But Citi investment strategists are not worried.

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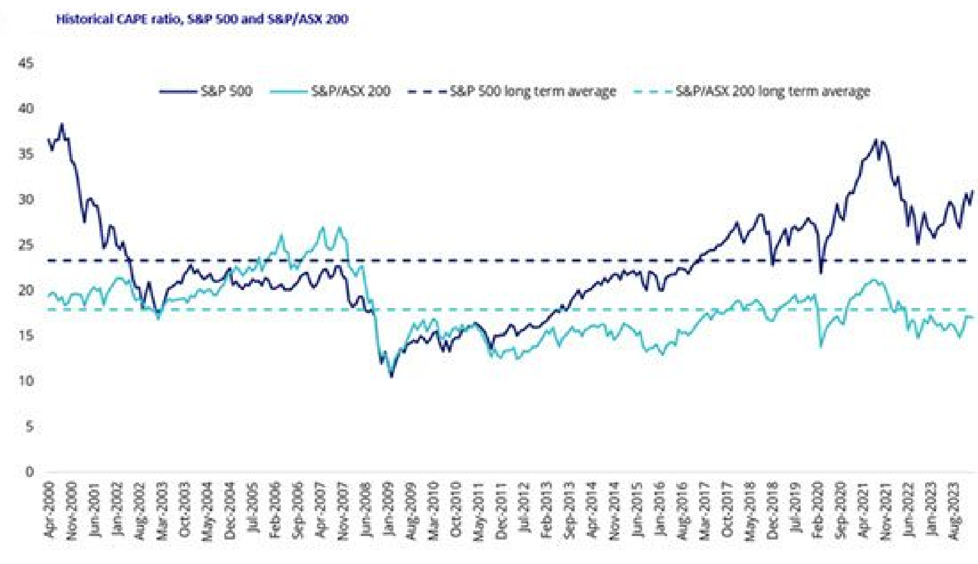

Source: Bloomberg, VanEck, S&P, to end of February 2024.

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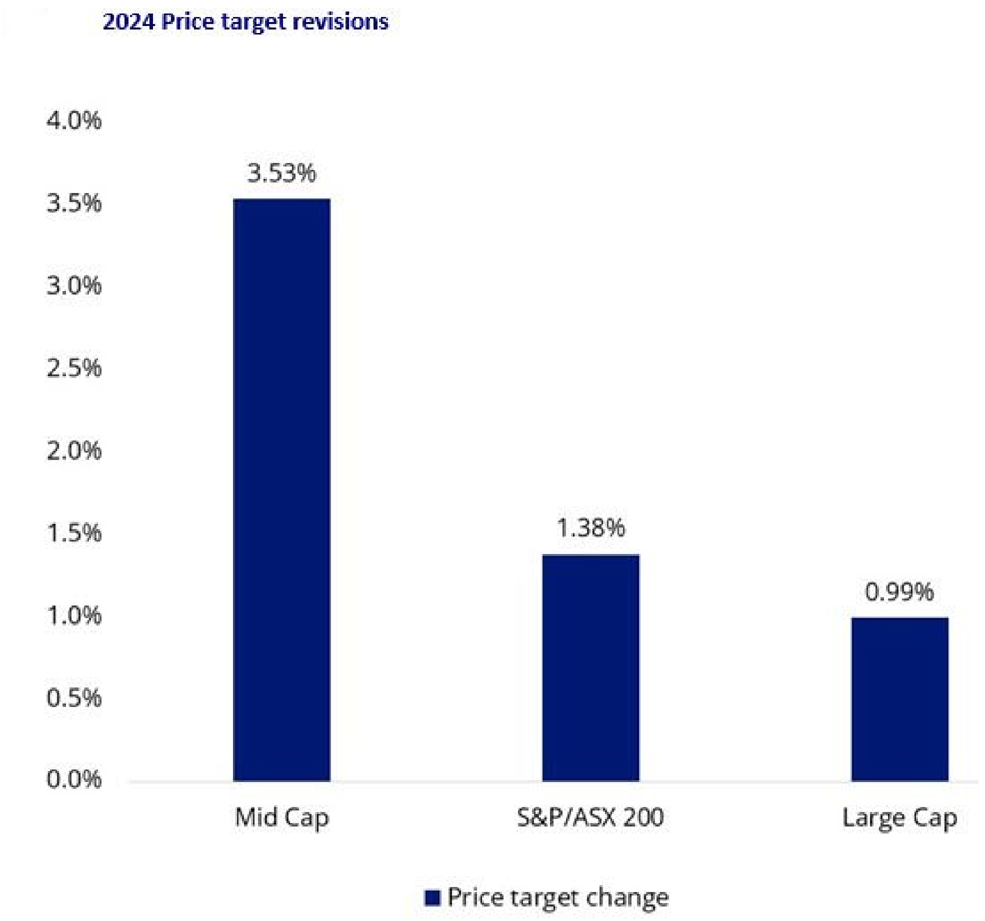

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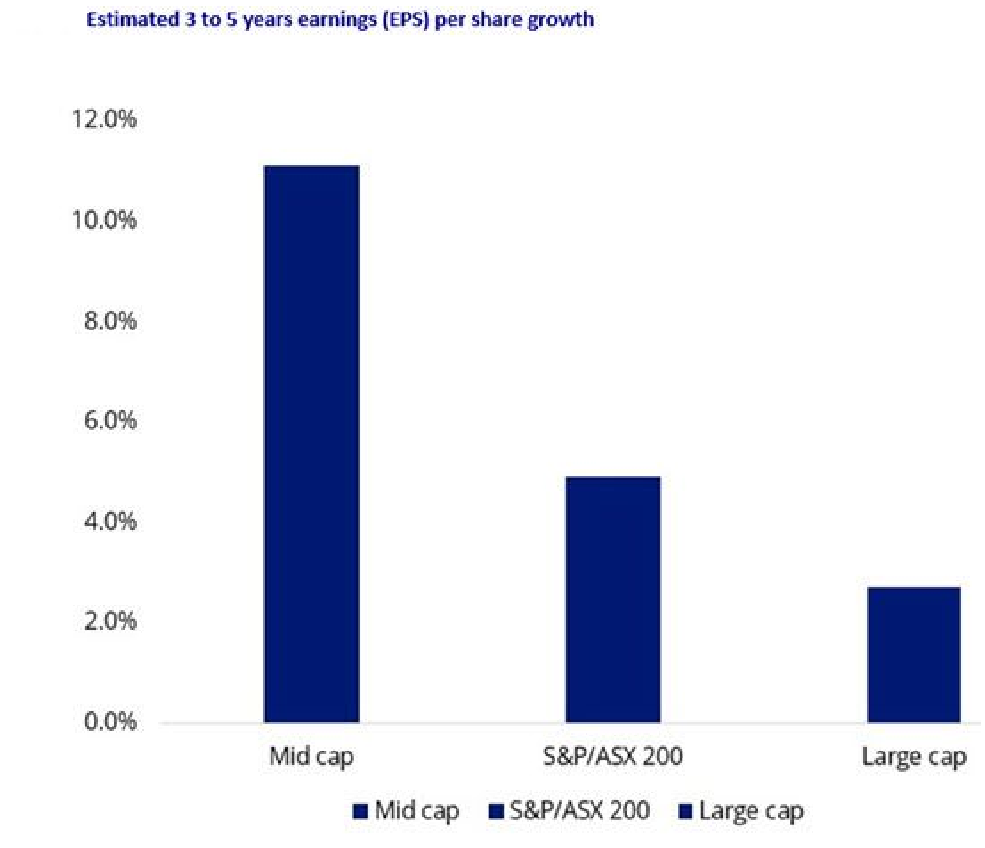

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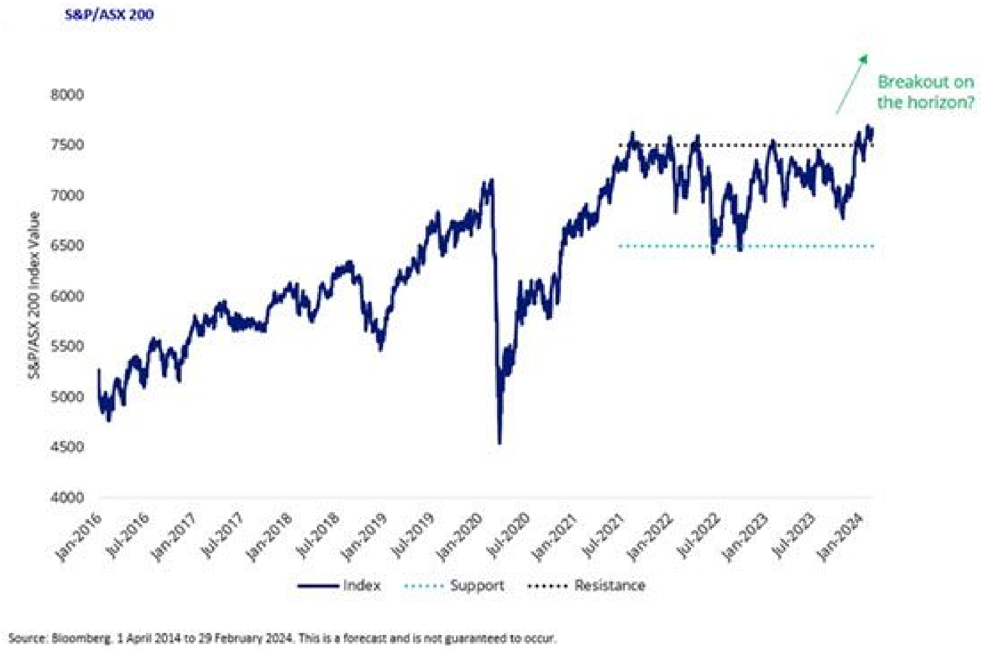
Whereas Australia's large cap stocks are trading above historical PE ratios, the mid caps are still trading at a discount to historical averages. This while the technical picture suggests the ASX200 might well be on the verge of the next break-out to the upside.



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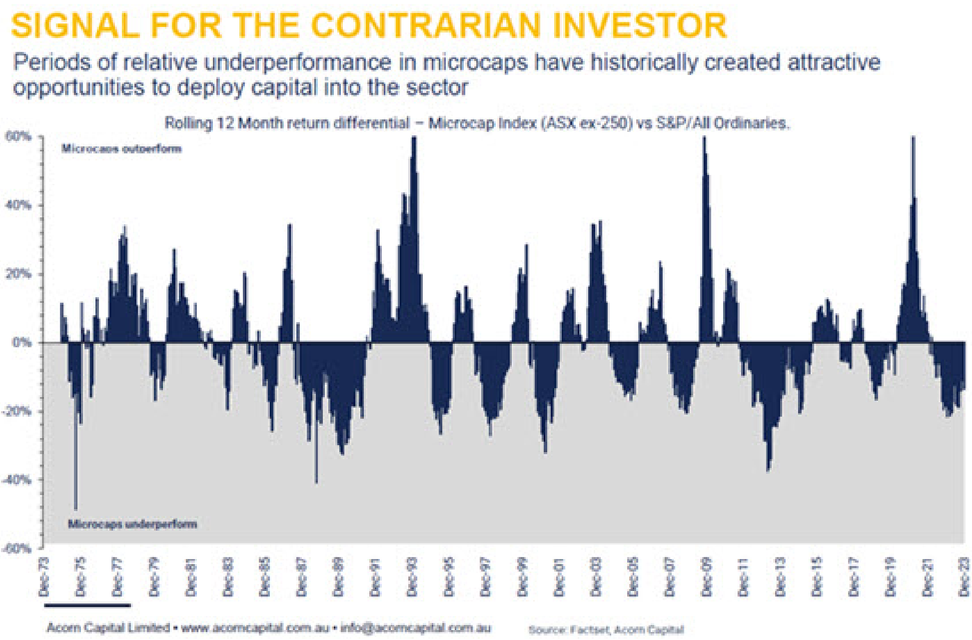
History also shows periods of severe underperformance tend to be followed by outperformance for smaller caps. The past two years have seen severe underperformance.



(Thanks to Affluence Funds Management to alert us to the Acorn Capital research).

Technical limitations

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RUDI'S VIEWS

Rudi's View: Facts & Fiction About Gold

In this week's Weekly Insights:

-Facts & Fiction About Gold
-Conviction Calls & Best Buys
-Risk-On Bubble & Mid-Caps Outperformance

By Rudi Filapek-Vandyck, Editor

Facts & Fiction About Gold

If there had been an official Top Ten list of most disappointing trading & investment ideas these past number of years, no doubt gold would have been nominated by many.

Look no further than the share price performance of global industry stalwarts Newmont Corp and Barrick Gold over the past five years or so. Those are truly ugly looking price charts, mostly heading in the wrong direction.

The situation for ASX-listed gold miners and explorers is more diverse, and a number of them have participated in the general equities rally from October lows, also carried by the recent rally in the price of gold bullion, but volatility overall has been exceptionally large.

Many an investor who's had the courage and the tenacity to stay on board these past number of years would be feeling bruised and brutalised, and not necessarily vindicated as of today.

As per usual, the devil hides in the details.

Gold bullion, typically priced in USD, has actually performed quite well. Total return for Global X's ETF GOLD has been 11.93% per annum over the past five years, and 7.99% p.a. over the past decade. In comparison, total return for the ASX200, including dividends but not franking, has been 8.75% over five years and 8.21% over ten.

And now for the Big Surprise: VanEck's Gold Miners ETF, which comprises of 53 internationally listed gold miners, mostly in Canada, the USA, Australia and South Africa, has only generated 5.51% per annum these past five years. As indicated, the return from many individual companies has been far, far worse.

Conclusion number one: the outlook for gold does not by definition equal the outlook for producers of the metal. This is one lesson that needs to be learned and re-learned by investors time and time again.

For good measure: there are times when the return from gold miners exceeds the performance of gold bullion; this usually occurs when gold is in favour, experiencing a bull market. Hence, the indication from gold miners underperforming the metal is gold has not been in a bull market these past number of years.

That makes sense as the USD price first reached above US$2000/oz during the early covid panic in 2020 and only recently, upon the third attempt, has the price of gold managed to surge away from it.

Here the irony is, of course, once the panic subsided and the worst of the global pandemic had been relegated to the past, the world economy was confronted with an outbreak of consumer goods inflation, which did not result in gold outperforming.

This would have been another Big Surprise to many: the ruling narrative is gold acts as a safeguard against inflation. But when inflation did announce itself, gold ducked for cover!

Let's get this straight: does gold act as a trade-off against inflation?

The short answer is: yes. But the correct answer is: not in the way many think it does.

And herein lies the apparent enigma surrounding gold. To most investors who buy into the narrative of gold protects wealth versus inflation, this means when inflation goes up, so too should follow the price of gold.

A detailed analysis of gold's behaviour in the past reveals that's simply not how it works.

Admittedly, when looking at gold's performance in the 1970s, for example, it seems, at *prima facie*, that's how gold protects against inflation. But the true driver, even back then, is the so-called ***real yield*** on US Treasuries. To determine that real yield, we simply compare inflation with the US bond yield.

In today's context, consumer price inflation in the US is trending down from circa 8% in early 2022 to an estimated below-3% later this year. If the Fed's projections prove correct, the CPI should be back around 2% in 2025. In the same respect, the yield on the US ten-year Treasury rallied to 5% last year, and is currently around 4.20%.

We don't have to consult a mathematical genius to see the real yield is now in positive territory; the CPI is trending below the ten-year yield. History suggests this is not a beneficial environment for gold. Bullion benefits most when the real yield is negative, i.e. when CPI exceeds the yield available on the US bond market.

But simply drawing such conclusion is to deny financial markets' foresight. Equities have been rallying on the prospect of central banks lowering their cash rates. It requires no stretch at all to assume gold too is already looking forward to official cash rates falling later in the year.

With lower cash rates and lower inflation numbers come lower bond yields, and also lower real rates as bond yields eventually fall more than inflation. This is the core projection expressed by Fed economists and many of their peers elsewhere.

In a slower-growing world economy, and that pathway on longer-term trendlines hasn't changed, the long-term equilibrium is estimated at circa 2% annualised inflation and bond yields at circa 2.50%.

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A valuable lesson for investors: it's not what the numbers look like in the here and now that determines the outlook for a financial asset such as gold. It's the destination on the horizon that outweighs the present. When real rates move from positive to negative, that's when gold thrives. When a reasonably firm positive real rate is shrinking in size, i.e. falling towards zero, that's equally a positive for gold.

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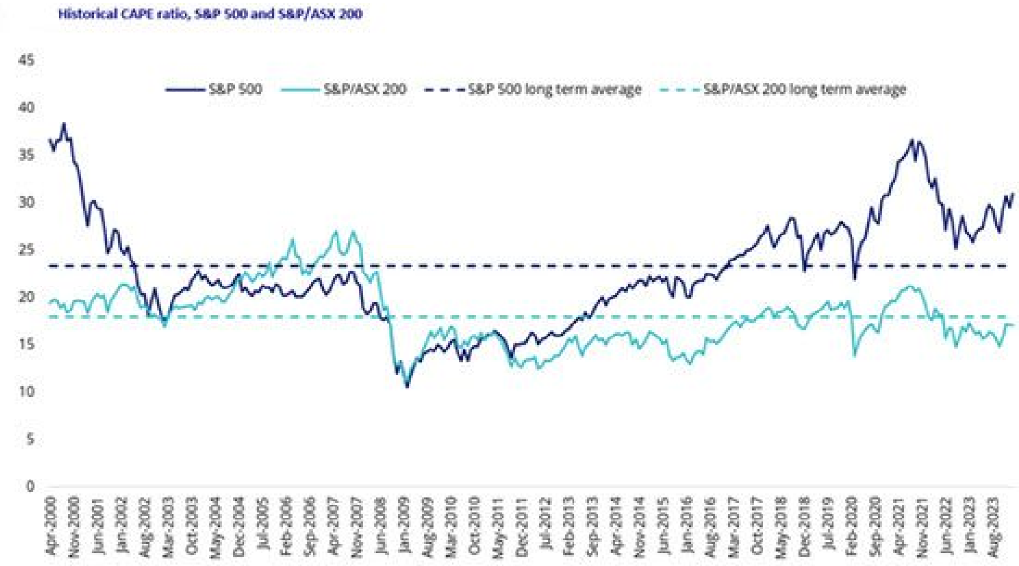

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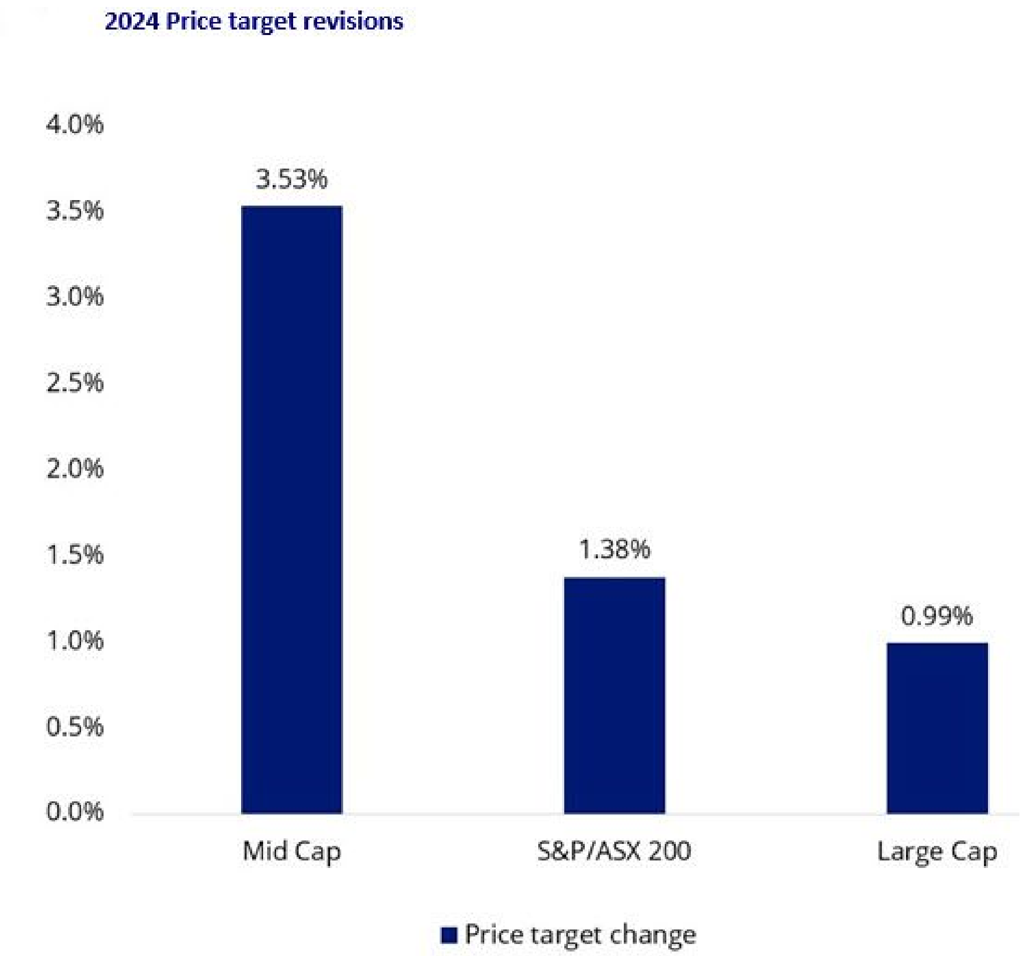

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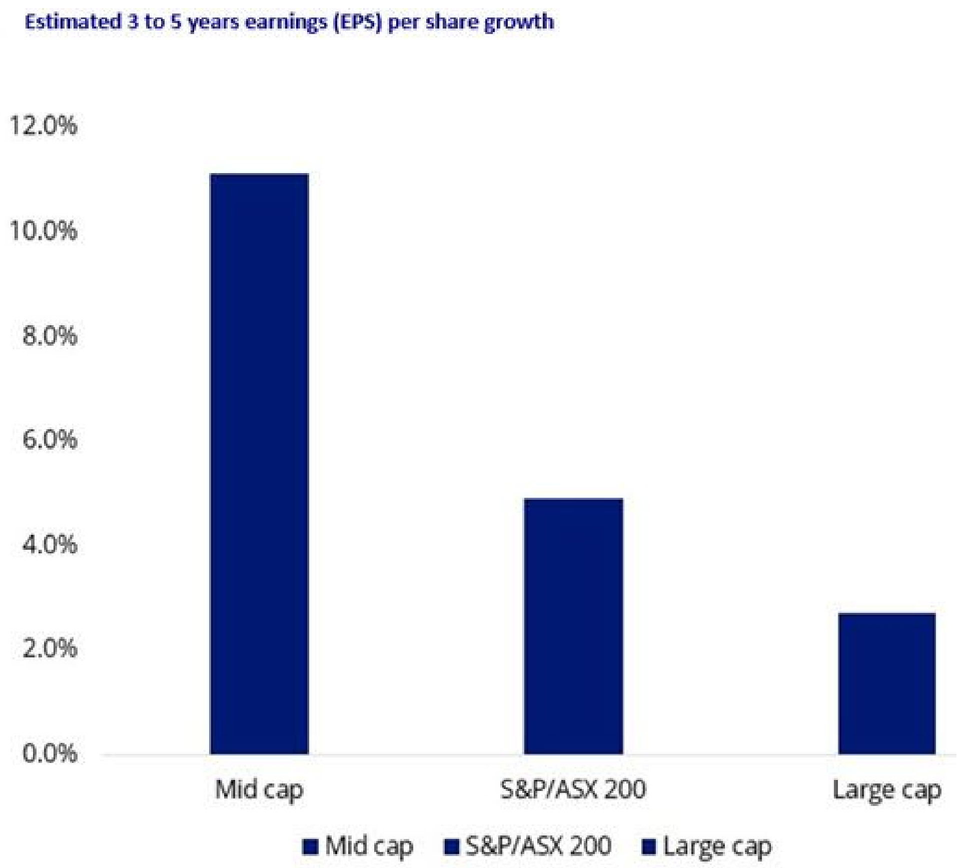

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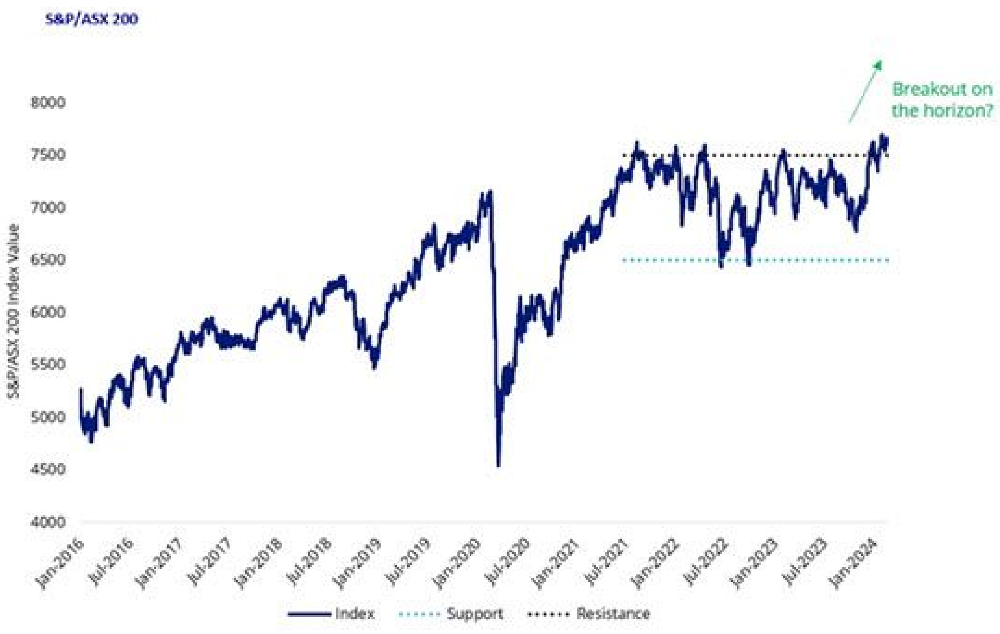

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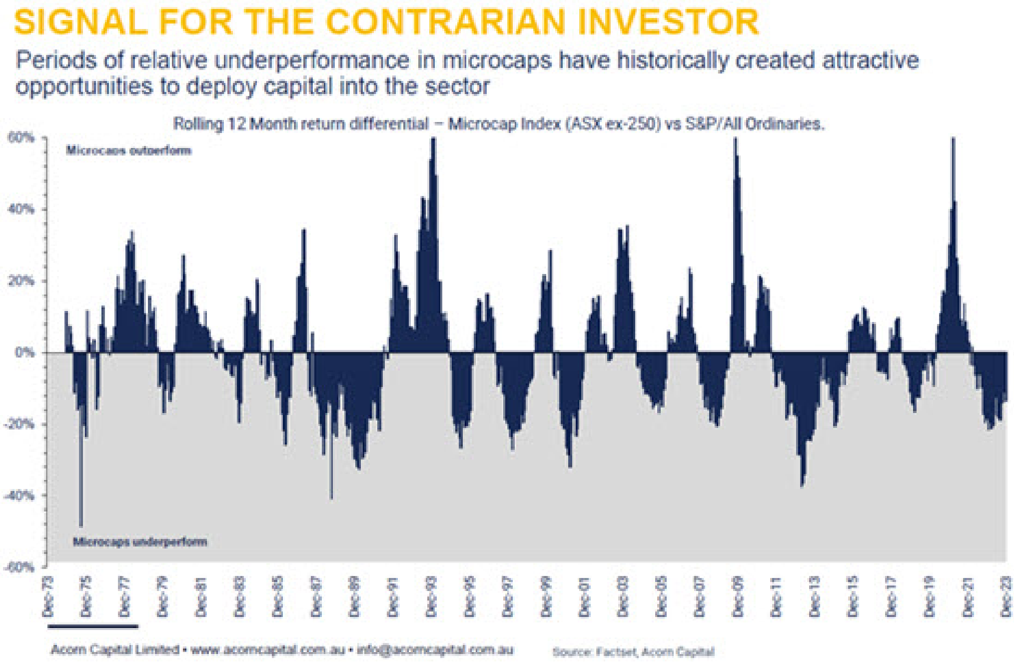

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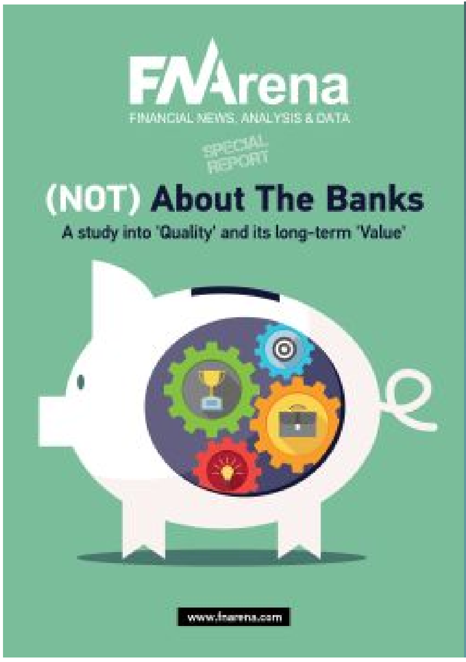

(This story was written on Monday, 25th March, 2024. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

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

SMALL CAPS

Dr Boreham's Crucible: Hydrix

By Tim Boreham, Editor

ASX code: ((HYD))

Market cap: $4.3m

Shares on issue: 254,218,847

Financials (December half 2023): revenue $5.97m (down -17.5%), loss of $3.82m (-$1.96m deficit previously), cash of $847,277 (down -73.5%)*

* After balance date the company entered a $1m loan agreement with directors Paul Lewis and Julie King, which is undrawn.

Executive chair: Gavin Coote

Board: Mr Coote, Julie King, Paul Lewis, Paul Wright

Identifiable major shareholders: John W King Nominees 10.3%, Pusen Medical Tech Australia 4.72%, Invia Custodian (the Paj account) 4.23%, Invia Custodian (the Paj Lewis super fund) 3.26%, Roger Allen and Maggie Gray 2.05%, Indigenous Capital 2.05%

The reception area of Hydrix's south eastern Melbourne HQ proudly displays a 'museum' of gadgets the medical device company has developed.

These include Memphasys' Felix sperm-separation tool, Universal Biosensor's multi-layer test strip handheld device, Analytica Medical's Pericoach pelvic floor exerciser and Sunshine Heart's C-Pulse implantable heart-assist device.

There's even a Bluetooth-enabled controller for Cochlear implants.

If space allowed the company could also have showcased Nanosonics' Trophon disinfectors, LBT Innovation's culture plate automation devices and Micro-X's portable x-ray device.

Deeper within the bowels of the building, an army of 40 scientists and engineers are beavering away on an array of hush-hush, early-stage projects.

Given their potential to revolutionise healthcare - especially cardiac care - they won't remain anonymous forever.

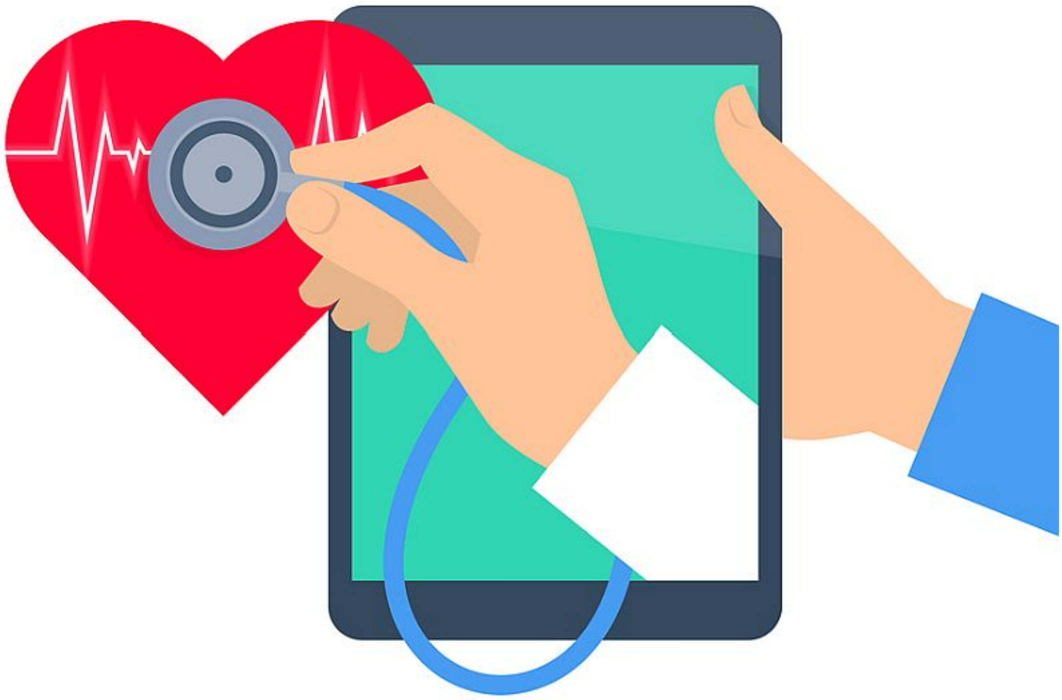
Executive chair Gavin Coote says Hydrix's remit is to design class-three medical devices that are vital for sustaining life.

Put another way, if they malfunction, they "could have severe consequences, including loss of life".

He says: "We help clients to bring world first technologies to market - the hard stuff that hasn't been done before."

Hydrix endured some lean years during the pandemic, with the company's shares losing three-quarters of their value over the last four years.

But Mr Coote says the company is enjoying a new lease of life after honing its strategy to focus on the cardiovascular sector.



Hyd-history

Hydrix began its listed life as Panorama Synergy, a tech tearaway that soared 4,000% in 2013 on the back of its micro-electromagnetic (MEMS) technologies.

In September 2017, the company acquired the private Hydrix Services, builder of the aforementioned medical devices as well as industrial and defence related systems.

Panorama changed its name to Hydrix - and its code from PSY to HYD - in November 2018.

A corporate wheeler and dealer, Mr Coote spent 12 years in the US and then returned to his native Australia, where he executed small business turnarounds for a Melbourne-based family office. Mr Coote became a Hydrix director in 2017 and then executive chair in January 2020.

While Hydrix Services remains the core revenue business for the business, Hydrix has also created Hydrix Medical to distribute disruptive cardiac devices.

Its third arm, Hydrix Ventures, invests in high-potential medical technology ventures for which the company has developed products.

Hydrix Medical

The medical division has three market-ready products with distribution rights:

In 2022-'23, the company signed agreements with two companies – France's Implicity and the ASX-listed Echo IQ ((EIQ)) - pertaining to cardiovascular health.

The Implicity product is an artificial intelligence (A.I.)-based remote patient monitoring and cardiac data management platform, enabling cardiology practices to keep tabs on devices including pacemakers, defibrillators, loop recorders and cardiac resynchronisers.

Because heart device makers such as Abbott and Medtronic have their own platforms, managing patients across different device brands is complex.

Unlike old Renaults, Implicity actually works.

Echo IQ's internet cloud-based Echosolv platform analyzes electro-cardiogram measurements, to improve the detection and diagnosis of structural heart diseases including aortic stenosis.

On a deeply pragmatic note, it helps clinicians to avoid litigation because of missed diagnoses.

The third product is Avertix (formerly Angel Medical) Guardian, the world's only real-time, implanted device to warn the wearer of an imminent heart attack (see below).

Hydrix Medical also plans to distribute a new outpatient ambulatory cardiac wearable patch device, which won local Therapeutic Goods Administration (TGA) approval last month.

While the medical division is in its infancy, management expects it to generate revenue within the next six to 12 months.

Keepin' it real

As a former systems engineering manager at Cochlear, Hydrix Services head Michael Trieu knows that novel devices will remain such if they are difficult to use.

For example, battery changing needs to be made easy for an 85-year-old user.

"It may be a great tech but if users can't use it adoption may never take off," he says. "Our … 'human factors' engineering and user experience design are capabilities we are very proud of."

While the services arm charges on an hourly fee basis, jobs are based on 'adaptive scoping'.

In other words, a project might last for five years or more so the company can't provide an up-front quote. Instead, the projects are costed over their various stages.

Hydrix has some likeness to the well-known, unlisted device developer Planet Innovation. A key difference is that Planet Innovation does contract manufacturing and does not focus on class-three devices.

Nothing Ventured, nothing gained …

Hydrix Ventures investments are:

* 14% in Gyder Surgical (a surgical navigation tool for hip replacement surgery);

* An approximate 4% stake in Cyban (non-invasive brain tissue continuous blood oxygen monitor); and

* Avertix Guardian.

Mr Coote expects Cyban and Gyder to obtain US Food and Drug Administration approval within the next 12 months. Both companies also aspire to list on the ASX.

"We want to invest in products that can be commercialised in less than five years and we are on track with that," he says.

Mr Coote says the division aims to help investee companies avoid the "valley of death" of a lack of seed funding.

"We are prepared to put our money where our mouths are and invest in them but we are also very selective about what we invest in," he says.

"We don't tend to do follow-on rounds, so there is a natural dilution. But we acquire at attractive valuations and are well placed to achieve returns of five times [on our investment] or more."

Avertix Medical Guardian

Avertix Medical Guardian is the world's only real-time, implanted device to warn the wearer of an imminent heart attack.

Like a pacemaker, the Guardian detects changes in the heart's electrical conductivity. These patients have had a coronary episode already, or have co-morbidities such as diabetes or dodgy kidneys.

Mr Coote says the heart device can detect a pending episode 40% better than patient-recognized symptoms alone. Almost half of attacks have no discernible symptoms - as shown by the premature 'dismissal' of cricket legend Shane Warne.

In March 2020, Hydrix acquired the exclusive Asia Pacific rights to distribute Guardian, owned by New Jersey's Avertix Medical (previously Angel Medical Systems).

Hydrix built the upgrades under a multi-million-dollar service agreement.

Guardian has been approved by the US FDA and also can be sold in other jurisdictions including Singapore, Malaysia, and Thailand.

In the US, a 1,000-patient trial was carried out to support the application, while 200 implants have been done commercially in the last 18 months.

Eight implants have been done in the Lion City (Singapore) but lack of reimbursement is a hurdle. The devices sell in the US for about US$10,000 and then there's US$10,000 to US$15,000 for the surgeon's toil and hospital costs.

Eight implants have been done in the Lion City, but lack of reimbursement is a hurdle.

In Australia meanwhile the TGA is yet to green-light the device, despite the FDA's imprimatur.

The company is seeking local approval for high-risk patients with comorbidities such as diabetes, obesity or renal issues.

Mr Coote says the TGAs stance is "incongruous with the rest of the world" but adds: "it is their jurisdiction and they can set the bar wherever they like."

Hydrix has also invested -US$1m for a 4.6% stake in Avertix Medical, paid in a mix of cash and services.

In October, Avertix canned Nasdaq plans and will stay private for the near term.

What's new?

The Hydrix HQ houses about a dozen projects being undertaken for fee-paying clients. While some of them look like improvised school projects, others are more advanced.

The Swedish-based Scandinavian Real Heart has contracted Hydrix to develop the control systems for a four-chamber artificial heart - a world first.

In December last year, Hydrix was also awarded a contract with a US based cardiac company to develop a next-gen version of their existing product.

Confidential projects include:

* a connected, wearable medical device for a large European-based company that will "disrupt the market";

* hardware and software design for a unique robot-assisted surgical application (for a US start-up); and

* a technology for controlling and driving a new type of intra-aortic ballon pump (for a European company)

Beyond cardiac medical technology, Hydrix is also involved in developing devices for orthopaedics, point-of-care diagnostics, drug delivery and traumatic brain injury monitoring.

Finances and performance

Hydrix's December half results were off the pace because of wages and inflation pressure and cautious customers.

Revenue shrunk -8% to $5.9m and the loss expanded to -$3.8m from -$1.96mn previously.

But Hydrix Services had an "increased level of customer activity, coupled with pricing and operational cost adjustments."

The company has guided to revenue of $12-$12.5m and cash breakeven status for the current year.

Overall, the company cites a record $300m potential revenue pipeline across 200 "opportunities", with "active discussions" accounting for $100m.

More tangibly, the company expects $30m of revenue from 14 clients already signed up.

"Two of Hydrix Ventures portfolio assets are making significant progress towards obtaining regulatory approvals, which could significantly increase net asset values in the 2024-'25 year," management chirps.

At December's end Hydrix had slender cash of $847,000. Post balance date, kindly directors Paul Lewis and Julie King agreed to lend $500,000 each, at a 10-11% interest rate.

There's also an available $1.1mn trade debt facility.

In late 2019, the company carried out a one-for-10 share consolidation.

Accounting for this, Hydrix shares have traded between 27c in November 2018 and its current lows.

Dr Boreham's diagnosis:

Mr Coote says: "We are not just a 'me-too' design and engineering firm. Our track record and capability in technologies are globally recognised."

In the meantime, investors have formed the view that Hydrix needs more funds - with the shares marked down accordingly.

It's some discount given the three ventures investments have a net value of $5.1m - more than the company's $4.3m market cap.

Meanwhile, cardiovascular disease is the leading cause of death in the world – accounting for about one-third of deaths.

"It is a large addressable market and it is not going away any time soon," Mr Coote says.

Disclosure: Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort.

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

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 22-03-24

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

By Mark Woodruff

Guide:

The FNArena database tabulates the views of eight major Australian and international stockbrokers: Citi, Bell Potter, Macquarie, Morgan Stanley, Morgans, Ord Minnett, Shaw and Partners 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 March 18 to Friday March 22, 2024
Total Upgrades: 6
Total Downgrades: 12
Net Ratings Breakdown: Buy 55.48%; Hold 35.37%; Sell 9.15%

For the week ending Friday March 22, 2024, FNArena recorded six rating upgrades and twelve downgrades for ASX-listed companies by brokers monitored daily.

The tables below show percentage upgrades by brokers to average earnings forecasts were larger than downgrades, while percentage upgrades to average target prices were only slightly greater than negative adjustments.

A third of the ratings downgrades, and several earnings and target price changes, related to resource companies after Macquarie updated earnings estimates across the sector.

The broker's iron ore and spodumene forecasts across 2026/27 were cut by -14/-27% and -10%/-29%, respectively, resulting in rating downgrades for BHP Group, Champion Iron, IGO Ltd and Pilbara Minerals.

Macquarie's 2024/25 forecasts for copper, gold, zinc and nickel were raised by 11%/4%, 4%/6% and 7%/5%, respectively. For the longer-term, alumina, zinc and copper forecasts were raised by 18%, 4% and 1%, respectively.

Overall, the broker holds an Underweight view for iron ore and thermal coal and an Overweight outlook for aluminium, nickel, lithium, copper, and metallurgical coal.

Sigma Healthcare headed up the earnings upgrade table after FY24 earnings came in at the top end of management's guidance range, though Macquarie noted these results were largely a sideshow when set against the ongoing reverse takeover by Chemist Warehouse Group.

While Sigma had been targeting a completion of the merger in the second half of 2024, a detailed review being undertaken by the ACCC has added to difficulties in determining a timeline, explained Citi.

According to Shaw and Partners, the valuation for Sigma is full, suggesting the market is treating ACCC approval as a foregone conclusion. This broker's rating was downgraded to Sell from Hold, while Morgans also downgraded to Hold from Add on valuation.

Life360 sits next on the earnings upgrade table after joining Morgan Stanley's list of stocks where the broker has high conviction for both earnings and the outlook, based on strong subscriber growth and upside from a potential new advertising stream.

Management recently announced an advertising offering for the non-paying user base of more than 50m monthly active users. The Life360 app not only has high-frequency usage but also highly affluent users, highlighted the broker.

Unlike subscriptions, the analysts pointed out advertising monetises users from the moment of sign-up, implying revenue generation for all new users straight away, as opposed to just those who choose to subscribe.

To gain additional views from other brokers on Life360, the reader may refer to an article penned last week (https://fnarena.com/index.php/2024/03/20/life360-growth-outlook-boosted-by-advertising/)

Brickworks also received a material upgrade to earnings forecasts last week.

While first half earnings declined across three of Brickworks' four operating segments, Ord Minnett envisaged longer-term upside, particularly via the Property segment due to demand for high-quality Industrial property. This segment is also expected to benefit from further increases in rental income in the medium term.

Management is bullish on the longer-term, believing Australia is on the verge of a property boom due to record immigration levels and population growth. It's felt the current "air pocket" for the Australian Building Products segment will last until the start of 2025, before migration and an under-supply of housing leads to a new demand cycle.

There are now two Buy recommendations for Brickworks in the FNArena database and four Hold (or equivalent) ratings after Bell Potter last week downgraded to Hold from Buy, on valuation.

Both Newmont Corp and Sandfire Resources were beneficiaries of Macquarie's higher 2024/25 forecasts for gold and copper mentioned above.

Newmont was assisted by higher gold leverage and copper exposure, while Sandfire is the broker's preferred key copper exposure, with the Motheo operations ramping-up on time and on budget.

From among Ord Minnett's research coverage of resources, Sandfire Resources and Evolution Mining are preferred on a near-term view, while AIC Mines and Aurelia Metals are seen as representing the best opportunities in the medium-term.

Last week, this broker pointed to a valuation disconnect between current equity trading for copper companies on the ASX and recent transactions multiples. It's thought investors will benefit as the disconnect unwinds and the appetite for small cap exposures improves.

The average target price for copper-focused base and precious metals mining company 29Metals increased by 13% last week, the highest jump in the FNArena database, after Macquarie raised its target to 54c from 29c on the the broker's changes to commodities prices forecasts.

As mentioned previously, Sigma Healthcare topped the earnings upgrade table. This company also featured second on the positive change to average target price list below.

Coming third on that list was Alumina Ltd, again assisted by Macquarie's new outlook for commodities, but also because Citi raised its target to $1.30 from $1.05 on the back of movement in Alcoa's share price. Alcoa is currently offering its own scrip under a take-over approach for full ownership of Alumina Ltd.

Turning to negative adjustments, here KMD Brands appeared atop the tables below for reductions in average earnings forecast and target price after brokers were (yet again) disappointed by first half results.

As the retailer has missed earnings expectations several times, Morgan Stanley now lacks confidence medium-term targets can be achieved. The near-term outlook for the Kathmandu brand is considered challenging due to past execution issues and a more competitive backdrop.

While earnings in the half were slightly better than UBS expected, as management pulled back on operating expenses, finance costs provided a nasty surprise, dragging the net profit below expectations. There was no interim dividend for shareholders.

The hand of Macquarie's commodity price changes was behind a material fall in average earnings forecast for Arcadium Lithium, though, prima facie, reduced earnings forecasts for De Grey Mining didn't appear to tally with Macquarie's higher gold price forecasts.

The Macquarie analyst explained the company's forecast earnings failed to benefit from near-term gold price upgrades (as De Grey is not yet in production) and suffered from a slightly lower gold price forecast in FY28.

The average earnings forecast for Nickel Mines fell by nearly -11% last week as management lowered first quarter earnings guidance to a range of between US$65-75m (down from US$137m) due to mining licence delays.

Bell Potter explained the Hengjaya mine in Indonesia was left unable to sell ore during January and much of February, as the company awaited renewal of its Rencana Kerja dan Anggaran Biaya mining licences.

These delays were driven, in part, by enhanced regulatory scrutiny arising from the recently completed Indonesian presidential elections, explained Macquarie.

Ore sales have recommenced at record rates, and Bell Potter declared any share price weakness off the back of the delayed licence news should be viewed by investors as a buying opportunity.

The second largest fall in average target price last week, behind KMD Brands, went to Southern Cross Media after Ord Minnett slashed its target to $1.20 from $1.70, and downgraded the rating to Accumulate from Buy.

Southern Cross has received a revised offer from ARN Media and Anchorage Capital Partners for the business, prompting Ord Minnett to alter its valuation for Southern Cross based on a reshuffle of probabilities for deal completion.

The broker ascribed a 75% likelihood of success, partly because the Southern Cross board has effectively capitulated and all but endorsed the revised offer. It's felt the resolve to fight the invaders is fading, as reflected by the fast-tracked retirement of the chairman and another director.

For those few remaining companies that reported results last week, the reader may refer to FNArena's daily Corporate Results Monitor (https://fnarena.com/index.php/reporting_season/)

The Monitor currently provides a summary of broker research on all companies that have reported results post February.

Total Buy ratings in the database comprise 55.48% of the total, versus 35.37% on Neutral/Hold, while Sell ratings account for the remaining 9.15%.

Upgrade

BAPCOR LIMITED ((BAP)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 2/4/0

Morgan Stanley has a more upbeat outlook for the consumer in Australia, citing positive jobs growth, lower taxes, migration, and flat interest rates that will eventually fall. All these tailwinds are relevant for the Bapcor outlook, note the analysts.

The rating is upgraded to Equal-weight from Underweight and the target increased to $5.75 from $5.00. Industry view: In-Line.

Given the 8% year-to-date share price rally for Bapcor, the broker believes the market is willing to forgive near-term earnings weakness and apply a more generous multiple.

The broker was not willing to upgrade all the way to Overweight due to a lack of conviction around near-term earnings and the growth trajectory.

BABY BUNTING GROUP LIMITED ((BBN)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 3/2/0

Morgan Stanley sees scope for a re-rating of Baby Bunting shares due to a better macroeconomic backdrop, accelerated technology adoption and a stronger, simpler customer value proposition. The latter includes a simplified loyalty program, note the analysts.

The broker upgrades its rating to Overweight from Equal-weight and increases the target to $2.20 from $1.65. Industry view: In Line.

Already the inventory position (a former headwind) has improved considerably, according to Morgan Stanley, and birth-rate indicators have turned positive.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Overweight from Equal-weight by Morgan Stanley .B/H/S: 5/0/0

Morgan Stanley upgrades its rating for Evolution Mining to Overweight from Equal-weight after raising the target price to $3.95 from $3.35. Industry view is Attractive.

From among the broker's coverage of the Gold sector, Evolution Mining has the largest upside to spot gold prices, aided by only around 5% of gold production being hedged. The company's implied gold price (around US$1,650/oz) is also the lowest under coverage.

Evolution's copper exposure (around 30-35% of Morgan Stanley's FY24 revenue forecast) could also benefit from current copper supply tightness, suggest the analysts.

ILUKA RESOURCES LIMITED ((ILU)) Upgrade to Neutral from Sell by UBS .B/H/S: 1/4/0

UBS raises its mineral sands price forecasts across 2024-26 by 6-12%, and also upgrades Iluka Resources' production capacity across the same period, resulting in EPS upgrades of 7%, 29% and 69%, respectively.

The broker's target rises by 12% to $7.50 and the rating is upgraded to Neutral from Sell.

By contrast, UBS lowers its neodymium and praseodymium (NdPr) price estimates by -18-30% across the curve and decreases the long-term forecast price to US$75/kg from US$95/kg.

The falling NdPr price has UBS questioning the value to Iluka of the company's Eneabba rare earth refinery project.

TECHNOLOGY ONE LIMITED ((TNE)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 1/5/0

Bell Potter is eagerly awaiting TechnologyOne's first half result in May, noting this will be the first result in a few years where the company's net revenue retention will not receive a boost from significant software as a service "flips".

With the company reporting a net revenue retention rate above 115% for each of the last two years, it will be interesting to see if it can maintain a similar result says Bell Potter, which would likely be well received by the market.

(Spoiler alert: the broker thinks the right answer is affirmative).

The rating is upgraded to Buy from Hold and the target price increases to $18.50 from $17.25.

WOOLWORTHS GROUP LIMITED ((WOW)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/2/2

Macquarie upgrades its rating on Woolworths Group to Outperform from Neutral, noting an opportunity for investors to build a position at current share price levels.

The broker believes investors will be rewarded for embracing regulatory uncertainty and buying ahead of six regulatory inquiries into Australian supermarkets over 2024, the impacts of which are likely reflected in valuations already.

The target is reduced by -3% to $35. Macquarie believes the key risk is potential for increased working capital from enforced changes to invoicing practices.

Downgrade

ARAFURA RARE EARTHS LIMITED ((ARU)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 0/1/0

The Australian government has approved up to US$533m in funding to Arafura Rare Earths through debt facilties. As per Bell Potter, this includes the previously announced $350m alongside additional facilities intended for the ramp up and cost overruns at Nolans.

The broker feels funding risks remain for Arafura Rare Earths, and despite the new facilities providing support expects more is needed to get the project up and runnings. As of late December, the broker had estimated $1.83bn was needed in funding to advance Nolans.

The company remains comitted to completing financing in the third quarter, but Bell Potter considers it more likely this will run into the fourth quarter.

The rating is downgraded to Hold from Buy and the target price of 19 cents is retained.

BHP GROUP LIMITED ((BHP)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/5/0

Macquarie updates resource company earnings estimates after raising 2024/25 forecasts for copper, gold, zinc and nickel by 11%/4%, 4%/6% and 7%/5%, respectively.

The broker's iron ore and spodumene forecasts across 2026/27 were cut by -14/-27% and -10%/-29%, respectively. For the longer-term, alumina, zinc and copper forecasts were raised by 18%, 4% and 1%, respectively.

Macquarie holds an Underweight view for iron ore and thermal coal and an Overweight outlook for aluminium, nickel, lithium, copper and metallurgical coal.

The broker's rating for BHP Group is downgraded to Neutral from Outperform after earnings forecasts across FY26/27 are reduced by -9% and -24%, respectively. The target falls to $42 from $48. South32 and Rio Tinto preferred among the large cap exposures.

BRICKWORKS LIMITED ((BKW)) Downgrade to Hold from Buy by Bell Potter .B/H/S: 2/4/0

Bell Potter has described a 'robust' first half from Brickworks, despite the company reporting a -$23.4m loss. This was partly due to the sale of the M7 property hub, which incurred a -$16.3m loss at the earnings line but also saw net debt reduce by -$27m.

As per the broker, the remaining 130 square kilometres of the Oakdale West development is set to be completed in the second half, potentially adding $30m to rents over the next 12-24 months, while recent approvals linked to Oakdale West represent a key milestone.

The rating is downgraded to Hold from Buy and the target price increases to $29.00 from $27.80.

CHAMPION IRON LIMITED ((CIA)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/1/0

Macquarie updates resource company earnings estimates after raising 2024/25 forecasts for copper, gold, zinc and nickel by 11%/4%, 4%/6% and 7%/5%, respectively.

The broker's iron ore and spodumene forecasts across 2026/27 were cut by -14/-27% and -10%/-29%, respectively. For the longer-term, alumina, zinc and copper forecasts were raised by 18%, 4% and 1%, respectively.

Macquarie holds an Underweight view for iron ore and thermal coal and an Overweight outlook for aluminium, nickel, lithium, copper and metallurgical coal.

The target for Champion Iron falls by -18% to $7.50 and the rating is downgraded to Neutral from Outperform.

IGO LIMITED ((IGO)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/3/0

Macquarie updates resource company earnings estimates after raising 2024/25 forecasts for copper, gold, zinc and nickel by 11%/4%, 4%/6% and 7%/5%, respectively.

The broker's iron ore and spodumene forecasts across 2026/27 were cut by -14/-27% and -10%/-29%, respectively. For the longer-term, alumina, zinc and copper forecasts were raised by 18%, 4% and 1%, respectively.

Macquarie holds an Underweight view for iron ore and thermal coal and an Overweight outlook for aluminium, nickel, lithium, copper and metallurgical coal.

For lithium, the broker prefers Arcadium Lithium and Mineral Resources over Pilbara Minerals and IGO.

The broker's earnings forecasts for IGO are lowered by -3-40% across FY26-28 due to the lower lithium price outlook. The rating is downgraded to Neutral from Outperform and the target falls to $7.90 from $8.60.

PILBARA MINERALS LIMITED ((PLS)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/3

Macquarie updates resource company earnings estimates after raising 2024/25 forecasts for copper, gold, zinc and nickel by 11%/4%, 4%/6% and 7%/5%, respectively.

The broker's iron ore and spodumene forecasts across 2026/27 were cut by -14/-27% and -10%/-29%, respectively. For the longer-term, alumina, zinc and copper forecasts were raised by 18%, 4% and 1%, respectively.

Macquarie holds an Underweight view for iron ore and thermal coal and an Overweight outlook for aluminium, nickel, lithium, copper and metallurgical coal.

For lithium, the broker prefers Arcadium Lithium and Mineral Resources over Pilbara Minerals and IGO.

While management at Pilbara Minerals has executed well, in Macquarie's view, the current premium valuation restricts further upside giving the broker's pricing outlook.

The rating is downgraded to Neutral from Outperform and the target lowered to $4.20 from $4.40.

SIGMA HEALTHCARE LIMITED ((SIG)) Downgrade to Hold from Add by Morgans and Downgrade to Sell from Hold by Shaw and Partners.B/H/S: 0/4/2

Excluding merger-related costs of -$8.2m, Sigma Healthcare's FY24 result (January year-end) revealed earnings (EBIT) at the top end of the guidance range, observes Morgans.

The broker doesn't anticipate full completion of the merger transaction until the end of 2024/beginning of 2025 and incorporates Chemist Warehouse Group forecasts from January 31, 2025. After a roll-forward of the financial model, the target rises to $1.14 from $1.07.

The broker's rating is downgraded to Hold from Add.

Shaw and Partners assesses "solid" FY24 results for Sigma Healthcare with revenue beating the broker's forecast by 5.3%.

The broker attributes a -9.2% revenue fall, versus the previous corresponding period, to reduced rapid antigen test (RAT) sales and the sale of the Hospitals business, partially offset by wholesale revenue growth.

The valuation for Sigma is full, and suggests to the analyst the market is treating ACCC approval for the Chemist Warehouse Group transaction as a foregone conclusion. The rating is downgraded to Sell from Hold.

The target rises to $1.00 from 90c, well below the current share price, highlights Shaw and Partners.

STRIKE ENERGY LIMITED ((STX)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 1/2/0

Ord Minnett considers Strike Energy's plans ambitious, particularly for a company of its size and with no earnings history.

Having raised nearly $200m in equity over the last decade, Strike Energy has amassed a net 1,022 petajoules of gas reserves and resources within the Perth basin. For Ord Minnett, the key question now is how well the company will be able to monetise this position.

The rating is downgraded to Hold from Accumulate and the target price increases to 26 cents from 22 cents.

SOUTHERN CROSS MEDIA GROUP LIMITED ((SXL)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 1/2/1

Ord Minnett has reweighted its valuation estimate now the Southern Cross Media board has received a revised offer from ARN Media/Anchorage for the business, still including a 25% probability of the deal falling through.

The fair value estimate has been cut to $1.20 from $1.70. The rating moves to Accumulate from Buy.

TABCORP HOLDINGS LIMITED ((TAH)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 4/1/0

The resignation of Tabcorp Holdings' CEO, despite its immediate nature and the fact it has emerged during an investigation into allegations of inappropriate and offensive language being used in the workplace, has had no impact on Ord Minnett's outlook for the company.

The broker feels the market has become overly concerned by this departure, noting it is related to personal behaviour rather than any mismanagement or business performance.

The rating is downgraded to Accumulate from Buy and the target price of $1.05 is retained.

WEBJET LIMITED ((WEB)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 5/2/0

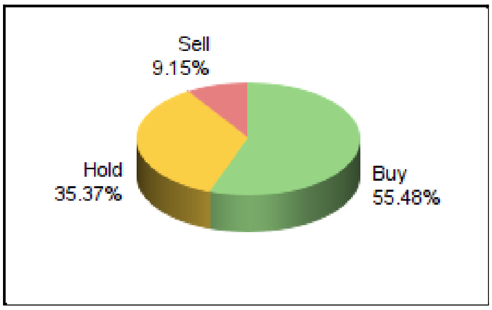
At Webjet's investor day, management set a FY25 target for total transaction value (TTV) of circa $5bn, and $10bn for FY30, while earnings (EBITDA) margins are expected to stay around 50%.

These targets imply to Macquarie an around 15% compound annual growth rate (CAGR) over FY25-30 and earnings margins
remaining stable - they were 49.5% in FY23.

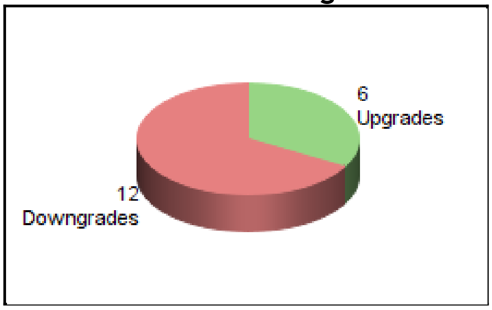
Management reaffirmed FY24 guidance for underlying earnings and TTV.

As the share price is approaching the broker's $8.88 target, up from $8.37, the rating falls to Neutral from Outperform.

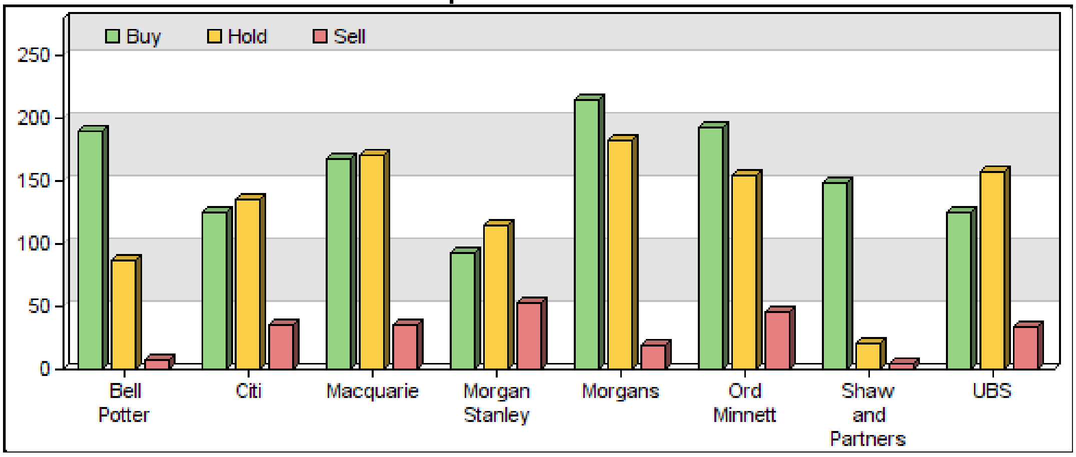
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	BABY BUNTING GROUP LIMITED	Buy	Neutral	Morgan Stanley
2	BAPCOR LIMITED	Neutral	Sell	Morgan Stanley
3	EVOLUTION MINING LIMITED	Buy	Neutral	Morgan Stanley
4	ILUKA RESOURCES LIMITED	Neutral	Sell	UBS
5	TECHNOLOGY ONE LIMITED	Buy	Neutral	Bell Potter
6	WOOLWORTHS GROUP LIMITED	Buy	Neutral	Macquarie
Downgrade				
7	ARAFURA RARE EARTHS LIMITED	Neutral	Buy	Bell Potter
8	BHP GROUP LIMITED	Neutral	Buy	Macquarie
9	BRICKWORKS LIMITED	Neutral	Buy	Bell Potter
10	CHAMPION IRON LIMITED	Neutral	Buy	Macquarie
11	IGO LIMITED	Neutral	Buy	Macquarie
12	PILBARA MINERALS LIMITED	Neutral	Buy	Macquarie
13	SIGMA HEALTHCARE LIMITED	Neutral	Buy	Morgans
14	SIGMA HEALTHCARE LIMITED	Sell	Neutral	Shaw and Partners
15	SOUTHERN CROSS MEDIA GROUP LIMITED	Buy	Buy	Ord Minnett
16	STRIKE ENERGY LIMITED	Neutral	Buy	Ord Minnett
17	TABCORP HOLDINGS LIMITED	Buy	Buy	Ord Minnett
18	WEBJET LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	29M	29METALS LIMITED	0.467	0.413	13.08%	3
2	SIG	SIGMA HEALTHCARE LIMITED	1.060	0.957	10.76%	6
3	AWC	ALUMINA LIMITED	1.215	1.103	10.15%	4
4	WEB	WEBJET LIMITED	9.227	8.451	9.18%	7
5	BKW	BRICKWORKS LIMITED	30.467	28.208	8.01%	6
6	PMV	PREMIER INVESTMENTS LIMITED	26.900	25.600	5.08%	5

7	BBN	BABY BUNTING GROUP LIMITED	1.930	1.840	4.89%	5
8	LTR	LIONTOWN RESOURCES LIMITED	1.290	1.230	4.88%	5
9	GQG	GQG PARTNERS INC	2.525	2.420	4.34%	4
10	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	1.777	1.717	3.49%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	KMD	KMD BRANDS LIMITED	0.530	0.635	-16.54%	3
2	SXL	SOUTHERN CROSS MEDIA GROUP LIMITED	0.950	1.075	-11.63%	4
3	STX	STRIKE ENERGY LIMITED	0.263	0.277	-5.05%	3
4	LYC	LYNAS RARE EARTHS LIMITED	6.560	6.880	-4.65%	5
5	LTM	ARCADIUM LITHIUM PLC	10.133	10.467	-3.19%	3
6	FMG	FORTESCUE LIMITED	20.701	21.273	-2.69%	7
7	CRN	CORONADO GLOBAL RESOURCES INC	1.810	1.850	-2.16%	5
8	DEG	DE GREY MINING LIMITED	1.700	1.733	-1.90%	3
9	IGO	IGO LIMITED	7.690	7.830	-1.79%	5
10	BHP	BHP GROUP LIMITED	45.058	45.725	-1.46%	6

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	SIG	SIGMA HEALTHCARE LIMITED	1.620	0.650	149.23%	6
2	360	LIFE360 INC	3.748	1.722	117.65%	3
3	BKW	BRICKWORKS LIMITED	20.017	14.080	42.17%	6
4	NEM	NEWMONT CORPORATION REGISTERED	305.055	248.031	22.99%	3
5	SFR	SANDFIRE RESOURCES LIMITED	-5.014	-6.319	20.65%	6
6	RRL	REGIS RESOURCES LIMITED	4.150	3.567	16.34%	6
7	29M	29METALS LIMITED	-10.667	-12.633	15.56%	3
8	GOR	GOLD ROAD RESOURCES LIMITED	9.825	9.250	6.22%	4
9	NHC	NEW HOPE CORPORATION LIMITED	61.525	58.050	5.99%	4
10	CRN	CORONADO GLOBAL RESOURCES INC	27.961	26.465	5.65%	5

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	KMD	KMD BRANDS LIMITED	2.349	4.451	-47.23%	3
2	LTM	ARCADIUM LITHIUM PLC	33.533	57.067	-41.24%	3
3	DEG	DE GREY MINING LIMITED	-0.750	-0.650	-15.38%	3
4	NIC	NICKEL INDUSTRIES LIMITED	7.335	8.203	-10.58%	3
5	BHP	BHP GROUP LIMITED	404.189	432.896	-6.63%	6
6	BBN	BABY BUNTING GROUP LIMITED	8.460	8.660	-2.31%	5
7	WEB	WEBJET LIMITED	30.886	31.557	-2.13%	7
8	LLC	LENDLEASE GROUP	52.825	53.575	-1.40%	3
9	LTR	LIONTOWN RESOURCES LIMITED	-1.726	-1.706	-1.17%	5
10	COH	COCHLEAR LIMITED	601.500	605.433	-0.65%	6

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Politics Dominates

The uranium market remains in a state of uncertainty, awaiting geopolitical developments.

-Still no US sanctions of Russian uranium imports
-EU and others push nuclear power
-Spot price recovers slightly

By Greg Peel

Geopolitical news continues to dominate the uranium market.

Last week the Republic of Niger announced it intends to terminate its military cooperation agreement with the US, which has a large military base in Niger. It remains unclear if a withdrawal of US troops will be required by Niger, as the US military base is used to patrol a larger section of the Sahel region beyond Niger's borders.

Both Global Atomic Corp and GoviEx Uranium, which each operates a uranium project in Niger, released statements indicating this action would not hinder their ongoing mining efforts.

In the US, Congress yet again passed an eleventh hour budget bill on Friday to stave off a government shutdown. The bill did not include any sanctions on US imports of Russian nuclear fuel. This leaves the nuclear fuel market unsettled, industry consultant TradeTech notes, since there remains wide bipartisan support for sanctions.

But while shipments of Russian nuclear fuel into the US have not been sanctioned, logistics with shipping and deliveries continue to present challenges for market participants.

Last week a shipment of Russian enriched uranium destined for Baltimore made a routine stop in a German port for operational issues but has not yet been given permission to depart. German authorities are holding the shipment due to the presence of plywood onboard which is used for ballast, which is on the list of products sanctioned by the EU.

These developments did bring back some buying interest in the spot uranium market early last week, although the market went quiet again towards the end of the week.

Having fallen -US$7 the week before, last week TradeTech's weekly spot price indicator rose US$2.00 to US$88.00/lb.

Term price indicators remain at US$100/lb (mid-term) and US$75/lb (long).

[dianomi_video]

EU-Plus

Brussels hosted the first-ever Nuclear Energy Summit last week as global leaders met to discuss how nuclear power can help drive sustainable development.

The Summit focused on nuclear energy, and the 34 nations, including the US, China and Saudi Arabia, committed to work to unlock the potential of nuclear energy by supporting the competitive financing of lifetime extension of existing nuclear reactors, construction of new nuclear power plants, and early deployment of advanced reactors.

The Summit follows the historic inclusion of nuclear energy in the Global Stocktake agreed at the UN Climate Conference (COP28) in Dubai in December, which called for accelerating nuclear energy's deployment along with other low-carbon energy sources.

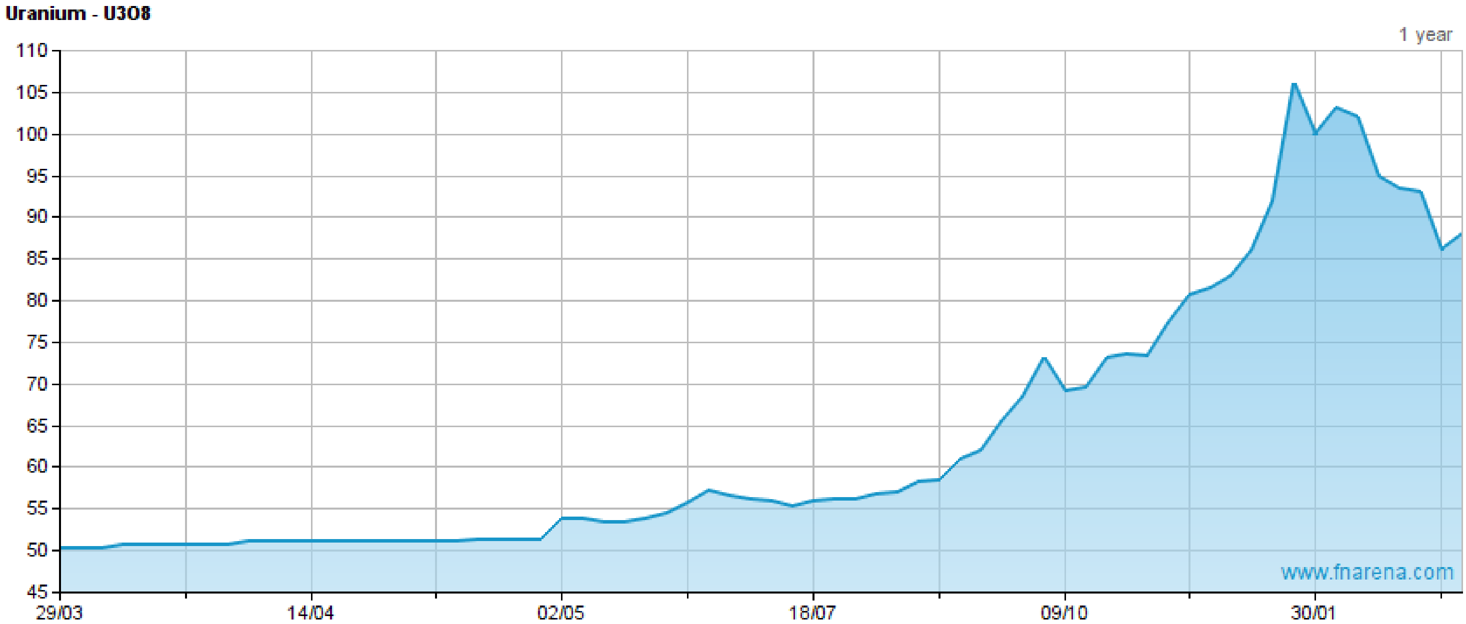
Bannerman Resources

Australian-listed Bannerman Resources ((BMN)) has completed a Scoping Study that has evaluated future higher throughput and operating life cases for its flagship Etango uranium project in Namibia.

Bannerman is currently advancing Front End Engineering and Design (FEED), offtake marketing, and strategic financing workstreams on its base-case 8 Mtpa Etango development, which was the subject of a Definitive Feasibility Study. Bannerman noted it remains fully committed to the timely development of Etango-8 as a standalone project.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	25/03/2024	0.1100	▼- 8.33%	$0.19	$0.05			
AGE	25/03/2024	0.0560	▲ 1.82%	$0.08	$0.03		$0.100	▲78.6%
BKY	25/03/2024	0.2900	▼- 4.92%	$0.80	$0.26			
BMN	25/03/2024	3.6700	▲14.69%	$3.99	$1.19		$7.040	▲91.8%
BOE	25/03/2024	4.9100	▲ 1.87%	$6.12	$2.21	101.2	$5.697	▲16.0%
DYL	25/03/2024	1.3650	▲11.43%	$1.76	$0.48		$1.770	▲29.7%
EL8	25/03/2024	0.4800	▼- 2.04%	$0.68	$0.27			
ERA	25/03/2024	0.0590	▲20.41%	$0.21	$0.03			
LOT	25/03/2024	0.4200	▲ 5.00%	$0.44	$0.17		$0.610	▲45.2%
NXG	25/03/2024	11.9800	▲ 6.49%	$12.99	$5.16		$17.500	▲46.1%
PDN	25/03/2024	1.4150	▲13.20%	$1.46	$0.52	409.4	$1.513	▲6.9%
PEN	25/03/2024	0.1150	▼- 8.00%	$0.20	$0.08		$0.340	▲195.7%
SLX	25/03/2024	4.8300	▲ 5.92%	$5.78	$2.92		$7.600	▲57.3%



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

WEEKLY REPORTS

In Brief: M&A Beneficiaries, Retail, Optus, World Trade & Mortgage Stress

Rising global capital markets activity; preferences within retail; impact from potential Optus takeover; resilient world trade; and mortgage stress.

-M&A awakens. Who's to benefit most?
-Changing dynamics changing the retail sector
-The likely impacts from a potential Optus takeover
-Low point for the global economy, world trade resilient
-Mortgage stress rises, but employment remains strong

By Mark Woodruff

ASX Beneficiaries from a rebound in M&A activity

M&A activity has picked up over the last two quarters, and Morgan Stanley predicts a 50% recovery in global M&A volumes in 2024, driven by both cyclical and structural factors.

While global capital markets activity is at near three-decade lows relative to nominal GDP, a rebound is expected to kick off this year and build momentum through 2025 and 2026.

The "M&A drought" will end in Australia and Europe, suggest the analysts, while Japan continues a structural shift towards greater corporate activity.

In Australia, M&A transactions have reverted to below normal conditions for the period pre-2021, according to Morgan Stanley, with 2023 in particular exhibiting far more muted deal activity.

Leading the activity charge will be M&A and debt capital markets, according to the broker, with emerging capital markets to follow.

Within Morgan Stanley research coverage of Australian Financials, Macquarie Group ((MQG)) and Computershare ((CPU)) are seen as the main beneficiaries of a recovery in global M&A activity. Macquarie has more leverage given its potential for gains on sale and revenue via performance fees, on top of M&A advisory fees.

Both Computershare and the ASX ((ASX)) are potential beneficiaries from a recovery in the broader capital markets but each comes with baggage.

While Computershare is unique in having leverage to a recovery in activity for debt capital markets in the US (which is happening faster than M&A completions), the broker explains a headwind will arise from lower margin income as US interest rates fall.

For the ASX, M&A on its own could be a negative for total revenues, as it could lead to fewer listed companies, caution the analysts. Instead, this company specifically needs a recovery in the Australian IPO and emerging capital markets, as well a recovery in volumes for equities and interest rates futures trading.

The analysts maintain an Underweight rating for the ASX and currently have no rating for Computershare.

The clear winner from increased M&A activity is Overweight-rated Macquarie Group, with Morgan Stanley suggesting consensus is missing operating leverage from the expected revenue recovery. The broker's target is raised to $225 from $202.

A different perspective on retailing

The time has come to use FY24 as the base for forecasting the outlook for stocks in the A&NZ Retail sector, according to Citi, as opposed to ongoing comparisons made to either FY19 or the "pre-covid" period.

The analysts point out FY19 is an inappropriate benchmark for comparison given poor sales growth for the Discretionary sector in that financial year compared to prior years, particularly for household goods.

Plus consumer behaviour, businesses and categories have evolved since then.

Consumers are now allocating a materially higher share of wallet to clothing and footwear, recreational goods and household goods categories, with JB Hi Fi ((JBH)) and Kmart ((WES)) taking significant market share, explains the broker.

A lower share of spending on tobacco also hurts the Metcash ((MTS)) Food business relatively more than Coles Group ((COL)) and Woolworths Group ((WOW)), observes Citi, since tobacco is a much higher share of sales at Metcash.

Several company initiatives relating to gross profit margins and cost management suggest to the analysts margins will be sustainably higher for Kmart, The Good Guys, Supercheap Auto ((SUL)) and Premier Investments ((PMV)), with the latter also benefiting from renegotiated rents.

Citi claims to have a pretty good handle on how FY24 will play out for companies in the A&NZ Retail sector, and then applies an overlay of its own positive consumer outlook as a guide for FY25 forecasts. The performance in this financial year is expected to be supported by an estimated $50bn uplift in spending capacity.

Since pre-covid, the best retailers in each category have tended to improve their respective market conditions, and the broker doesn’t anticipate this trend will reverse for the likes of Kmart, JB Hi-Fi and Super Retail.

For supermarkets, Citi likes Buy-rated Woolworths Group and Coles Group, with an unchanged leaning towards Coles based on a higher conviction for earnings.

For discretionary retail stocks under the broker's coverage, the order of preference remains Harvey Norman ((HVN)), JB Hi-Fi, Premier Investments, and Super Retail, which all have Buy recommendations.

<u>Rational mobile market after potential Optus takeover</u>

Evans and Partners anticipates ongoing rational behaviour in Mobile for the Telecom sector in Australia should Singtel sell Optus to Brookfield Infrastructure Partners, as mooted by recent media reports.

The reported valuation range for Optus of between $16-18bn is considered supportive of sector valuations, with the implied earnings multiple significantly higher than current trading multiples for Telstra ((TLS)) and TPG Telecom ((TPG)).

The analyst anticipates rational pricing in the mobile industry because of the strategy employed by Brookfield after acquiring a 49.9% interest in Vodafone New Zealand in May 2019. New Zealand-based, ASX-listed infrastructure company Infratil ((IFT)) also acquired a 49.9% stake at the same time.

In order to increase profitability and returns, One NZ (Vodafone NZ's new name) showed a willingness to cede mobile subscriber market share in order to increase profitability and returns, explains Evans and Partners. The company’s mobile subscriber market share fell to 35% in 2022 from 41% in 2018. Brookfield ultimately sold its 49.9% interest in One NZ to Infratil in June 2023, well above the initial acquisition price.

Similarly, Optus could flex mobile prices to improve earnings, with a higher average revenue per user (ARPU) essential to generate better returns. Ultimately, this course of action would be beneficial for the Telecom sector overall, concludes the broker.

Evans and Partners' current recommendations for Telstra and TPG Telecom are Positive and Neutral, respectively.

<u>A low point for the global economy</u>

Measures of supply chain pressures for world trade are edging up but are still broadly in line with the historical average, notes Oxford Economics, as part of commentary around increased attacks on shipping in the Red Sea. It's thought global trade was still holding up well in January based on current air and sea freight indicators.

Only around 15% of global sea trade travels via the Red Sea and some international shipping companies have added vessels and increased sailing speeds to partly offset the effective loss of between -5% and -9% of global container vessel capacity from the diversion.

While the impact appears manageable, and Oxford forecasts a gradual recovery in goods trade this year, risks are skewed to the downside.

If the clashes in the Red Sea intensify, the implications for world goods trade could become more significant.

In line with this view, analysis by the European Central Bank suggests geopolitical distance, defined as the average disagreement between any two countries, is playing an increasingly important role in determining global trade flows.

In one scenario Oxford assumes an escalation of the Israel-Hamas war triggers a historically significant degree of disruption to global oil supply, leading to an oil price spike to US$137/barrel, an almost -10% drop in stocks, and a tightening of central banks policy due to higher near-term inflation.

After an initial significant slowdown in global growth, the analysis points to a stronger recovery from the end of 2025, resulting in world goods imports returning over the medium-term to baseline levels.

Nightmare scenarios aside, the current tentative signs of a recovery in world trade volumes are consistent with Oxford's opinion **the low point for the global economy may have been reached** and that we are **headed for a soft landing.**

Following a -1.2% decline for world goods trade in 2023 (the worst performance over the past two decades excluding the global financial crisis and the pandemic), Oxford forecasts a 2.4% expansion in 2024. This increase would be a continuation of the weak longer-term trend where goods trade has been growing slowly as a percentage of world GDP.

Over the coming years, the contribution by China to world goods imports is expected to fall to less than half that of the US economy, as the Chinese property sector continues to drag on the economy.

For perspective, Oxford Economics highlights China's contribution to world goods imports in the late-2010's outpaced that of the US economy.

Mortgage stress rises, but employment remains strong

February ushered in a new record-high for the total number of Australian mortgage holders considered 'At Risk' of mortgage stress, according to new research by Roy Morgan, despite the February Reserve Bank meeting resulting in an unchanged 4.35% cash rate. The present level for the cash rate is still the highest interest rates have been since December 2011.

Mortgage holders are considered 'At Risk' if their mortgage repayments are greater than a certain percentage of household income, depending on income and spending.

Because of the larger size of today's Australian mortgage market, the 31.4% of mortgage holders in the 'At Risk" category in February's data is still well below the 35.6% record high attained in mid-2008 during the Global Financial Crisis. February's number represented a 0.4% increase on the survey results for the prior month.

Since the RBA began a cycle of interest rate increases in May 2022, the number of Australians 'At Risk' of mortgage stress has increased by 822,000.

While the impact of interest rates is significant, Roy Morgan highlights **unemployment is the key factor** which has the largest impact on income and mortgage stress.

As Roy Morgan CEO Michele Levine states "the variable that has the largest impact on whether a borrower falls into the 'At Risk' category is related to household income - directly related to employment. The employment market has been exceptionally strong over the last year, and this has underpinned rising household incomes that have helped to moderate the increases in mortgage stress since mid-2023.

Roy Morgan's latest unemployment estimates for February show almost one-in-five Australian workers are either unemployed or under-employed.

Should there be a reacceleration in inflation over the months ahead, resulting in further interest rate increases in 2024, Roy Morgan fully expects mortgage stress will set new record highs later this year.

WEEKLY REPORTS

The Short Report - 28 Mar 2024

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

Summary:

By Greg Peel

Week Ending March 21, 2024.

Last week began with the ASX200 plunging following a hot US PPI number, but a recovery commenced thereafter and today we're looking to end the quarter with a bang.

The top of the table remains stacked with battery minerals producers, although Syrah Resources ((SYR)) saw its shorts fall to 13.9% from 15.7% last week as the stock lost ground after the miner secured a graphite offtake agreement at a price considered disappointing.

Liontown Resources ((LTR)) moved up into the 10%-plus bracket despite securing a new financing deal to replace the previous one that fell through.

Uranium miners have nonetheless gone the other way, as the uranium price slips from its high but remains elevated, with Deep Yellow ((DYL)) dropping to 7.4% shorted from 8.1% and Paladin Energy ((PDN)) dropping off the bottom of the table.

Harvey Norman ((HVN)) also dropped off the bottom after a long stay.

The big mover up the table last week was Strike Energy ((STX)), rising to 7.0% from 5.9%. See below.

Weekly short positions as a percentage of market cap:

10%+

PLS	20.1
SYR	13.9
IEL	13.3
FLT	10.7
LTR	10.0

In: LTR

9.0-9.9%

No stocks

Out: LTR

8.0-8.9%

CXO

Out: DYL

7.0-7.9%

SYA, GMD, DYL, ACL, STX, WBT

In: DYL, STX Out: LYC, CHN

6.0-6.9%

LIC, LYC, BOQ, CHN, OBL, MIN, NAN

In: LYC, CHN, OBL, MIN. NAN

5.0-5.9%

ARU, A2M, BGL, VUL, CUV, IMU, WEB, IFL

In: ARU, WEB, IFL Out: STX, OBL, NAN, MIN, PDN, HVN

Movers & Shakers

Gas hopeful Strike Energy ((STX)) had a tough start to the year when drilling at an exploration site came up empty. Management is undeterred, but last week Ord Minnett declared its plans to be ambitious for a company of its size and with earnings history.

Having raised nearly $200m in equity over the last decade, Strike Energy has amassed a net 1,022 petajoules of gas reserves and resources within the Perth basin. For Ord Minnett, the key question now is how well the company will be able to monetise this position.

The broker downgraded to Hold from Accumulate.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.2	0.3	QBE	0.2	0.1
ANZ	0.4	0.4	RIO	3.5	3.2
BHP	0.5	0.5	S32	1.4	1.2
CBA	1.4	1.4	STO	1.0	0.9
COL	0.6	0.7	TCL	0.3	0.4
CSL	0.3	0.4	TLS	0.3	0.3
FMG	0.9	1.0	WBC	1.0	1.2
GMG	2.1	0.3	WDS	0.7	0.8
MQG	0.6	0.7	WES	1.0	1.1
NAB	0.8	0.8	WOW	0.2	0.2

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.

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WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 28-03-24

Broker Rating Changes (Post Thursday Last Week)

Upgrade

INSURANCE AUSTRALIA GROUP LIMITED ((IAG)) Upgrade to Buy from Overweight by Jarden.B/H/S: 0/0/0

Jarden sees growing potential for positive earnings surprises for General Insurers on the ASX.

After upgrading Insurance Australia Group to Buy from Overweight, the broker's order of preference becomes QBE Insurance (leading on gross written premium growth), then Insurance Australia Group followed by Suncorp Group.

Now that there are two purer-play domestic general insurers, following Suncorp Group's yet-to-be-completed Bank sale, Jarden compares Suncorp to Insurance Australia Group.

The broker prefers Insurance Australia Group for its increasing optionality and because it is trading at a greater discount to historical valuation multiples.

On a relative basis, the analysts see greater upside risk to Insurance Australia Group's underlying insurance trading ratio (ITR), which is set to eclipse management's 15% target from the 2H of FY24.

Jarden also see scopes for $400m per year of buybacks over FY25-FY27. Target $6.95.

Downgrade

29METALS LIMITED ((29M)) Downgrade to Underweight from Neutral by Jarden.B/H/S: 0/0/0

Jarden downgrades its rating for 29Metals to Underweight from Neutral and lowers the target to 30c from 38c following suspension of operations at Capricorn Copper due to heavy rainfall in the March quarter.

Capricorn Copper's earnings forecasts are largely removed from the broker's financial model and a $50m valuation is now assumed.

With the new Managing Director Mr Palmer commencing on May 1, the analysts are hopeful of a full reset on the Capricorn asset.

Jarden continues to believe additional liquidity will be required with a forecast for the existing cash balance to be depleted by the end of 2024. A $60m liquidity event is assumed.

MMA OFFSHORE LIMITED ((MRM)) Downgrade to Hold from Buy by Moelis.B/H/S: 0/0/0

MMA Offshore has entered a binding scheme implementation deed with Cyan MMA Holdings for acquisiton of all shares at $2.60 per share.

As per Moelis, the offer reflects a valuation of $1.03bn for the company, representing an 11% premium to the previous closing price.

MMA Offshore's board has unanimously recommended voting in favour of the bid, feeling it offers compelling value. A shareholder vote is expected by mid-July.

The rating is downgraded to Hold from Buy and the target price increases to $2.60 from $2.30.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	INSURANCE AUSTRALIA GROUP LIMITED	Buy	Buy	Jarden
Downgrade				
2	29METALS LIMITED	Sell	Neutral	Jarden
3	MMA OFFSHORE LIMITED	Neutral	Buy	Moelis

Price Target Changes (Post Thursday

Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
29M	29Metals	$0.36	Jarden	0.30	0.38	-21.05%
AGY	Argosy Minerals	$0.14	Petra Capital	0.32	0.63	-49.21%
AKG	Academies Australasia	$0.20	Taylor Collison	0.35	0.40	-12.50%
ALK	Alkane Resources	$0.61	Petra Capital	1.02	1.05	-2.86%
ALQ	ALS Ltd	$13.18	Goldman Sachs	13.60	13.70	-0.73%
			Jarden	13.70	13.40	2.24%
APM	APM Human Services International	$1.63	Canaccord Genuity	2.00	1.35	48.15%
AQZ	Alliance Aviation Services	$2.90	Wilsons	4.35	4.14	5.07%
ARL	Ardea Resources	$0.75	Petra Capital	0.74	2.56	-71.09%
ASM	Australian Strategic Materials	$1.38	Petra Capital	1.54	1.94	-20.62%
BGL	Bellevue Gold	$1.87	Canaccord Genuity	2.00	1.80	11.11%
BKT	Black Rock Mining	$0.07	Petra Capital	0.16	0.35	-54.29%
BKW	Brickworks	$28.29	Jarden	28.50	28.75	-0.87%
BLD	Boral	$6.12	Jarden	5.90	5.80	1.72%
BRG	Breville Group	$27.50	Wilsons	31.30	24.90	25.70%
CU6	Clarity Pharmaceuticals	$2.63	Wilsons	3.05	2.78	9.71%
IAG	Insurance Australia Group	$6.44	Jarden	6.95	6.40	8.59%
IDX	Integral Diagnostics	$2.23	Jarden	2.59	2.54	1.97%
IGO	IGO	$7.00	Canaccord Genuity	5.50	6.00	-8.33%
IRE	Iress	$8.29	Wilsons	9.00	8.00	12.50%
KMD	KMD Brands	$0.53	Canaccord Genuity	0.54	0.57	-5.26%
LNW	Light & Wonder	$159.71	Jarden	164.00	161.00	1.86%
MOZ	Mosaic Brands	$0.14	Wilsons	N/A	0.16	-100.00%
MRM	MMA Offshore	$2.61	Moelis	2.60	2.30	13.04%
NHC	New Hope	$4.61	Goldman Sachs	3.70	3.50	5.71%
ORG	Origin Energy	$9.18	Jarden	9.35	9.20	1.63%
PMV	Premier Investments	$32.11	Goldman Sachs	25.10	23.50	6.81%
			Jarden	30.80	24.20	27.27%
			Petra Capital	34.25	29.50	16.10%
PTM	Platinum Asset Management	$1.08	Jarden	1.15	1.06	8.49%
RMD	ResMed	$30.06	Wilsons	32.90	31.28	5.18%
SUN	Suncorp Group	$16.37	Jarden	16.80	15.95	5.33%
WBC	Westpac	$25.91	Goldman Sachs	23.41	23.46	-0.21%
WEB	Webjet	$8.82	Jarden	9.55	8.80	8.52%
			Wilsons	10.13	9.22	9.87%
			Wilsons	9.17	9.22	-0.54%
Company		Last Price	Broker	New Target	Old Target	Change

More Highlights

COI COMET RIDGE LIMITED

NatGas - Overnight Price: $0.21

Petra Capital rates ((COI)) as Buy (1) -

Petra Capital feels the prospect of a takeover of Comet Ridge is becoming more real given the strategic relevance of the Mahalo Gas project, and the current -32% discount to peer valuation multiples.

This view by the broker follows management's statement of being in "early-stage discussions" and is "evaluating its strategic and other options, including Mahalo project funding, expanding operations by merging with another entity, or a change of control".

Santos ((STO)) is a 43% joint venture partner in Mahalo. The Buy rating and 38c target are unchanged.

This report was published on March 22, 2024.

Target price is **$0.38** Current Price is **$0.21** Difference: **$0.17**
If **COI** meets the Petra Capital target it will return approximately **81%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **minus 0.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 35.00**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 52.50**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

LNW LIGHT & WONDER INC

Gaming - Overnight Price: $160.50

Jarden rates ((LNW)) as Overweight (2) -

While it's smaller in scale than the Australasian Gaming Expo, Jarden believes the Australasian Hospitality Gaming Expo is a great barometer to check in on gaming suppliers, customers and the latest and greatest of product available.

Based on direct customer feedback and booth attendance levels, Light & Wonder arguably displayed more innovation, positive momentum and scalability than other participants, the broker suggests.

It is clear to Jarden the Australian industry has now moved from an effective monopoly to duopoly status, with Light & Wonder's renewed game development and cross-channel focus now rivalling Aristocrat Leisure ((ALL)). Overweight retained, target rises to $164 from $161.

This report was published on March 25, 2024.

Target price is **$164.00** Current Price is **$160.50** Difference: **$3.5**
If **LNW** meets the Jarden target it will return approximately **2%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Jarden forecasts a full year **FY24** dividend of **0.00** cents and EPS of **436.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **36.81**.

Forecast for FY25:

Jarden forecasts a full year **FY25** dividend of **0.00** cents and EPS of **553.00** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **29.02**.

Market Sentiment: **0.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

RKN RECKON LIMITED

Accountancy - Overnight Price: $0.55

Petra Capital rates ((RKN)) as Buy (1) -

Management at Reckon has presented on prospects for the Legal Group, which implied to Petra Capital significant share price upside.

The analyst suggests investors view Reckon's business in two parts: the Business Group as a stable cash flow generator; and the high-growth engine of the Legal Group.

Due to the combined serviceable addressable market (SAM) across Document and Billing Workflows of more than $500m, the broker has greater confidence in its Legal Group revenue forecasts. These estimates increase to $34.5m in FY29 from $11.7m in FY23.

The Buy rating and $1.10 target are unchanged.

This report was published on March 22, 2024.

Target price is **$1.10** Current Price is **$0.55** Difference: **$0.555**
If **RKN** meets the Petra Capital target it will return approximately **102%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **2.50** cents and EPS of **4.10** cents.
At the last closing share price the estimated dividend yield is **4.59%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.29**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **3.00** cents and EPS of **4.90** cents.
At the last closing share price the estimated dividend yield is **5.50%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.12**.

Market Sentiment: **0.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

RMD RESMED INC

Medical Equipment & Devices - Overnight Price: $29.93

Wilsons rates ((RMD)) as Overweight (1) -

ResMed's stock continues to recover as the outlook for maintained CPAP global market share solidifies, says Wilsons.

The broker is anticipating Eli Lilly to announce top line data from studies relating to its SURMOUNT-OSA trial, which has explored efficacy both as a monotreatment and in combination with CPAP.

Wilsons sees no potential negative for CPAP devices from a positive readout.

The Overweight rating is retained and the target price increases to $32.90 from $31.28.

This report was published on March 26, 2024.

Target price is **$32.90** Current Price is **$29.93** Difference: **$2.97**
If **RMD** meets the Wilsons target it will return approximately **10%** (excluding dividends, fees and charges).
Current consensus price target is **$34.21**, suggesting upside of **13.8%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY24:

Wilsons forecasts a full year **FY24** dividend of **29.49** cents and EPS of **111.57** cents.
At the last closing share price the estimated dividend yield is **0.99%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **26.83**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **116.6**, implying annual growth of **N/A**.
Current consensus DPS estimate is **30.2**, implying a prospective dividend yield of **1.0%**.
Current consensus EPS estimate suggests the PER is **25.8**.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **31.92** cents and EPS of **127.07** cents.
At the last closing share price the estimated dividend yield is **1.07%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **23.55**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **132.4**, implying annual growth of **13.6%**.
Current consensus DPS estimate is **33.0**, implying a prospective dividend yield of **1.1%**.
Current consensus EPS estimate suggests the PER is **22.7**.

This company reports in **USD**. All estimates have been converted into AUD by FNArena at present FX values.
Market Sentiment: **0.8**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

SNL SUPPLY NETWORK LIMITED

Automobiles & Components - Overnight Price: $18.68

Moelis rates ((SNL)) as Initiation of coverage with Buy (1) -

Moelis has initiated coverage of Supply Network with a Buy rating and $21.26 target.

Supply Network is a leading independent supplier of truck and bus aftermarket replacement parts. Through its brand, Multispares, the company primarily services A&NZ's trucking and bus markets.

Underlying road freight demand should be supported by population growth, the broker suggests, leading to an increase in kilometers travelled pa. After accounting for price increases of 3-4%, Moelis estimates that the industry is growing at mid-single digits pa.

Aftermarket parts suppliers like Supply Network target vehicles aged more than 5 years and dominate market share in vehicles aged more than 15. This part of the market has grown ahead of the overall fleet.

Supply Network is well positioned to benefit, Moelis believes.

This report was published on March 24, 2024.

Target price is **$21.26** Current Price is **$18.68** Difference: **$2.58**
If **SNL** meets the Moelis target it will return approximately **14%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Moelis forecasts a full year **FY24** dividend of **50.40** cents and EPS of **75.20** cents.
At the last closing share price the estimated dividend yield is **2.70%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.84**.

Forecast for FY25:

Moelis forecasts a full year **FY25** dividend of **57.40** cents and EPS of **83.20** cents.
At the last closing share price the estimated dividend yield is **3.07%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **22.45**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

SPZ SMART PARKING LIMITED

Hardware & Equipment – Overnight Price: $0.42

Petra Capital rates ((SPZ)) as Buy (1) –

Early hints of a UK election in 2024 could prove a positive for Smart Parking, says Petra Capital, noting the current timeline would make it increasingly difficult for the government to impose a new private parking code before an October election.

Having withdrawn the code, which set requirements for private parking, in June 2022, the governement has since undertaken consultation for new legislation. While draft findings are expected to be released shortly, consultation on this will not happen before May.

The Buy rating and target price of 64 cents are retained.

This report was published on March 28, 2024.

Target price is **$0.64** Current Price is **$0.42** Difference: **$0.22**
If **SPZ** meets the Petra Capital target it will return approximately **52%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY24:

Petra Capital forecasts a full year **FY24** dividend of **0.00** cents and EPS of **1.70** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **24.71**.

Forecast for FY25:

Petra Capital forecasts a full year **FY25** dividend of **0.00** cents and EPS of **3.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **11.67**.

All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

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