WEEK 17

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Friday, 22 April 2022

Allkem's Growth Path To Glory

ReadyTech: Growth, Defence & Value

Rudi's View: Family Zone, Healthia, Mineral Resources, ReadyTech, And Xero

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FNArena
Financial News, Data & Analysis

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AUSTRALIA

Allkem’s Growth Path To Glory

Allkem is on track to remain one of the world's largest producer of lithium, despite global production racing to meet surging demand.

-Few surprises in Allkem's March quarter production report
-Growth plans outlined will keep Allkem at the top of the global producer pack
-Solid cash flows from surging lithium prices mean projects are fully funded

By Greg Peel

As of 2021, Australia was the world's biggest producer of lithium, ahead of Chile, China, Argentina and the US. When Russia invaded Ukraine, the price of lithium began to surge, but despite aspirations, Russia is not at all a notable producer of lithium. The surge in price, while aligned with surges in other commodities Russia and/or Ukraine do produce, is all about electric vehicles.

We can nevertheless tie the price surge back to Russia, given the wake-up call the invasion provided particularly for those countries reliant on Russian exports, and in particular oil and gas. Those countries, mostly in Europe, were already on a path to transition from fossil fuels to alternatives, adopting carbon-neutral by 2050 policies, when suddenly the need to shift away from fossil fuels became even more urgent.

Which ropes in electric vehicles, and thus lithium.

Last year, two of Australia's leading lithium producers and developers, Orocobre and Galaxy Resources, merged to form Allkem ((AKE)), thus creating the largest Australian-listed lithium company. In global production terms, Allkem is on track to rank third, targeting a market share of 10%.

But the race is on. The rapid growth of EV production implies a raid growth of lithium demand, and unlike other metals which are facing supply deficits down the track due to lack of new resources being discovered, such as copper, lithium is relatively abundant. Hence supply is also rapidly growing across the globe, forcing miners like Allkem into growth of their own in order to stay ahead of the pack.

Like all non-base metals that have had their "fad" moments in the sun in recent decades, lithium has seen its price run up hard on speculation surrounding EVs, only to crash back to earth on the realisation EV production still had a lot of growing to do. It happened to rare earths previously, and before that, uranium.

But EV production rates are now very real, and automakers across the globe have one by one been declaring they will be all-electric in the not too distant future. So this time, analysts believe a surging lithium price is also real, and there is only upside (for the time being).

<u>Addressing Growth</u>

On April 5, Allkem held an investor day, at which it outlined its growth plans and lithium price expectations. Last week the miner released its March quarter production & sales report.

Suffice to say production was roughly in line with broker forecasts, balancing out performances at Allkem's two major projects, Mt Cattlin in Western Australia and Olaroz in Argentina. The miner shipped more lithium in the period than was anticipated, but only because of a catch-up from a delayed December quarter shipment.

This catch-up translated to a lower cost figure than forecast, but analysts note Allkem also managed to control soaring costs due to the WA lockdown by reducing the amount of stripping at Mt Cattlin, which will be increased again now the state is finally out of lockdown.

Production slipped below the targeted battery grade to technical grade lithium balance of 50/50, but this is also expected to revert.

Technical grade lithium is used for heat-resistant glass and ceramics, among other applications.

Realised lithium prices always track behind spot prices, given forward contracts, so as spot prices continue to march higher, Allkem has higher realised prices to look forward to. High prices are providing for a flood of cash flow, which means Allkem's long list of growth plans is fully funded.

They include:

-Olaroz stage 2, which is now 77% complete, and first production is expected by the end of June;
-Commissioning of the Naraha processing plant in Japan, expected in the June quarter, with first production in the September quarter;
-Sal de Vida (Argentina) stage 1 pond construction commenced in January, and first production is expected by the June quarter next year;
-Permitting of the James Bay (Canada) project is ongoing.

Put it all together and UBS believes Allkem can grow production threefold by 2026, thus maintaining a 10% market share over the next decade. UBS is not alone.

That does not include new resources. Immediately next door to Olaroz are the Cauchari basins, with reserve estimates making Olaroz-Cauchari one of the world's largest lithium resources.

Hence the growth list expands, including:

-A faster, larger Sal de Vida project;
-A 2.5x lift in estimated resource at Olaroz/Cauchari;
-Olaroz stage 3 beyond 2025 potentially more than doubling the current capacity;
-Mt Cattlin exploration drilling to extend life beyond 2026;

-James Bay construction start by early 2023;
-Olaroz stage 1 debottlenecking and possible relocation of the purification circuit to a lower altitude site;
-Potential duplication of the Naraha refinery in Japan, or maybe in the US or Europe.

It's electrifying.

Recommendations

Since Russia invaded Ukraine, Allkem's share price has run up over 50%. Yet only one from seven brokers in the FNArena database has anything other than a Buy or equivalent rating on the stock, reiterated post last week's quarterly update.

Morgan Stanley is Equal-weight, and also has set the lowest target price at $11.30 (last trade $13.40). The consensus target of all the brokers, including Morgan Stanley, is $15.99; without Morgan Stanley the consensus target is $16.77.

Most brokers took the opportunity when reporting on Allkem's investor day to upgrade their lithium price forecasts. Before the investor day, the consensus target was $13.59.

Bell Potter, not an FNArena database broker, also has a Buy rating, and a target of $17.53.

AUSTRALIA

Synergies to Support Bank of Queensland

Bank of Queensland looks likely to rely on synergies from the acquisition of ME Bank to support earnings in coming years, as limited leverage to rising cash rates makes peers a more attractive choice.

-Bank of Queensland's share price drops -6% in the wake of a 14% cash profit increase
-Limited leverage to cash rate rises limits the bank's comparative growth
-Acquisition synergies set to drive earnings in the near-term

By Danielle Austin

Despite Bank of Queensland's ((BOQ)) share price taking a -6% fall following its first half results release, brokers remain largely positive on the bank's outlook. While Bank of Queensland is unlikely to benefit from a rising cash rate environment like some peers, synergies from the ME Bank acquisition should support earnings in the near-term.

The bank delivered a net cash profit of $268m in the half, up 14% year-on-year and a 13% beat on consensus forecast, with the top line beat bolstered by one-off revenue gains. While the beat appeared positive, brokers highlighted compositionally it was of lower quality, with one-off gains and credit loss provision releases offsetting margin weakness.

Compared to listed peers, Bank of Queensland is less leveraged to the cash rate rises almost certainly ahead later this year, which will likely impact on the company's growth trajectory compared to those peers in a higher cash rate environment, which some market experts expect may be driving market uncertainty and the resulting share price drop. A lower skew to cheaper transaction deposits leaves the bank less exposed to a rising cash rate, with Jarden analysts assuming a 25 basis point increase to the cash rate will translate to only a 2-3 basis point increase to Bank of Queensland's group margins.

Although margin declines were anticipated to peak in the half, the decline was steeper than expected with the bank's net interest margin (NIM) falling to 1.74% from 1.90% in the previous half. Market consensus had expected a drop to 1.79% in the half, following a -5 basis point NIM decline in the second half of FY21.

More than half of the decline in the first half was attributed to drag from fixed-rate mortgages, but analysts note the headwinds driving margin declines don't appear to be unique to Bank of Queensland, but rather largely consistent with industry headwinds.

On the back of proactive measures taken by the company, including increasing the investment term for its replicating portfolio from three to five years, and moderating headwinds driving NIM declines, both the bank and market analysts expect the margin outlook to stabilise, with Bank of Queensland guiding to margins falling up to a further -2 basis points in the coming half.

<u>Acquisition synergies key to medium-term earnings</u>

Not only does the integration of the ME Bank acquisition continues to progress, but Bank of Queensland has upgraded its medium-term synergy targets and now anticipates synergies of more than $95m in FY24, a $15m upgrade, while the company looks to be on track to achieve FY22 synergies at the top end of the $30-34m target range having delivered $13m in cost synergies in the first half.

The integration appears ahead of plan, with the cloud-based retail banking platform, including home loan features, to be rolled out to customers in the coming twelve months as part of the second phase of digital integration. Industry experts note further cost-out upside could be available following the migration of customers to a single, common platform.

With little upside to come for Bank of Queensland from cash rate rises, synergies from the ME Bank acquisition will be key to the company's earnings outlook in the next few periods according to market analysts.

Of the five brokers within FNArena's core coverage who commented on Bank of Queensland's results, four are Buy rated or equivalent, while Ord Minnett is Hold rated and also maintains the lowest target price of these brokers at $8.30.

Ord Minnett considers Bank of Queensland a work in progress, noting the limited leverage to cash rate rises and high exposure to deterioration in term deposit spreads. Noting acquisition synergies should support earnings in coming years, and possible upside from digital transformation, Ord Minnett analysts see limited possibility for Bank of Queensland to outperform its valuation.

Credit Suisse, while retaining an Outperform rating, did describe the bank's first half performance as disappointing. The Credit Suisse analysts noted while margin decline wasn't a surprise, the bank's limited leverage to the rising cash rate offers little potential upside, but considers the stock a value play in regional banking with potential to manage expenses better than peers.

At the top end of the target price range is Morgans, with a target price of $11.00 per share and an Add rating. The broker sees potential for upside risk from the strategy outlined at the mid-year update, noting it could clear a path to returns on tangible equity of 13%. Further, Morgans analysts see possibility for ME Bank synergies to drive operating expenses below $850m by the end of FY24 as all three Bank of Queensland brands are migrated to one common digital retail banking platform and investment spend normalises.

AUSTRALIA

ReadyTech: Growth, Defence & Value

Recent research highlights both high growth and defensive qualities for investors in ReadyTech Holdings.

-ReadyTech is trading at a deep discount to peers
-Potential for accelerated M&A
-The aim of acquisitions to date
-Potential for further overseas expansion

By Mark Woodruff

Following recent share market volatility, investors may be seeking an investment with defensive end-markets across the private and public sector, which are relatively insulated from macroeconomic shocks.

ReadyTech Holdings ((RDY)) fits the bill, according to Goldman Sachs, and also provides exposure to multi-decade structural growth tailwinds as enterprises pursue digital transformation.

The global transition to cloud software-as-a-service (SaaS) from on-premise software is only around 20% completed, according to the broker, and the replacement of decades-old legacy systems is ongoing.

The people management software company is the leading provider of education, employment, as well as government and justice software in Australia.

The focus is upon complex niches that are under-served by both large and small enterprise software competitors. An example is shift scheduling and award payments in the “stand up economy” (e.g. hospitality, agriculture) and student management systems.

Along business lines, Education & Work Pathways accounts for around 40% of revenue, while Workforce Solutions and Local Government & Justice represent 30% apiece.

When initiating coverage last November, Jarden estimated a 19% five-year compound annual growth rate for revenue, and believed the growth would be mostly organic, coupled with M&A in key verticals.

The most directly comparable peers to ReadyTech on the ASX, according to the analyst, are TechnologyOne ((TNE)), Elmo Software ((ELO)) and US-based Ceridan HCM, which is listed on the Nasdaq.

Goldman Sachs, which initiated coverage on ReadyTech this week with a Buy rating and a 12-month $5.00 target price, feels the market has given little credit for an **improving organic growth rate since ASX listing in April 2019**. Long-term growth is expected from continued share gains in core verticals in A&NZ, as well as expansion into offshore markets.

The **overseas expansion is currently underway in the UK**, and could potentially continue into the US/Canada via the company’s Student Management and Work Pathways software, suggests the analyst.

The opportunity and the undervaluation

In the past, enterprises have viewed technological investment through the prism of cost reduction.

Now Goldman Sachs believes the aim is to modernise core systems and differentiate versus competitors, which benefits the likes of ReadyTech. In addition, improvement in employee and customer experience is thought to be increasingly important, given ongoing hybrid work environments.

ReadyTech is trading at a deeply discounted valuation to SaaS peers on a growth-adjusted basis, according to the analyst. Organic growth has accelerated to more than 15% in FY22 from around 10% in FY20.

While management has a FY26 organic revenue target of $140m, the broker estimates the market is pricing in around $120m, at a 35% earnings (EBITDA) margin, which doesn't factor in the recent growth acceleration or any M&A upside.

The currently discounted valuation will likely be narrowed by strong organic growth execution. Also, the analyst feels strong cash generation provides **potential for accelerated M&A,** which could add circa 5-15% to the valuation..

Jarden expects organic growth from new customer acquisitions, upselling, product upgrades and yearly average selling price increases of 3-5%.

Acquisitions

ReadyTech has made several acquisitions across all segments since listing including; Workforce Solutions (Zambion, Wagelink, Phoenix HRIS); Education & Work Pathways (Avaxa) and Government & Justice (Open Office, Open Windows).

Both Shaw and Partners and Wilsons issued new research in mid-March after the company acquired cloud-based talent management platform PhoenixHRIS. The business provides specialist cloud-based online recruitment management software, with modules including job requisition, video screening, verification and on-boarding.

Shaw considered the transaction an extension of Readytech's all-in-one capability in the stand-up economy, and suggested online recruitment is the next logical step. Meanwhile, Wilsons felt the acquisition should improve win rates in higher-value deals and tenders, and also provide a cross-sell opportunity when combined with Zambion.

The acquisition of Zambion in 2020, explains Shaw, began **ReadyTech's pivot to all-in-one HR software vendor from payroll only.**

The most prominent acquisition since listing, according to Jarden, is Open Office, a government and justice case management SaaS provider. This allows access to over 500 local councils of which 75% have legacy solutions from over a decade ago.

February results

During the February reporting season, Macquarie's earnings expectation was exceeded by 3% due to strong organic revenue growth, underpinned by 97% net customer revenue retention. Other contributing factors were new client wins and ongoing execution of the company's cross-sell and up-sell strategy.

Growth, accelerated by strategic M&A, is expected to underpin a further re-rate for the company's valuation multiple, suggested the analyst at the time.

The broker has an Outperform rating and 12-month target price of $4.10 for the stock, which suggests 20% upside to the current share price.

Meanwhile, outside of the FNArena database, Goldman Sachs, Shaw and Partners, Wilsons and Jarden all have Buy or equivalent ratings with an average target price of $4.51.

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COMMODITIES

Material Matters: Copper, Lithium, Gold, Russian Coal and Oil

A glance through the latest expert views and predictions about commodities: tight copper market to be short lived; lithium growth remains strong; further upside to gold pricing; Russia driving uncertainty in commodities.

-Further support for strong copper pricing amid heightened tightness in the market
-Lithium growth to remain strong to the end of the decade
-Gold a safe bet for investors according to ANZ Bank
-Russia seeks alternative importers, Chinese coal to support global deficit

By Danielle Austin

Copper

Already tight supplies of copper may contract further given the implications of a potential new spread of covid in China, according to analysts at ANZ Bank. With Shanghai, home to the busiest container port globally and a sizeable distribution centre, in lockdown, port traffic has already been constrained, causing uncertainty for commodity markets.

Despite the threat of further spread, ANZ expects impacts on copper demand will be short lived, with investment in China's electricity grid likely to cause increased demand for the metal. The bank is anticipating a 3.2% increase to China's demand for copper this year, to 13.6m tonnes, and a 2.4% global demand increase. But ANZ notes supply chain disruptions in China have historically been short lived, with imports recovering quickly following initial lockdowns in early 2020.

Conflict in Russia, the fourth largest copper producer globally, could drive inventory lower in the short term and support strong copper pricing according to ANZ.

Lithium

Lithium remains on a growth trajectory through to the end of the decade according to industry analysts, with Citi noting as the commodity with the highest exposure to an expectedly bullish electric vehicle demand in coming years the already tight lithium market should benefit. The broker has lifted its lithium price forecast for the year by 11%, and expects a higher for longer pricing cycle will encourage a major supply response.

Despite strong pricing encouraging momentum in supply, Citi noted it would take time for investment in increased supply to come fruition, particularly given current labour and material shortages in Western Australia, likely keeping prices elevated.

While Citi expects that with aggressive growth, supply could meet demand in 2024, JP Morgan analysts expect a supply deficit to remain through to 2028, when it predicts the market to experience a modest and short-lived surplus.

The JP Morgan analysts are predicting the lithium market will benefit from a 22% compound annual growth rate between 2021 and 2030 before an anticipated shift to battery technology drives a decline in demand. While in the near-term, the broker notes a tight market should continue to support high pricing, it expects high prices to encourage increased supply and lead to eventual normalisation in pricing, and the analysts have reduced their expected demand for lithium after 2030 by -13%.

Anticipated increased penetration of electric vehicles over the remainder of the decade will drive lithium demand, with the broker expecting 62% of vehicles sold in 2030 will be electric.

<u>Gold</u>

Geopolitical uncertainty and a stagflationary environment is driving increased investment in gold, seen as a safe bet by investors. ANZ Bank strategists consider gold a solid choice for investors in the current environment, noting given prices are expected to be maintained at over US$1,900 per ounce over the next six months, there are few downsides for buyers while further upside is possible.

Further, ANZ highlighted silver prices would likely follow gold given the geopolitical drivers. While geopolitical events often drive only fleeting impacts on gold strength, it was noted that the rapid rise of inflation and commodity supply constraints could offer support for a stronger for longer gold pricing cycle.

<u>Russian Coal and Oil</u>

As further import bans are levelled against Russia amid its ongoing conflict with Ukraine, global commodities markets remain uncertain on the outlook for coal, oil and gas.

Bans on the import of Russian coal, imposed by the European Union and Japan, shouldn't cause a supply shortage given a planned production increase from China, says Credit Suisse. The Russian thermal coal market provided 44m tonnes to the EU in 2021, and a further 19m tonnes to Japan, but with the EU banning coal imports from the nation from August, European nations are seeking out alternative suppliers.

China has announced an intention to increase its domestic coal production by 300m tonnes per annum, raising its production target to 4.4bn tonnes in 2022 from 4.1bn tonnes in 2021. The production increase will fill China's domestic needs, with the country's regulated power price unable to afford seaborne prices of imports in the current market, but allowing the 150m tonnes imported from Indonesia to China last year to be available to the global market.

Credit Suisse analysts highlight while China's production increase should ensure sufficient amounts of coal supply to the global market, Indonesia's lower energy content coal may not be suitable for all purposes, likely driving wider disparity in coal pricing and premium pricing for higher energy coal. The broker anticipates Newcastle coal to remain above US$200 per tonne for some years given scarcity of high energy coal.

As a major global oil supplier, the market is looking for signs that Russia can maintain export levels despite reduced supply to Western countries. While opinions differ, analysts at Longview Economics are anticipating Russian oil supply to close out the year at levels largely similar to the first quarter. Global oil movements have suggested to date Russia has been able to direct increased exports to non-Western countries, particularly China and India, more than compensating for reduced exports to western countries.

WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 15-04-22

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

By Mark Woodruff

Guide:

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

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

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

Summary

Period: Monday April 11 to Friday April 15, 2022
Total Upgrades: 4
Total Downgrades: 5
Net Ratings Breakdown: Buy 59.36%; Hold 34.71%; Sell 5.93%

For the shortened week ending Thursday April 14 there were four upgrades and five downgrades to ASX-listed companies covered by brokers in the FNArena database.

There were no material changes to target prices set by brokers over the week.

In terms of forecast earnings changes, GrainCorp headed the table with the largest percentage increase. This resulted from a second earnings upgrade in two months by management on the back of strong global demand for Australian grain and oilseeds.

UBS noted massive margins resulting from a combination of a large summer grain crop on the east coast of Australia and high grain prices from trade disruptions caused by the Russia/Ukraine conflict. Elevated earnings in the current year equate to around $1.20 per share that will likely be returned to shareholders, according to Credit Suisse.

Nonetheless, UBS warned the cyclical nature of the company's earnings means upgrades are unlikely to be repeated once the war ends, and because visibility is limited for the crop harvest in November.

While Woodside Petroleum was in second position on the forecast earnings table, this was due to a data glitch. That position belonged to Sandfire Resources after Credit Suisse raised its gold price forecasts by US$50/oz to US$1,650/oz for 2023-25, and the long run forecast to US$1,450/oz (real) from 2026. Price forecasts for industrial metals were also lifted due to price impacts from weather events in Australia, the war in Ukraine, labour tightness and staff shortages.

Meanwhile, Macquarie noted strong copper and zinc prices are pointing towards 21% and 118% higher earnings for Sandfire than the broker's base forecasts for FY23 and FY24.

Coming third on the table was Alumina, again helped along by Credit Suisse's industrial metals forecasts. The strategists' preferred commodities are aluminium and lithium over the medium term due to forecast supply deficits. Preferred stocks included South32, also in the forecast earnings upgrade table, and IGO.

Next up was Mineral Resources after Citi raised lithium price expectations for 2022 by around 11% and predicted prices would remain higher for longer. It's thought any global cyclical weakness should be regarded as an unusual buying opportunity for the sector.

The broker pointed out Mineral Resources benefits from both rising iron ore and spodumene price forecasts and lifted its price target to $76 from $66.

On the flipside, Cooper Energy received the only material downgrade to forecast earnings within the FNArena database last week. At face value a -795% downgrade by Credit Suisse looks dire, though quite small forecast earnings changes for small cap stocks can appear large, given the small number in the original forecast. The broker's downgrade was attributed to reduced near-term production assumptions, combined with additional costs and revised pricing.

Despite the forecast earnings changes, the broker actually raised its target price for the company to $0.27 from $0.21 on a more positive outlook at the Orbost gas processing plant, evident before the shutdown for Phase2B work and floods. However, it's thought the current valuation factors in growth, without the company having the means to fund it, and an equity raise is now expected.

Total Buy recommendations take up 59.36% of the total, versus 34.71% on Neutral/Hold, while Sell ratings account for the remaining 5.93%.

Upgrade

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED ((ANZ)) Upgrade to Buy from Neutral by Citi .B/H/S: 6/1/0

Citi believes the Reserve Bank's tightening cycle is set to reshape the Bank sector’s earnings profile over the next two and a half years. The sector view is raised to positive with forecast earnings changes of more than 10%.

The broker forecasts a cash rate of 0.75% by the end of 2022, and 1.75% by the end of 2023.

Despite natural concerns around credit quality, a 'sweet spot' is predicted by the analysts, with net interest margins forecast to return to pre-pandemic levels, materially above consensus.

Citi now prefers the 'cheaper' majors such as Westpac ((WBC)) and ANZ Bank. For ANZ Bank the rating is increased to Buy from Neutral and the target rises to $30.75 from $29.25.

See also ANZ downgrade.

MEDIBANK PRIVATE LIMITED ((MPL)) Upgrade to Accumulate from Lighten by Ord Minnett .B/H/S: 5/2/0

Ord Minnett has upgraded Medibank Private to Accumulate from Lighten given the recent share price retreat, signs of a supportive claims environment (based on the UK experience), and rising bond yields.

The broker also places higher value on Medibank's near-term earnings certainty given it does not share the supply challenges faced by many other companies.

The broker is cautious heading into the election given the Australian Labor Party's push for higher wages in the health sector.

Target price rises to $3.50 from $3.

PILBARA MINERALS LIMITED ((PLS)) Upgrade to Buy from Neutral by Citi .B/H/S: 3/1/0

Citi expects lithium prices to remain higher for longer and sees any global cyclical weakness as an unusual buying opportunity.

Lithium price expectations for 2022 are raised by around 11%, and the broker feels a return to a balanced market is now delayed until 2024.

The analyst raises its rating for Pilbara Minerals to Buy from Neutral following a -17% share price fall in the last week, and further progress on the POSCO joint venture.The target rises to $3.60 from $3.50.

WEBJET LIMITED ((WEB)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/3/0

Citi expects Webjet should lead re-opening earnings thanks to its exposure to volumes from its user-pay business model and low fixed costs.

The broker also expects B2B trade should recover with a vengeance thanks to lower costs, an American growth leg, and improved industry position; and that the company may capture B2C market share from bricks-and-mortar monopolist Flight Centre ((FLT)) as online trade grows.

Earnings forecasts fall -32% to reflect omicron disruption, but the broker expects the market will look through this to the re-opening play.

Rating upgraded to Buy from Neutral. Target price inches up to $6.50 from $6.46.

Downgrade

ADBRI LIMITED ((ABC)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/5/0

Morgan Stanley downgrades its rating for AdBri to Equal-weight from Overweight following unfavourable construction conditions in the March quarter resulting from above-average rainfall across Australia.

The broker highlights competitor Boral ((BLD)) has already downgraded earnings due to the weather and rising energy costs. The target price falls to $3.40 from $3.60 as Morgan Stanley's FY22 earnings (EBIT) forecast falls by -5%. Industry view: In line.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED ((ANZ)) Downgrade to Equal-weight from Overweight by Morgan Stanley.B/H/S: 6/1/0

Morgan Stanley downgrades its rating for ANZ Bank to Equal-weight from Overweight for a number of reasons including ongoing challenges in Australian retail and business banking.

The broker also cites a weaker outlook in New Zealand and uncertainty around group costs, as reasons for the downgrade in rating.

The analyst believes market share loss, falling margins and lower non-interest income will impact upon revenue this year. Relative to peers, it's thought the bank will have weaker volume growth and more headwinds from increasing competition for deposits in A&NZ.

The price target falls to $28.60 from $30.30 following downgrades to Morgan Stanley's cash EPS forecasts. Industry view: Attractive.

See also ANZ upgrade.

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

Citi lowers its rating for Iluka Resources to Sell from Neutral, noting shares have risen 35% in six months at a time when China property statistics have deteriorated.

The broker points out there will be no rare earths revenue until the Eneabba rare earths refinery starts in 2025 and reduces EPS forecasts for 2022 and 2023 by -16% and -19%. Nonetheless, the $10.50 target price is retained.

Yesterday the company announced its intention to demerge Sierra Rutile. If it proceeds Sierra Rutile will be listed on the ASX.

NEARMAP LIMITED ((NEA)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/1/0

On advice from an industry contact, Macquarie notes there will be difficulties in Nearmap penetrating the North American aerial imaging for claims insurance segment particularly given the company is late to the game.

Macquarie notes insurance contributions are material for the company, but Nearmap faces limitations on software integration given competitor EagleView holds strong measuring technology patents. Macquarie expects Nearmap would need to partner with EagleView to access technology.

The rating is downgraded to Neutral from Outperform and the target price of $1.40 is retained.

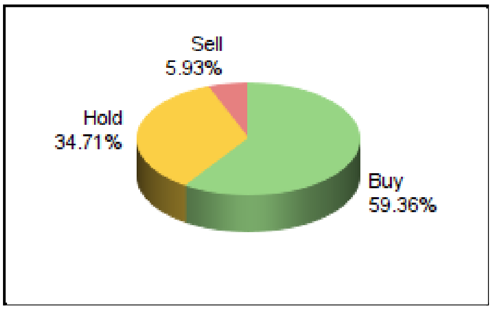
WESTERN AREAS LIMITED ((WSA)) Downgrade to Hold from Add by Morgans .B/H/S: 0/3/1

Western Areas has attracted an increased all-cash offer of $3.87/share from IGO ((IGO)), up from $3.36. Morgans believes the increase stems from the impact of recent nickel price volatility on near-term cash flow and asset values.

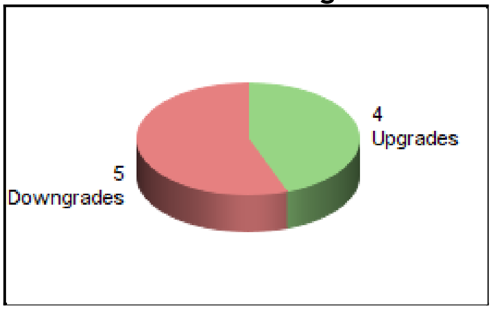
The broker feels the revised offer will likely be accepted and notes the current share price is trading at the new offer price. The Western Areas board unanimously recommends the the offer price, in the absence of another bid.

The analyst lowers the rating to Hold from Add, and while awaiting quarterly results due at the end of April, the $4.45 target price is maintained.

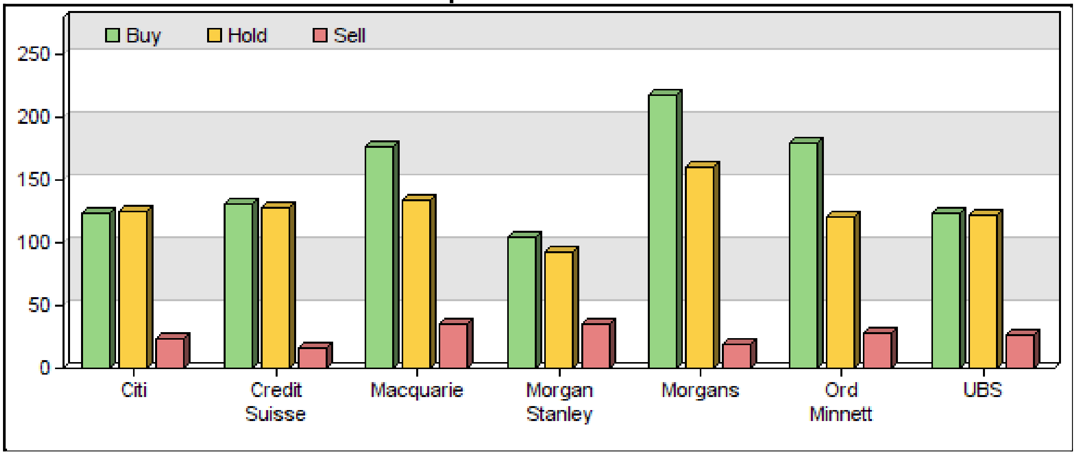
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Buy	Neutral	Citi
2	MEDIBANK PRIVATE LIMITED	Buy	Sell	Ord Minnett
3	PILBARA MINERALS LIMITED	Buy	Neutral	Citi
4	WEBJET LIMITED	Buy	Neutral	Citi
Downgrade				
5	ADBRI LIMITED	Neutral	Buy	Morgan Stanley
6	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	Neutral	Buy	Morgan Stanley
7	ILUKA RESOURCES LIMITED	Sell	Neutral	Citi
8	NEARMAP LIMITED	Neutral	Neutral	Macquarie
9	WESTERN AREAS LIMITED	Neutral	Buy	Morgans

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	PLS	PILBARA MINERALS LIMITED	75.0%	50.0%	25.0%	4
2	MIN	MINERAL RESOURCES LIMITED	100.0%	80.0%	20.0%	4
3	BSL	BLUESCOPE STEEL LIMITED	100.0%	83.0%	17.0%	6
4	WEB	WEBJET LIMITED	57.0%	43.0%	14.0%	7
5	MPL	MEDIBANK PRIVATE LIMITED	64.0%	50.0%	14.0%	7
6	AUB	AUB GROUP LIMITED	83.0%	75.0%	8.0%	3
7	SYD	SYDNEY AIRPORT	25.0%	20.0%	5.0%	4
8	COE	COOPER ENERGY LIMITED	-20.0%	-25.0%	5.0%	5
9	ALL	ARISTOCRAT LEISURE LIMITED	92.0%	90.0%	2.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	CSR	CSR LIMITED	75.0%	92.0%	-17.0%	6
2	ORG	ORIGIN ENERGY LIMITED	33.0%	50.0%	-17.0%	6
3	ABC	ADBRI LIMITED	29.0%	43.0%	-14.0%	7

4	PDL	PENDAL GROUP LIMITED	80.0%	83.0%	-3.0%	5

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	MIN	MINERAL RESOURCES LIMITED	67.363	63.090	6.77%	4
2	MPL	MEDIBANK PRIVATE LIMITED	3.447	3.376	2.10%	7
3	BSL	BLUESCOPE STEEL LIMITED	26.050	25.558	1.93%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PLS	PILBARA MINERALS LIMITED	3.938	4.050	-2.77%	4
2	COE	COOPER ENERGY LIMITED	0.284	0.288	-1.39%	5
3	ABC	ADBRI LIMITED	3.579	3.607	-0.78%	7
4	AUB	AUB GROUP LIMITED	25.757	25.915	-0.61%	3
5	WEB	WEBJET LIMITED	6.137	6.174	-0.60%	7
6	SYD	SYDNEY AIRPORT	8.688	8.700	-0.14%	4
7	ORG	ORIGIN ENERGY LIMITED	6.332	6.335	-0.05%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	GNC	GRAINCORP LIMITED	156.380	119.000	31.41%	5
2	WPL	WOODSIDE PETROLEUM LIMITED	360.816	314.154	14.85%	5
3	SFR	SANDFIRE RESOURCES LIMITED	79.460	69.647	14.09%	7
4	AWC	ALUMINA LIMITED	25.732	22.650	13.61%	5
5	MIN	MINERAL RESOURCES LIMITED	250.367	225.700	10.93%	4
6	S32	SOUTH32 LIMITED	84.393	76.484	10.34%	7
7	29M	29METALS LIMITED	15.200	14.115	7.69%	4
8	BHP	BHP GROUP LIMITED	585.347	545.487	7.31%	5
9	CSR	CSR LIMITED	40.003	37.537	6.57%	6
10	WHC	WHITEHAVEN COAL LIMITED	120.160	113.493	5.87%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	COE	COOPER ENERGY LIMITED	-11.640	-1.300	-795.38%	5
2	PDL	PENDAL GROUP LIMITED	50.100	51.683	-3.06%	5
3	SUN	SUNCORP GROUP LIMITED	67.514	69.329	-2.62%	7
4	WEB	WEBJET LIMITED	-12.646	-12.360	-2.31%	7
5	CCX	CITY CHIC COLLECTIVE LIMITED	12.180	12.460	-2.25%	5
6	QBE	QBE INSURANCE GROUP LIMITED	83.219	84.300	-1.28%	7
7	PLS	PILBARA MINERALS LIMITED	19.295	19.545	-1.28%	4
8	PPT	PERPETUAL LIMITED	263.750	267.083	-1.25%	6
9	ANZ	AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	202.783	204.783	-0.98%	7
10	PTM	PLATINUM ASSET MANAGEMENT LIMITED	21.220	21.420	-0.93%	5

Technical limitations

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

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WEEKLY REPORTS

Uranium Week: Supply Deficit

Any sanctions against Russian uranium will only widen an already existing supply deficit as the world looks to nuclear energy as a "green" alternative.

-No word yet on uranium sanctions
-Sprott looks to list in New York
- Quieter week in the spot market

By Greg Peel

US and European Union economic sanctions against Russia have yet to formally include nuclear fuel imports, but the uranium market is making the assumption some type of restriction, that would allow sufficient time for utilities to secure alternative supplies, is inevitable.

The risk that sanctions could be imposed is placing ever greater pressure on utilities to lock in commitments with existing suppliers or emerging suppliers that are perceived to present less jurisdictional, supply chain, and transportation risks, industry consultant TradeTech reports.

This is exerting even more pressure on the market and sellers are responding by actively raising their offer prices or seeking long-term contracts that will protect their future investment.

Change in Sentiment

Following the Fukushima disaster, the world began to shun nuclear power, leading to the price of uranium falling to uncommercial levels for a long period. As a result, uranium production was reduced/halted, and new investment largely dwindled, with the only notable exception being China.

However, in recent years the world has woken up to the realities of climate change, and subsequently re-embraced nuclear as a reliable source of "green" power. One by one countries have moved to adopt carbon-neutral by 2050 policies, and suddenly demand for uranium is back. This demand has nevertheless met a dearth of supply.

Hence the world was already facing a supply deficit long before Russia invaded Ukraine. Now, the market is facing not only the possibility of a major supply source becoming unavailable if sanctions against Russian nuclear fuel are imposed, but also by buyers choosing to "opt out" from any future business with Russia, TradeTech notes.

Savvy finanicial entities began to move well ahead of the producers and consumers of uranium, kicking off a multi-year rally in the uranium price which has accelerated over the past twelve months, pushing the spot uranium price up 117% in the period.

A case in point is the Sprott Physical Uranium Trust.

SPUT for NYSE?

In 2006 the New York Stock Exchange merged with electronic communications network Archipeligo to form the NYSE Arca, which has become the primary exchange for US exchange-traded products.

Last week in a filing with the US Securities and Exchange Commission, NYSE Arca proposed a rule change regarding the proposed listing and trading of the Sprott Physical Uranium Trust (SPUT) on the Exchange, TradeTech reports.

NYSE Arca noted that subject to two exceptions, being "No Redemption of Units" and "No Intraday Indicative Value", the SPUT units satisfy the Exchange's requirements and qualify for listing.

The Trust currently holds nearly 55mlbs U3O8 and had a total net asset value of US$3.56bn as of last week.

Quieter Week

The shortened week served to dampen down trading in the uranium spot market from the week before. Just under 1mlbs changed hands last week, compared to 1.2mlbs in the prior week, TradeTech reports.

The action was all played out amongst traders and speculators, with producers and utilities all but absent.

TradeTech's weekly spot price indicator rose US50c to US$63.75/lb, having risen US$4.25 the week before.

Steep backwardation of the market remains evident, with TradeTech's mid-term price indicator at US$58.00/lb and long-term at US$50.00/lb.

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

WEEKLY REPORTS

The Short Report - 21 Apr 2022

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

Summary:

By Greg Peel

Week Ending April 14, 2022.

Last week saw the beginnings of a rally that took the ASX200 up 2.5% from April 12 to April 20, with resources and banks leading the way.

Having highlighted weakness in consumer discretionary in last week's Report, and subsequent increases in short positions in relevant stocks, last week saw the complete opposite. Indeed, the sea of green below highlights shorters bailing out.

All but one stock changing brackets on the table below saw a short reduction, the exception being Tyro Payments ((TYR)) which popped in at 5.9%. Otherwise, Webjet ((WEB)) shorts fell to 8.8% from 10.4%, Kogan ((KGN)) fell to 7.6% from 9.1%, and PointsBet Holdings ((PBH)) to 5.9% from 7.5%.

Also dropping from the 7% bracket to the 5% were Omni Bridgeway ((OBL)) and Regis Resources ((RRL)).

I also highlighted a fall in shorts for Paladin Energy ((PDN)) in last week's Report, to 5.8% from 7.2%, and last week Paladin disappeared altogether.

So did six other stocks, suddenly reducing the list of 5%-plus shorted stocks by -7.

No specific Movers & Shakers this week – the whole market shook.

Weekly short positions as a percentage of market cap:

10%+

FLT 18.1
BET 11.2
NAN 10.4

Out: WEB

9.0-9.9

EML

Out: PNV, Z1P, KGN

8.0-8.9%

WEM, PNV, Z1P

In: WEB, PNV, Z1P Out: AMA

7.0-7.9%

MSB, KGN, AMA

In: KGN, AMA Out: OBL, PBH, APX, RRL

6.0-6.9%

ING, CUV, APX

In: APX Out: TPW

5.0-5.9%

OBL, TYR, PBH, IEL, RRL, ADH, NHC, TPW

In: OBL, PBH, RRL, TPW, TYR Out: PDN, NEA, CCX, MFG, MP1, RBL, BRG

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	NAB	0.7	0.5
ANZ	0.5	0.5	NCM	1.3	1.2
BHP	0.4	0.4	RIO	0.6	0.6
CBA	0.6	0.6	STO	0.2	0.2
COL	0.5	0.7	TCL	0.7	0.6
CSL	0.1	0.2	TLS	0.2	0.2
FMG	1.4	1.3	WBC	1.3	1.3
GMG	0.2	0.2	WES	0.3	0.3
JHX	0.5	0.5	WOW	0.5	0.4
MQG	0.4	0.4	WPL	2.1	2.0

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

RUDI'S VIEWS

Rudi's View: Family Zone, Healthia, Mineral Resources, ReadyTech, And Xero

In this week's Weekly Insights:

-Market Sentiment And Warning Signals
-What's With Liquidity?
-Conviction Calls
-FNArena Talks
-Rudi Presents

By Rudi Filapek-Vandyck, Editor FNArena

Market Sentiment And Warning Signals

Are we witnessing a glaring disconnect between unbridled share market optimism and deteriorating market fundamentals?

Yes, say **market strategists at Bank of America,** whose April survey of global funds managers revealed overall anxiety about deteriorating growth, potentially resulting in 1970s style of stagflation, and has not been this high since August 2008, when the GFC bear market was about to take yet another major tumble downwards.

Actually, the April survey showed optimism regarding global growth has by now sunk to an all-time low with survey data going back all the way to 1994.

Traditionally when sentiment sinks this low it is treated as a Buy-signal by the strategists, but not this time. This time, suggest BofA strategists, investors should treat the disconnect in equities as an opportunity to lighten up and take risk off the table.

In institutional lingo this becomes "Sell the rallies" with the strategists describing the opening weeks of the calendar year as merely the "appetizer not main course of 2022".

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Not everybody is on board with the BofA view, of course, how else to explain the swift recovery that occurred in March, giving the ASX the chance to outperform on the global stage.

But there is growing sympathy for the view elsewhere. The **strategy team at Morgan Stanley** has been warning for a while that corporate profits will come under pressure in the US, though this is not yet visible in market forecasts.

Morgan Stanley's team led by Mike Wilson pointed out last week the breadth that carries US corporate profit growth is narrowing, and has been narrowing for a while.

Wilson & co believe the current reporting season is when revisions to profit forecasts in the US will turn negative, which, if history can be relied upon, will take the steam out of US markets' momentum.

Digging deeper through in-house data and indicators, the strategists believe the market looks poised to retreat to 4000 (S&P500) from its current level of circa 4400.

All eyes on the US corporate results season thus, as it might turn out a whole lot more important than has been the case over the past two years.

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US strategists at Citi are equally issuing more cautious views and research this month.

Citi's Panic/Eurphoria index, re-labeled as Levkovich index in memoriam of the deceased, well-respected market strategist, has now risen into Euphoria territory. History shows this index can move a lot further into Euphoria, but nevertheless, Citi reports the current index level suggests a 27% probability of a positive return over the next twelve months.

Everyone with an eye on the missing 73% in that statistic can understand why Citi strategists are turning more cautious. Though they are, as yet, not as convinced as are the colleagues at Morgan Stanley, that US corporate profit revisions stand ready to provide a wake-up call to investors.

What caught my eye is Citi's proprietary Bear Market Checklist, always widely reported on when market observers need an independent tool for confirmation the outlook remains rosy. This time around, Citi's checklist has 45% of items in the red, at least calling for caution.

In Citi's own experience, it remains too early to genuinely become worried until 50% of the checklist is in the red or flashing yellow (caution), which currently is not the case. But the checklist consists of 20 items only and thus further deterioration in 1 or 2 additional items might push total warning signs past 50%.

An inverted US bond curve, in combination with widening high yield credit spreads, would do exactly that.

Citi has a year-end target for the S&P500 of 4700 and the strategists take it as a positive the index has now pulled back after reaching that level late last year. Another positive is seen in the fact that earnings forecasts in the US have thus far proven to be remarkably resilient.

The offset is that historical analysis by Morgan Stanley suggests share prices will likely start trending south before analysts get busy lowering their forecasts.

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For what it's worth, **JP Morgan's global markets strategy team** led by Marko Kolanovic has been among the most bullish this year, and there the decision was made to take profits, but to remain bullish nevertheless.

JP Morgan has redirected its bullish view towards Emerging Markets and commodities and energy. Its year-end target for the S&P500 is 4900, down from 5050 prior.

It is Kolanovic & co's view that strength in commodities will persist, whereas the speculative parts of markets have already tanked, while geopolitical risk is expected to subside.

The overall negative sentiment, as also expressed in this month's BofA global survey, is seen as yet more evidence the path of least resistance remains up.

For further reading, recent Weekly Insights updates:

Real Market Support Is Invisible:

-https://www.fnarena.com/index.php/2022/04/07/rudis-view-real-market-support-is-invisible/

Preparing For August:

-https://www.fnarena.com/index.php/2022/03/24/rudis-view-preparing-for-august/

<u>What's With Liquidity?</u>

When market strategists make forecasts, it usually is based on the predicted pace of growth, combined with factors such as inflation, interest rates and the likely valuation (i.e. market multiple) investors might be prepared to pay for corporate profits.

But what about liquidity?

If liquidity has been a positive factor during the decade past when all major central banks were increasing global liquidity, then surely it must be taken as a negative when central banks such as the Federal Reserve are now preparing to reduce it?

I used a recent online presentation by **JP Morgan Asset Management** to ask the question to **global market strategist Kerry Craig**.

His response proved pretty much in line with my own thoughts on the subject, and what I have been including in my presentations this year, such as at the recent national conference from the Australian Investors Association (AIA).

Reducing global liquidity, reckons Craig, will hit those assets most that have been a prime beneficiary. His attention is foremost focused on the more spurious and speculative parts of financial markets; think small-cap technology businesses with no profits or cash flows, and potentially even crypto-currencies and NFTs, and the like.

Craig sees reducing liquidity as yet another reason as to why investors must dial back on their speculative behaviour and focus on less-speculative, quality businesses that generate and grow profits, and have the pricing power to sustain this through what looks like a tougher environment ahead.

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A local press release by **Martin Currie Australia** has **chief investment officer Reece Birtles** singing from the same song sheet, with emphasis on a more challenging inflation-environment which separates companies who can pass through input price increases from those who cannot.

Examples highlighted by Birtles:

-Packaging manufacturer Amcor ((AMC)) has seen higher costs but it has been able to increase prices without losing sales;

-Due to the essential nature of the goods they sell, Woolworths Group ((WOW)) and other supermarket businesses are doing a solid job of holding their gross profit margins by passing through the rising cost of goods;

-Accelerating inflation has been a positive for Scentre Group's ((SCG)) regional and super-regional shopping centres. They have high tenant occupancy and rental contracts with CPI-adjusted lease renewal mechanisms;

-Many infrastructure and utility companies also have CPI-linked contracts. Gas pipeline company APA Group's ((APA)) operating expenses are a modest part of revenues, while revenue contracts are typically long-term take-or-pay with CPI-linkage mechanisms. As inflation increases, the dollar value of cashflow will increase;

-Banks face elevated risks as households come under pressure from higher costs and interest rates. But the banks are well provisioned, as are households, and their net interest margins will rise as interest rates rise. On balance, higher rates are positive for banks.

The press release finishes with the statement: "Australia has very high-quality financials that will benefit from rising rates and resources companies that will benefit from the Russia disruption and the demand for net-zero transition. Now, more than ever, is the time to allocate to value."

Conviction Calls

Wilsons has added Telix Pharmaceuticals ((TLX)) to its selection of Conviction Calls. Apart from a long-standing positive view on the company's Illuccix product (prostate cancer imaging), and deep pipeline of adjacent diagnostics and therapies, the fact the share price halved between mid-January and late March proved one important factor as well.

Companies that remained on the list are ARB Corp ((ARB)), Collins Foods ((CKF)), Ridley Corp ((RIC)). Aroa Biosurgery ((ARX)), Immutep ((IMM)), ReadyTech ((RDY)), Plenti ((PLT)), and City Chic Collective ((CCX)).

****

A recent strategy update by **UBS** suggests the AUD may well be on its way to US80c on the combination of a stronger economy (one that benefits from higher commodity prices) and an equally outperforming share market, where commodity producers are an important and prominent feature.

But what are the implications of such a strong currency appreciation for individual stocks?

UBS's initial tip is that some retail and auto-related companies might see some margin relief as they sell locally but with lots of foreign currency impact on the general costs of doing business.

Examples include Adairs ((ADH)), Eagers Automotive ((APE)), GUD Holdings ((GUD)), Premier Investments ((PMV)), Super Retail Group ((SUL)) and Temple & Webster ((TPW)).

The BIG Surprise, however, sits on top of the broker's list of who's to benefit most from such a firm 10% appreciation of the AUD/USD. On UBS's calculations, Xero's ((XRO)) earnings would receive a boost of no less than 20%, followed, at length, by the likes of Qantas Airways ((QAN)), and News Corp ((NWS)).

On the negative side, there are plenty of more surprises with OZ Minerals ((OZL)) identified as the currency's biggest victim (-37%), followed by Northern Star ((NST)), Evolution Mining ((WVN)), Allkem ((AKE)), Gold Road Resources ((GOR)), Whitehaven Coal ((WHC)), and Origin Energy ((ORG)).

The obvious observation to make is these forecasts do not take into account that higher commodity prices can more than compensate for the loss in translation from currency strength.

On a broader, portfolio angle, UBS is sticking with a cyclical bias and has thus upgraded the mining sector to Overweight. Energy remainss Overweight while Technology, Media & Telecoms (TMT) has been upgraded to Neutral.

Financials has been downgraded to Neutral as UBS observes there is less valuation appeal following the strong start to the new calendar year. With earnings momentum deteriorating for healthcare companies, that sector has now been downgraded to Underweight.

UBS is equally Overweight Consumer Discretionary as Australian consumers are not expected to moderate their spending this year.

Special Note: the Special Reports section on the FNArena website (paying subscribers only) contains our very own '**The AUD and the Australian Share Market**' report, with the added remark this report was put together in 2013.

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Goldman Sachs added three local software companies to its coverage, which led to fresh Buy ratings for ReadyTech Holdings and TechnologyOne ((RDY)) while mini-TechOne, Objective Corp ((OCL)), received a maiden Neutral rating.

The generally positive view is premised on the "long duration structural tailwinds for cloud software and digital transformation in an expanding cloud software TAM" states the report.

TAM stands for total addressable market for those readers not familiar with the typical analyst lingo.

Target prices are respectively $5.00, $13.90 and $19.05.

Goldman Sachs equally initiated coverage on WiseTech Global ((WTC)) which generated yet another Neutral rating with a price target of $53 while the broker grabbed the opportunity to reiterate its Buy recommendation for Xero; price target $133.

****

Shaw and Partners has stuck its neck out, big time!, and declared this year's sell-off in technology stocks a gift for investors who'd like to grab "exceptional opportunities' that only come along during exceptional bear markets, such as 2020's covid-crisis and the Nasdaq-meltdown in March 2000.

As a reminder to investors, and to underpin that bold statement, the broker makes the observation that; "Structural trends for growth companies remain in place and in many cases are accelerating". These trends include:

-Public cloud
-Shift to digital
-Shift to consumption and usage based models
-Proliferation of interconnected devices
-Ecommerce
-Digital payments
-De-fi lending
-Gaming
-Disruptors

Still not convinced?

"We firmly believe that over time, growth should dominate returns and we continue to remain positive on our companies under coverage, which we have selected for long term outperformance."

As well as:

"The major determinant of share price performance over time isn’t the multiple you pay, but the growth you get."

Shaw's top three for the sector consists of Aussie Broadband ((ABB)), Monash IVF ((MVF)), and Hub24 ((HUB)).

The broker adds share prices of Dubber ((DUB)) and Family Zone ((FZO)) are considered well below fair value.

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Shaw and Partners **Large Cap Model Portfolio** currently consists of the following constituents: BHP Group ((BHP)), Evolution Mining ((EVN)), Goodman Group ((GMG)), Macquarie Group ((MQG)), Metcash ((MTS)), National Australia Bank ((NAB)), REA Group ((REA)), Telstra ((TLS)), Woodside Petroleum ((WPL)), and Xero.

The broker's selection of recommended small cap stories comprises of: Antipa Minerals ((AZY)), Boab Metals ((BML)), Coventry Group ((CYG)), Elders ((ELD)), Family Zone, ReadyTech Holdings, Silk Logistics ((SLH)), SmartPay ((SMP)), SRG Global ((SRG)), and Strandline Resources ((STA)).

****

Mining sector specialists at **Morgan Stanley** in Europe have selected their most favoured and least favoured global exposures, with a few ASX-listed companies making their lists.

Newcrest Mining ((NCM)) and Mineral Resources ((MIN)) both made the global most preferred list, while BlueScope Steel ((BSL)) made it onto the most preferred list specifically for steel manufacturers.

The least preferred list has one ASX-listed name: IGO (IGO)).

****

The aforementioned Shaw and Partners has also made the effort to highlight to investors the local healthcare sector should be considered a major beneficiary of society coming to terms with covid and reverting back to more 'normal' conditions, otherwise known as the re-opening trade.

Stocks specifically highlighted by the broker: Monash IVF, Healthia ((HLA)), Apiam Animal Health ((AHX)), and Capitol Health ((CAJ)).

****

Something to think about from **MFS** portfolio manager and global investment strategist, Robert Almeida:

"Over the past 500 years, financial market manias have come like the tides: The incoming tide wipes out everyone who bets against it. Later, however, the outgoing one wipes out those who bet with it. The late-1990s and the US housing bubble of the mid-2000s are prime examples of this pattern.

"Most recently, anyone who was underweight low-quality cyclicals (major beneficiaries of the stimulus described above) and high P-E “concept” assets, such as biotech or cloud companies, significantly underperformed passive strategies. But in my view, we’re closing in on high tide and investors who bet on it rising further will get their comeuppance while those quality companies who compound above-average margins on a secular basis will assert market leadership.

"When uncertainty is high like it is today, investors may want to concentrate on owning assets where cash flow visibility is clearer and where the products are mission-critical and underowning assets where profits are dependent on factors outside of companies’ control or on unproven concepts."

FNArena Talks

The Australian Investors Association (AIA) has made available video recordings of the recent National Conference including the Plenary Panel that closed off Day One, which also includes yours truly.

Accessing the video (54 minutes) requires setting up a free account with Vimeo, while the video itself will only be available until June 30th.

https://vimeo.com/697284937

Rudi Presents

This Thursday morning, 11am, I will be presenting (in person, on stage) to members of the Australian Shareholders Association (ASA) in Sydney. Place of action is the Sydney Mechanics School of Arts at 280 Pitt St.

Slides of the presentation can be downloaded via SPECIAL REPORTS on the website.

The following week I will do it all again to member of the Investors Group of University of 3rd Age (U3A) in Toowoomba, via Zoom, on April 27.

(This story was written on Monday 19th April, 2022. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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

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

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