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Friday, 19 November 2021

Welcome To Covid's Two-Speed World

CBA: Oh How The Mighty Have Fallen

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INTERNATIONAL

Welcome To Covid's Two-Speed World

Authorities and analysts are taking a stab at estimating when the world's economies will reopen as economic pressure escalates.

-World to reopen despite spike in pandemic cases
-Focus shifts to covid management - the new big business
-Developing countries to lag by three years, barring a few notable exceptions
-Australia among the APAC leaders
-Uneven recovery across industries

By Sarah Mills

After accepting the long obvious – that a covid elimination strategy is not achievable – authorities and analysts are taking a stab at estimating when the world's economies will reopen and at what might be the resulting economic growth.

Global economic pressures are rising as pandemic-driven supply-chain bottlenecks and stimulus-driven demand generate price inflation; and energy prices swing wildly.

This has been exacerbated by wage inflation as workers in many rich countries fail to return to work, while many in services and tourism-oriented industries have found work in other sectors.

Such trends are exacerbating issues in supply chains, which have to adapt to changed spending and work patterns.

The general consensus is that early re-openers will enjoy considerable economic gains. *The Economist* has been hinting for several months to a global reopening in early 2022; and there is little doubt that economic imperatives will force the situation.

“If normality does not return in 2022, the alternative is a painful economic adjustment,” opined the magazine's Economics Editor Henry Curr earlier in November.

<u>All this as covid cases continue to spike in many parts of the world</u>

John Hopkins University data reveals covid cases are increasing despite more vaccinations and booster shots.

Covid cases are rising in the Upper Midwest and Southwest and Northeast regions of the US. Yet the US reopened borders in early November to double-jabbed visitors, suggesting it will enjoy strong early economic advantage.

Europe is also struggling to contain covid, but its reopening may be delayed.

Longview Economics analyst Brad Waddington reports that infections are continuing to rise in Europe despite high vaccination rates – not a good sign heading into winter.

Waddington predicts this will pose a major problem for Europe unless it rapidly accelerates its booster program. Waddington attributes rising infection rates to easier restrictions, mobility levels at their highest since the pandemic began.

The data show the unvaccinated remain the most numerous of the newly infected, but infections among the vaccinated in Germany, fore example, have risen from 21% in September to 41% by mid-November.

Focus shifts to management

Longview's data raise questions about vaccine efficacy.

The World Health Organisation last year advised that vaccinations would not solve the world's covid problems, shifting the focus to management..

Waddington attributes the problem to waning vaccine efficacy, which he says boosts the case for an acceleration of booster programs, and proposes reducing the minimum waiting time between shots from six months to three-to-four months.

China's top infectious disease expert Zhang Wenhong has announced that mass vaccination has not been as effective as expected and is calling for enhancements; meanwhile, pharmaceutical companies are working on second-generation vaccines offering longer immunity and other solutions.

All this suggests the covid investment thesis will remain in play for at least the next two years.

Covid re-openings point to uneven recoveries

The International Monetary Fund, meanwhile, warns the global economic recovery will be grossly uneven, with poorer countries set to struggle.

The IMF recently shaved Germany and United States' forecasts to reflect supply chain issues; downgraded Japan and Asian as the spread of the delta variant increased restrictions; and increased forecasts for commodity producers in the Latin America and the Middle East, thanks to rising fuel and metal prices.

Asia Pacific and Sub-Sahara the likely global laggards

The Economist reports recovery in Asia has been slow and is likely to lag the world.

The United Nations estimates GDP fell roughly -8.4% in South-East Asia in 2020.

The IMF predicts the emergence of a two-speed global economic, in which the rich world hits pre-pandemic levels in 2022, while the rest of world limps towards a break-even date of 2025.

Oxford Economics recently took a stab at estimating the reopening dates for Asia Pacific nations. Restrictions will vary, depending on vaccine progress; coronavirus prevalence; and economic constraints.

But until vaccinations reach 80% in the region, Oxford Economics expects a return to normalcy for the entire region is not expected until the first half of 2022.

Overall, the economists expect APAC GDP will rise by an average of 5.4% in 2022, followed by a 6.1% rise in services. Oxford Economics says that given the costs of lockdowns, the economic pressure to reopen is high and the authorities are likely to reopen as soon as possible.

It expects countries suffering stronger the economic impact of covid and tighter the restrictions, will most likely experience a strong GDP rebound and relaxation of limits.

Developed Asian markets should lead the way, and emerging markets are expected to lag given only 27% to 36% of the populations in Vietnam, Indonesia and the Philippines are fully vaccinated.

<u>Scorecard ranks the field and Australia may bolt from the gate</u>

The team at Oxford Economics has produced a scorecard ranking 14 Asia Pacific economies based on vaccination rates and case numbers, which predicts Malaysia, Australia and New Zealand will open first, yielding strong economic advantages.

Malaysia tops the chart, propelled by strong vaccinations and economic pain – the country tipping into recession in the September quarter, and gross domestic product (GDP) languishing -6% below pre-covid figures.

Korea, Japan and Singapore aren't too far behind given high vaccination rates.

Japan, like Australia, has already relaxed limits on dining, recreation, retail and mobility. Singapore has already extended its vaccinated travel lane scheme, starting November 29.

Languishing near the bottom, tourism-dependent countries Thailand and Philippines will need to reopen soon as the economic costs mounts, but given low vaccination rates, this is likely to result in a reopening of international borders, while maintaining domestic restrictions.

The Economist reports that Thailand is experimenting with a sandbox concept wherein fully vaccinated tourists can lounge around on paradise islands where most residents are fully jabbed, two weeks after which, visitors are free to travel to the rest of the country.

Although, given the rest of the population is not vaccinated, the mind boggles.

Other countries such as Vietnam are also considering adopting sandbox destinations.

Interestingly, despite China's high vaccination and low case numbers Oxford Economics says the country can rely on the strength of its domestic economy and hold back on reopening, maintaining its zero-covid policy until the first half of 2022.

The Economist doubts China will reopen borders until 2023.

This is likely to have a knock-on effect in Thailand, given that by 2023, Chinese tourist numbers are forecast to still be at least -20% below 2019 levels, reports Oxford Economics.

Given India has very few restraints, its late reopening is virtually moot. The country is allowing fully vaccinated arrivals from 99 countries to travel quarantine-free in the country.

Vietnam is also at the lower end of the scorecard but is feeling less economic stress and can afford to delay reopening.

Thanks to its growing manufacturing base, GDP rose 2.9% according to the World Bank in 2020, possibly benefiting from re-domiciling out of China, and the bank forecasts a 4.8% expansion in 2021.

But the country needs to develop a strong service sector to leverage and consolidate these gains and continue to attract foreign manufacturers.

<u>Industry by industry account</u>

Re-openings will have a more pronounced affect on certain industries.

Services such as accommodation and dining are expected to be the big winners.

While tourism should be a big winner, Oxford Economics does not expect international visitors will return to pre-pandemic levels until 2025.

In 2019, tourism funded 42m jobs in South-East Asia, according to *The Economist* – 13% of total employment and 12% of GDP.

Meanwhile, *The Economist* notes that wages in leisure and hospitality are soaring, after many workers found new lives in other occupations.

The aviation industry is likely to struggle.

The Economist sides with early pandemic bets that international travel will not recover to pre-covid levels before 2023 at the earliest, and most likely not until 2024.

The Economist reports that domestic travel in large countries has already recovered, with China surpassing pre-covid levels and America hot on its heels.

The magazine also expects international leisure bookings will surge as restrictions fall, excluding the emergence of a more dangerous mutation, thanks to pent up demand.

But businesses are forecast to spend less on travel, some surveys suggesting budget cuts of -20% to -40%.

"The gloomiest prognosticators reckon half of all business travel could be gone for good," says *The Economist*. "Many meetings and conferences will remain virtual, or at least take place in a hybrid form with far fewer people attending in person."

Wealthy globetrotters will be the one exclusion to this trend, as demand for private-jet seats rockets.

WingX, a private aviation data firm reports business jet activity jumped 70% in the first eight months of 2021, compared with 2020, a touch higher than pre-pandemic levels.

This compares with standard commercial flights, which are still roughly -40% below pandemic levels.

AUSTRALIA

Newcrest Going For Gold With Acquisition

The acquisition of Pretium Resources by Newcrest Mining provides a more than twelve-year production boost for the company, but beyond that offers geographic and synergistic opportunity in a deposit rich region.

-Newcrest Mining is set to acquire Canada's Pretium Resources
-Core resource Brucejack mine offers a foot hold in a gold-copper deposit rich region

Newcrest Mining ((NCM)) will commit US$2.8bn to the acquisition of Pretium Resources, the owners of Canadian underground gold mine Brucejack. Funding for the acquisition will be a combination of existing debt reserves and new scrip.

The transaction, which has been unanimously recommended by the Pretium Resources board, is expected to complete in the third quarter of FY22

Difficult geography but further discovery potential.

Newcrest has held an approximate 5% stake in Pretium Resources since 2019, which Shaw and Partners points out gives the company an understanding of its new acquisition and the region.

The Brucejack mine, located in Canada's British Colombia Golden Triangle, is Pretium's core asset. The mine produced 348,000 ounces of gold at an all-in sustaining cost of US$981 per ounce in 2020.

Macquarie forecasts the acquisition to increase Newcrest's annual production by more than 350,000 ounces over the next twelve years, sustaining an annual production of comfortably over 2m ounces per annum for Newcrest.

Technical challenges in Brucejack's resource model has driven reserve downgrades in recent years, and Credit Suisse notes the project is likely to present geological challenges for the company.

Morgan Stanley further noted Brucejack's costs increased to US$1,060-1,190/oz in 2021, from US$981/oz in 2020, compared to Newcrest's current group cost base of US$885/oz, but allows for potential for the company to implement change to improve these metrics.

Despite this, Credit Suisse notes Newcrest appears confident that it can execute and deliver value to justify the premium paid. The broker highlighted the company has demonstrated experience in rebuilding and back testing its resource model and mine plan, and has mined similar deposit types in the past, while Shaw correlated production issues with mine, rather than mill, constraints the broker looks to strategy from the company as to how it plans to unlock further production potential.

The analysts do like that the transaction offers Newcrest a foothold in the region, with Brucejack located within 15km of large, undeveloped gold-copper porphyry deposits. The broker notes the location offers potential for Newcrest to make a large discovery or to form partnerships to re-scope existing discoveries.

In particular Ord Minnett pointed to the Golden Marmot prospect, only 3.5km from Brucejack, where recent intercepts have confirmed potential for high-grade mineralisation in the region. Shaw echoed similar sentiments, highlighting the location of the Brucejack mine offered synergies and geographical benefits.

The company also pointed to potential mine and mill expansions, as well as mine life extension, as creating additional value. Given a large resource base Ord Minnett expects mine life can extend beyond the guided end-of-mine-life in 2032, and models an additional five years of production for the site noting this still equates to only 56% of resources.

Outlook for Newcrest Mining

Credit Suisse retains its Outperform rating and target price of $31.00. The broker expects the transaction benefit to be flat year-on-year in FY22 but deliver a 20% increase to production in FY23

Ord Minnett retains its Buy rating and target price of $30.00. The broker values the transaction below the purchase price at US$2.4bn despite potential upside risk but noted Newcrest has confirmed its position as the ASX's largest gold producer.

Shaw and Partners is Buy rated with a target price of $32.00. Shaw analysts described the purchase as logical and fairly priced.

Macquarie maintains its Outperform rating and target price of $30.00. Incorporating Brucejack metrics and acquisition purchase price into its outlook, the broker updates earnings per share forecasts by 1% in FY22, -1% in FY24 and 5% in FY27 and FY28 and allows for smaller gains following that.

Morgan Stanley retains its Overweight rating and target price of $30.00. Morgan Stanley analysts also noted the premium paid for the acquisition was higher than Newcrest's trailing average.

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AUSTRALIA

Explosive Result For Incitec Pivot

Incitec Pivot's FY21 earnings result has blown broker forecasts away, and with more to come the talk is now of capital management.

-Incitec Pivot's FY21 a substantial earnings beat
-Turnaround in a tough year
-Prices to remain supported
-Capital management on the cards

By Greg Peel

It was not the most favourable first half FY21 for fertiliser/explosives producer Incitec Pivot ((IPL)). Let us count the ways:

Heavy plant maintenance and turnaround schedule; lost production due to Hurricane Ida; unplanned manufacturing outages; and negative exchange rate movements.

But Incitec followed up with second half performance that has blown brokers away, leading to a substantial beat of consensus forecasts on full-year earnings. While there were several driving factors, strong ammonia and diammonium phosphate (DAP) prices were primary amongst them.

"It's hard to imagine," notes Credit Suisse, "how consensus forecasts missed the impact of fertiliser pricing on IPL's FY21".

Yet it's not a flash in the pan. Brokers all point to stronger for longer fertiliser prices going forward on the back of strong demand meeting constrained supply.

Doesn't Get Much Better

The demand side is being driven by favourable weather conditions for agriculture across Incitec's geographies, and not just in Australia. We need only cite yesterday's earnings result and outlook from Elders ((ELD)), which among other things sells fertiliser across a range of geographies, which included an expectation of another 12-18 months of solid seasonal conditions.

On the supply side, nitrogen-based fertilisers (ammonia is compound of nitrogen and hydrogen and DAP a compound of nitrogen, hydrogen, phosphorus and oxygen) are derived from natural gas (methane) and the world, particularly the northern hemisphere, is suffering from a critical shortage of gas and resultant soaring prices.

Russian cutbacks to gas supply to Europe are part of the problem and China, too, has restricted exports. With investors and lenders now shying away from further fossil fuel development, there is little end in sight to gas shortages, particularly heading into the northern winter.

To this equation we add in full plant utilisation at Incitec's Moranbah production facility (Queensland) after a troublesome period and the Waggaman plant (US) now back to full name plate capacity in the wake of Hurricane Ida.

Bearing in mind fertiliser is also used to produce explosives for the mining industry, brokers point to a reasonable likelihood of upside from product mix in Australia and an accelerating Quarry & Construction sector in the Americas. In the US, President Biden this morning signed off on the US$1.2trn bipartisan infrastructure stimulus bill so long in the making.

All of the above suggests that at least for the near term, Incitec Pivot will be a cash machine. The FY21 final dividend of 9.3c also exceeded broker expectations as did the level of debt reduction. This provides Incitec with balance sheet flexibility and, as all brokers suggests, the prospect of capital management ahead.

There are five Buy and two Hold or equivalent ratings for Incitec Pivot in the FNArena broker database. The consensus target has increased to $3.56 from $3.24 on a range of $3.14 from Credit Suisse (Neutral), who considers the benefit will be more in capital management than share price upside per se, and $4.30 from Morgan Stanley (Overweight).

Consensus dividend forecasts for FY22 suggest a 5.0% yield.

AUSTRALIA

Elders: Singing In The Rain

A solid results beat from Elders had a lot to do with favourable weather conditions, but brokers agree the company's positive outlook is not solely weather-dependent

-Elders FY21 solidly beats consensus
-Seasonal conditions the primary driver
-Offering several other growth drivers beyond favourable seasons

By Greg Peel

It is a truth universally acknowledged that if one invests in an agricultural company one is placing oneself in the hands of the weather gods. For Elders ((ELD)), it's been a case of famine to feast on an earnings basis as three years of devastating drought have given way to two years of quite the opposite.

From 2017-19 drought to 2020-21 above-average rainfall, Elders share price has recovered by 200%.

Yet while crop harvests and livestock prices will always be significant drivers of Elders' performance, the company is executing on its plans to drive longer term earnings through other means than looking nervously out the window, and brokers see this as a distinguishing factor.

All things to all farmers

There is very little, if anything, Elders cannot offer farmers of crops or livestock. From seeds, fertilisers and animal health products, to farming advice, livestock and wool sales agency, to rural real estate agency and property management, to rural loan broking, banking and insurance, and all the way to meat processing and distribution, Elders is a farmer's one-stop shop.

And that all-encompassing diversity is only set to grow.

Elders' FY21 results materially beat consensus forecasts. Solid earnings growth was supported by both revenue and margin growth, and driven both organically and through no less than nine bolt-on acquisitions in the period.

No less? Elders is eyeing off 27 more potential bolt-ons.

The Rural Products vision was the primary outperformer, with favourable seasonal conditions leading to bumper harvests and soaring livestock prices (farmers continue to re-stock after having been forced to de-stock during the drought).

The division's performance was also boosted by the "backward integration" of rural products retailer Titan Ag, which had sold all its products through Elders since 2006 but has now been fully acquired, and a full year since the acquisition of Australian Independent Rural Retailers, which despite the name offers wholesale rural services. Although these did increase corporate costs in the period

Backward integration is the acquisition of businesses that were previously your suppliers.

Livestock agency was not quite as impressive despite higher prices, as volumes were weaker. The only underperforming division was meat processing, ironically because of those same higher livestock prices. But that division represents only 2% of total earnings.

Real estate agency also saw solid growth as demand for rural property has returned in earnest since the drought, and more so since covid, as many have chosen to escape plague-ridden cities to the joys of fresh air.

But while it was a result to be remembered and celebrated for some time, the question is can the good times continue to roll, or will Elders forever be beholden to the perennial climate cycle of wet and dry? (Don't mention climate change.)

Other Drivers

Management is expecting a continuation of positive seasonal conditions and elevated livestock prices over FY22-23, but does not provide specific guidance. Brokers acknowledge ongoing conditions but also warn cattle prices will not be as elevated forever.

However, Elders has a cunning plan. Well, several actually.

One plan is to gain market share in new geographies with the company's wide product and services portfolio. Analysts agree there is a broad opportunity here, as currently Elders can only boast 18% market share.

Further support will come from the aforementioned 27 bolt-on acquisition targets and ongoing backward integration of Titan and AIRR.

And as is the case with virtually every long-established business (Elders was founded in 1839), there are benefits to be had from planned systems modernisation.

Put it all together and brokers are as one in agreeing Elders future growth lies beyond just the fickle vagaries of the weather. The only question is as to whether the market has already priced this in.

Too Rich?

Of the four FNArena database brokers covering Elders, UBS, Macquarie and Citi all like the growth story and have Buy or equivalent ratings. Macquarie, for one, believes a 16.5x forward PE is attractive in the context of the company's growth profile.

Goldman Sachs, not in the database, goes further in suggesting the rural products/services industry could go the way of supermarkets and DIY hardware over the last 20 years in consolidating towards only a few big players, and Elders is well positioned on this basis. Goldman rates a Buy.

Database broker Morgans, on the other hand, finds valuation on an enterprise value to earnings multiple basis to be sufficient, and looks ahead to lower cattle prices in rating Hold.

Outside the database, Bell Potter (Hold) believes upside is well understood by the market, while Wilsons is Underweight.

Disparity is reflected in a wide range of targets, from $15.65 from Goldman Sachs (last price $11.77) to $10.03 from Wilsons.

As unpredictable as the weather, perhaps.

Database broker targets net out to $13.60, suggesting 15.5% upside.

AUSTRALIA

SMSFundamentals: Active Managers Switch To ETFs

As global ETF assets surpass US$10trn, the Australian ETF market is experiencing boom conditions and attracting increasing numbers of active managers.

-A buoyant ETF market attracts active managers
-The three top-performing ETF funds in the Australian market
-Globally, ETFs account for 25% of assets held by all equity funds
-Bitcoin and ESG-focused EFTs are boosting flows

By Mark Woodruff

As a result of boom conditions for Australian Exchange Traded Funds (ETFs), active managers now see greater growth opportunities in this market, compared to the former distribution channel of unlisted unit trusts.

Actively managed products have increased their share of new products by 26% over the last 12 months, according to John Dyall, head of investment research at Rainmaker Information.

Australia was one of the first movers in the world when it came to combining existing unlisted unit trusts with ETFs, according to Dyall. From around November 2020, several major fund managers restructured unit trusts into ETFs or formed hybrid structures.

This shift to active products is also part of an underlying trend where more actively-managed international equities products are entering the ETF market. Over one year, total assets for such products have grown more than fourfold to $20.5bn (16.35% of the market) from $3.7bn (5% of the market) as at 30 September 2020, according to Rainmaker data.

Meanwhile, active international equities funds structured as unit trusts lost an estimated -4% in funds flow over the past 12 months.

Australian ETF boom conditions quantified

In Australia, there has been ETF industry growth of 72% (or $53.2bn in net market capitalisation growth) over the last 12 months, according to data compiled by BetaShares, one of the top two leading managers of ETFs traded on the ASX.

A fresh record high of $126.9bn in market capitalisation was established in October, growing by $1.7bn for the month.

The top three performing funds were the ETFS Hydrogen ETF ((HGEN)) which rose by 23.8%, followed by the ETFS Ultra Long Nasdaq 100 Hedge Fund ((LNAS)) which climbed 18.4%, and the BetaShares Geared US Equity Fund Currency ((GGUS)) with a 15% return.

Global ETFs

Globally, total **ETF assets have surpassed US$10tr**, climbing from US$1tr in 2009, when an ETF investment trend began after the Great Financial Crisis.

In figures compiled by EPFR Global, the trend has further accelerated during 2021, with a further US$3tr added to the fourth quarter 2020 balance of US$7tr.

Drilling down further, **equity ETFs now account for 25% of assets held by all equity funds**, while 15% of all bond fund assets are lodged in ETFs.

Helping to boost inflows, a **Bitcoin ETF** set a new record for accumulating US$1bn in assets, while flows into ETFs with socially responsible or environmental, social and governance mandates **(SRI/ESG)** surged.

By geography, North America accounts for 65% of the total assets under management (AUM) for all ETFs. The next ETFs in order of AUM are: global 13%; emerging markets 9%; Asia Pacific 7% and Europe with a 5% share; all data by EPFR global.

Global Active ETFs and ETPs

After the nineteenth month of consecutive net inflows, the Global Active ETF/Exchange Traded Products (ETP) industry had assets of US$439bn at the end of October 2021, a 53.6% year-to-date (ytd) increase in 2021.

Net inflows of US$5.21bn flowed into **equity-focused actively-managed ETFs/ETPs** listed globally during October, bringing net inflows ytd in 2021 to US$57.93bn. This compares to the US$19.47bn of net inflows into equity products for the comparable period in 2020.

Fixed-Income focused actively-managed ETFs/ETPs listed globally attracted net inflows of US$2.53bn during

October, bringing net inflows ytd in 2021 to US$48.33bn. Again, this far exceeds the US$34.72bn for the reference period in 2020.

At the end of October there were 1,338 ETFs/ETPs, with 1,646 listings from 258 providers listed on 29 exchanges in 22 countries.

<u>October inflows for global ETFs and ETPs</u>

Globally, substantial inflows can be attributed to the top 20 active ETFs/ETPs by net new assets, which collectively gathered US$6.73bn during October.

The US-listed Nuveen Growth Opportunities ETF, [ticker code: NUGO], which invests in a concentrated portfolio of US companies with market capitalisations of at least US$1bn, gathered the largest individual net inflow of US$1.65bn, as shown in the table below.

Growth in actively managed ETF and ETP assets as of the end of October 2021

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Oct-21
# ETFs/ETPs	19	32	54	89	118	154	246	312	398	524	674	808	1,046	1,338
ETF/ETP assets	8	15	21	23	16	23	31	41	53	81	108	159	286	439

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available.

Top 20 actively managed ETFs/ETPs by net new assets October 2021

Name	Ticker	Assets (US$ Mn) Oct-21	NNA (US$ Mn) YTD-21	NNA (US$ Mn) Oct-21
Nuveen Growth Opportunities ETF	NUGO US	1,687.38	1,650.03	1,645.20
ProShares Bitcoin Strategy ETF	BITO US	1,200.91	1,242.98	1,242.98
JPMorgan Equity Premium Income ETF	JEPI US	4,537.30	4,216.98	561.10
Invesco Optimum Yield Diversified Commodity Strategy No K-1 ETF	PDBC US	6,885.73	2,409.55	549.08
Hwabao WP Cash Tianyi Listed Money Market Fund	511990 CH	28,190.56	9,987.31	464.88
Quadratic Interest Rate Volatility and Inflation ETF	IVOL US	3,614.11	2,767.82	296.14
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	7,976.07	5,726.92	261.76
Avantis U.S. Small Cap Value ETF	AVUV US	1,946.80	1,106.95	250.19
First Trust Senior Loan ETF	FTSL US	2,865.60	1,540.53	169.79
Dimensional US Core Equity 2 ETF	DFAC US	14,458.10	526.36	150.62
Horizon Kinetics Inflation Beneficiaries ETF	INFL US	887.13	824.64	148.77
First Trust Global Tactical Commodity Strategy Fund	FTGC US	2,094.73	1,593.31	141.97
Victoryshares ESG Core Plus Bond ETF	UBND US	125.25	125.44	125.44
Manulife Smart Short-Term Bond ETF	TERM CN	564.20	566.25	111.41
Dimensional International Core Equity Market ETF	DFAI US	767.45	632.80	105.94
Dimensional US Targeted Value ETF	DFAT US	6,449.33	343.98	104.91
Vanguard Ultra Short-Term Bond ETF	VUSB US	1,848.24	1,850.18	102.60
Victoryshares ESG Corporate Bond ETF	UCRD US	100.97	101.08	101.08
First Trust Preferred Securities and Income Fund	FPE US	7,697.90	1,723.95	99.24
WisdomTree US Efficient Core Fund	NTSX US	796.53	301.37	93.20

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available.

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AUSTRALIA

CBA: Oh How The Mighty Have Fallen

Complacent investors were shocked by Commonwealth Bank's considerably lower lending margin in the September quarter, and most brokers still believe the stock is overvalued even after its big tumble.

-Solid performance from CBA upset by margin crunch
-Still "the best", but more pressure to come
-Debate: how much of a sector premium is justified?
-Dividends safe

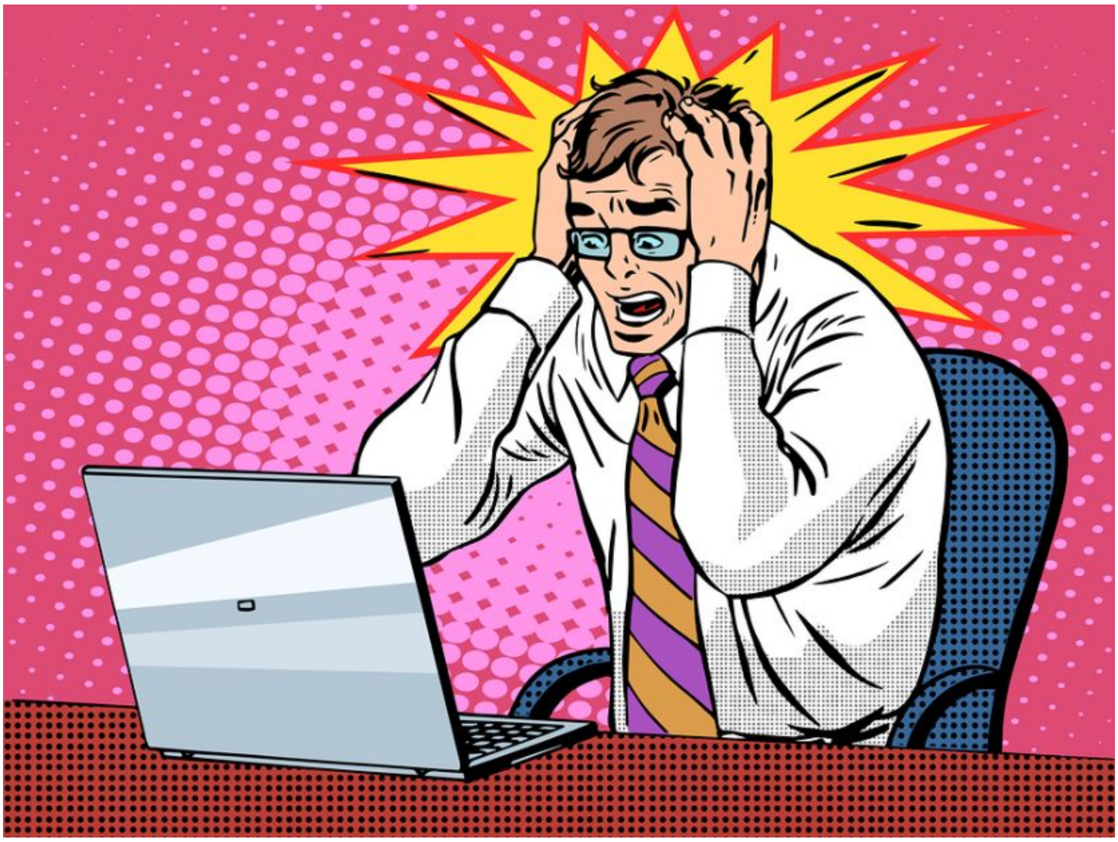
By Greg Peel

On November 1, Commonwealth Bank's ((CBA)) nearest rival in retail banking, Westpac ((WBC)), reported lower than expected net interest margins impacting on its full-year result, and promptly fell over -4%. But rather than see this as a read-through to the bigger CBA, investors switched into CBA on the day.

The problem, they assumed, which also included higher than expected costs, was a Westpac issue and not a market-wide one, despite competition, fixed-rate loan demand and the general low interest rate environment cited by Westpac as the primary issues being the same for all banks.

Yesterday, CBA management cited competition, fixed-rate loan demand and the general low interest rate environment as the causes of a "considerably lower" net interest margin (NIM) – the difference between the net rate the bank borrows and net rate it lends at. Analysts estimate a -7 basis point underlying contraction in CBA's NIM.

Westpac reported -10 basis points. Yet Westpac fell -4% and CBA fell -8%.



Across the CBDs of Sydney and Melbourne a cry rang out: “We told you so!”

Bank analysts all agree CBA’s is a superior banking franchise to peers, and hence the bank deserves a valuation premium. Indeed, CBA still posted above-sector growth in the September quarter, and a 20% increase in profit year on year is not to be sniffed at, with capital management capacity retained. But on a full-year run-rate, profit growth did slip below analyst forecasts.

The bottom line is *some* valuation premium is deserved but not the extent the market has been pricing in. Despite yesterday’s -8.3% plunge, not one of the six brokers covering the stock in the FNArena database deigned to change their rating, and five of them were on Sell or equivalent ahead of yesterday.

Margin pressure is not yet over and there will likely be more to come before any relief is felt.

With an RBA cash rate of 0.10%, which might as well be zero, it has been very difficult for banks to make the sort of money they’re used to on the spread between borrowing (including deposit) rates and mortgage rates, as they can’t take deposit rates into the negative and expect to draw customers, and the current 0.01% deposit rate on everyday bank accounts is actually -3% negative if 3% September quarter CPI inflation is cited.

Banks could maintain a more typical gap to mortgage rates, but when there are four of them, as well as smaller banks, plus a growing number of non-bank lenders, too-high mortgage rates would mean customers bailing in droves.

The majors have refrained from lowering their standard variable mortgage rates too far, choosing instead to lower their fixed rates for up to four years to below SVR rates to maintain market share.

<u>You’re kidding</u>

Did they think we’re all idiots? The outlook for mortgage rates can only be a binary one with an RBA rate of 0.10%. They are not going to go down, they can only go up, and have already begun to do so due to overwhelming demand. For why would you not fix your loan at an historically low rate, lower than an SVR, if upside is the only outlook?

I did.

Stuck with lower-margin fixed rate loans, and no capacity to raise those rates on existing loans as they can with SVR loans, until they mature in two to four years, banks have warned the glory days for borrowers is over. Australian government bond yields are on the rise, as are US yields, where Australian banks find most of their non-deposit funding.

It has forever remained a mystery why Australian banks price their mortgage rates off the overnight cash rate. US banks price off the thirty-year Treasury yield, to match duration. Australia doesn’t even have a twenty-year bond. While the official cash rate remains at 0.10%, the RBA has (at least for now) abandoned its intention to hold all rates between overnight and three-year at 0.10%. So, bank mortgage rates must go up.

But even if the RBA hiked rates tomorrow, instead of 2024, a cash rate of 0.25% would still be ridiculously low in historical terms. It’s a long way back to more “normal” rates, if there is such a thing now. Having the biggest mortgage book, CBA is the bank that will most benefit from a rising cash rate. But when?

<u>Any good news?</u>

There *were* some positives in CBA’s trading update, but all the market saw was NIMs. Strong loan growth, lower than expected bad debts and a still-solid capital ratio are positives, and the bank’s investment into bringing CBA into the digital world are seen as necessary. My word, CBA is now trying to attract the kiddies with access to crypto.

All a bit too-cool-for-school? As Morgan Stanley points out, it’s all well and good but at the end of the day, CBA is “still a bank”. And a bank that will likely see another year of expense growth exceeding revenue growth, with further margin pressure.

What brokers agree on is there remains the prospect of capital management (higher dividends/buyback) despite the NIM crunch.

As noted, five out of six of the major brokers on the FNArena database still believe, even after an -8% plunge, CBA remains overvalued both on an absolute and peer-relative basis. Ord Minnett notes CBA is still trading on a 48% price/earnings ratio premium to peers on FY23 forecasts.

Yet Ord Minnett is hanging on its lone Hold rating, given CBA’s “positive differentiators, including scale, IT, deposit franchise and lending growth performance -- sector-leading features that are unlikely to diminish given the bank’s ongoing investment”.

With regard brokers outside the FNArena database, CLSA's veteran bank analyst Brian Johnson suggests CBA is not a growth stock, but a bank. A good one – but subject to margin and costs headwinds. He retains Underperform.

Despite a strong operational performance, Goldman Sachs suggests CBA's premium is not justified, and retains Sell.

Jarden, on the other hand, is hanging on to Overweight. The broker agrees NIMs will continue to be pressured in the near term, but this should ease over FY22.

But there is a caveat:

"*We maintain our Overweight rating for now, but the downside surprise to Q122 margins with risk of further compression ahead, challenge our positive view and expectations of continued strong execution*."

Bell Potter has, like every other broker, cut earnings forecasts and its target price in the wake of yesterday's numbers. But on that lower valuation, and taking capital management potential into account, Bell Potter estimates a 12-month total shareholder return (share price upside plus dividends) of 15%, and that in Bell Potter's books is "still regarded as a Buy".

The FNArena database shows one Hold and five Sell or equivalent ratings. The consensus target price has fallen to $87.25 from $90.50, suggesting -11% downside, ranging from $94.50 from Citi to a mere $73.00 from Morgans. Note that Ord Minnett, the only Hold, has a target of $90.00 (last price $98.10).

Goldman Sachs is on the low end at $81.74, Bell Potter is more positive on $101.00, and Jarden, well, Jarden has $111.00.

On FY22 average forecasts, CBA shares are yielding 3.8% (fully franked). This rises to 4.1% on current average FY23 forecast.

BOOK REVIEWS

FNArena Book Review: Crypto Wars

FNArena Book Review: Crypto Wars. Faked Deaths, Missing Billions and Industry Disruption, by Erica Stanford

By Rudi Filapek-Vandyck, Editor

Crypto Wars by UK crypto entrepreneur Erica Stanford is a book for the times; one that simply had to be written and published, for despite the global media's obsession with daily volatility in the prices of bitcoin, ether, dogecoin, cardano and the like there is a dark side to humanity and it has firmly infiltrated the world of online transaction networks and tokens, and other blockchain technology-related utilities.

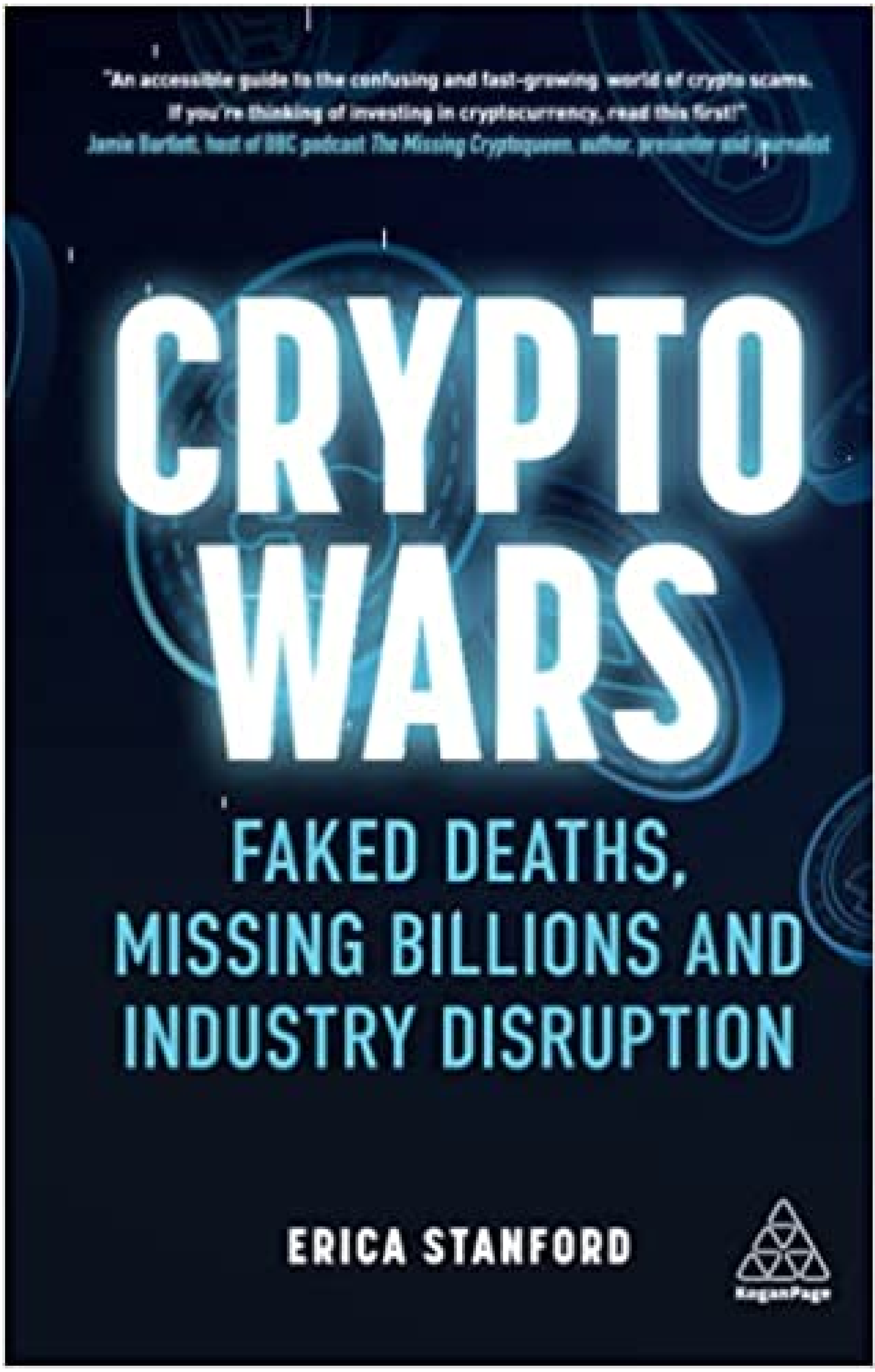
According to AtlasVPN data, blockchain hackers globally managed to fraudulently siphon off some $1bn in cryptocurrency worth and that was just for the quarter ending on September 31 this year. The Ethereum ecosystem alone lost over $800m while five hack events at cryptocurrency exchanges saw another $114m disappear.

The trend behind these numbers is something to keep an eye on too: AtlasVPN counted no less than 146 hack events during the first nine months of 2021; more than the total for the three years prior.

Stanford's commendable effort digs deeper into the facts and figures behind those numbers, effectively painting a picture of both extremes on opposite sides of today's new blockchain world. In one corner we have millions of naive, gullible and over-trusting citizens (I would not necessarily call them 'investors', though the book does use the label) who are not in the slightest bothered by the absence of any form of regulation or oversight, all too willing to trust their money with whoever claims to represent the online gateway to crypto's unlimited wealth potential (everybody else seems to be making money hand over fist).

On the other side we find an army of cunning marketers and snake oil salespeople, criminal minds with a little bit of knowledge about technology, not necessarily about blockchain specifically, plus an even greater army of opportunists who build a career around the fact they bought one token years ago, which gives them enough credibility today to start self-marketing as "the expert".

Put those two groups together and what could possibly go wrong?



Enough material for circa 200 pages dedicated to fraud, scams, ponzi-schemes and simple theft on a grand scale. It goes without saying, Stanford's chronicle only scratches the surface, see also the data above, but there's plenty throughout the ten chapters to add an abundance in colourful insights to the bare numbers, which by themselves are already quite revealing already if only because they once again highlight that when it comes to the chance or the promise of becoming wealthy, many in our communities will not be held back by caution or hesitation.

To quote liberally from the reviews on the back page: Prepare to laugh, cringe or be spooked. 50 shades of the dodgiest grey with regulators and the FBI in hot pursuit. And the best part: it's all true.

Among the 'celebrities' that make an appearance is one John McAfee, whose legacy of doubtful deals and dealings includes pumping crypto tokens via his 700,000 followers on Twitter. History has it, one of McAfee's promo-tweets instantaneously created $2bn.

As with many of the stories told, the reader is often left with the realisation one simply cannot make up this stuff. But it's all real, and very much tangible. Just ask the people who got lied to or otherwise lost their money. Crypto Wars pretends to offer more, also illustrated by the subtitle: Faked Deaths, Missing Billions and Industry Disruption, but any reader looking for more than the stories behind dozens of unsavoury scams and tactics will be left disappointed.

This is not a dissertation about the future of cross-border transactions, and neither provides this book an explanation how digitisation is reaching into the upper echelons of global finance, but readers who like to read-up on human nature, tragedies, warts and all, will discover plenty to quench their appetite.

Against the background of the numbers cited earlier, one could easily argue this book is a must read to remind all of us that money is hard earned, but easily lost. In particular in cyberspace. And specifically inside the unregulated world that is crypto today.

And if ever we require a solid reason as to why blockchain and crypto will ultimately need to be regulated, Crypto Wars provides reasons in spades, plus some. Similarities with the internet of the 1990s are impossible to ignore.

During Scam Awareness Week in November 2021, ASIC reported Australians have lost a record $211m to scams so far in 2021, up 89% on the previous corresponding period; the numbers include a sharp increase in reports from consumers about losing money in crypto-asset scams.

Crypto Wars. Faked Deaths, Missing Billions and Industry Disruption. Erica Stanford. Kogan Page. 247 pages. ISBN 978-1-3986-0068-3. GBP14.99.

Based in the UK, Erica Stanford runs Crypto Curry Club, which publishes weekly Crypto Courier and monthly Blockchain Industry Review.

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

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

ESG FOCUS

ESG Focus: The Next Big Thing - Part 8

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

ESG Focus: The Next Big Thing - Part 8

Sustainability-linked loans are transforming the leveraged-loan market as corporations and investors eye ESG-driven M&A and dividend recapitalisations, and seek to mitigate ESG risks in standard transactions.

-M&A and joint-ventures on the menu
-Financial-services sector ripe for ESG-driven M&A
-Innovation in leverage-loan market
-ESG due diligence the new must-have

By Sarah Mills

Sustainability-linked loans (SLL) are about to change the leveraged loan market.

The world is flush with cash post-covid given bad debts performed better than feared; and corporations are assessing the potential for leveraged SLLs to fund mergers and acquisitions and capital-management initiatives.

Observers believe SLLs offer huge opportunities for the smartest and most sophisticated companies, given they allow corporations to tailor loans to their industry, business and strategy.

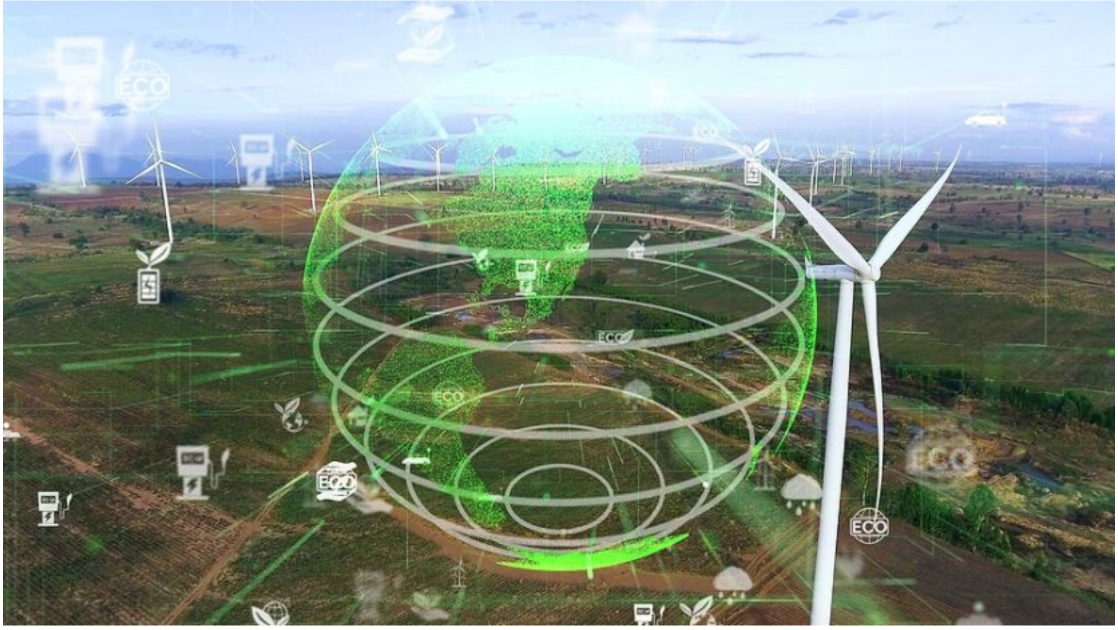
Those that do this well will enjoy windfalls through improved interest margins and strategic leverage. Leveraged SLLs can ratchet those returns up again.

Sustainability is also dovetailing with the digital revolution to form the fourth-industrial revolution.

Given the digital market is already ripe for M&A, regardless of sustainability, and given much of the digital innovation is likely to support sustainability; it is considered another prime market for SLL funding.

The mandatory verification of SLL performance against some ESG targets that were enshrined in the global SLL principles last May will, for the first time, give investors an insight into the previously private, relationship-driven syndicated loan market.

With greater transparency and accountability will come more deals: **ESG-driven mergers & acquisitions**; institutional loans, and private equity (we cover the latter two in coming articles).



Big end of town cashed up and ready to blow

The big end of town is gearing up for a leveraged SLL splurge.

Banks, institutions and private-equity are cashed up after the trillion-dollar covid printing spree and intend to invest much of those funds into green, circular, and fourth-industrial revolution initiatives.

PWC expects investors will hone their sights on companies ranging from those with heavy balance sheets to those prioritising scaleable and technology-driven targets.

On the flip side, corporations are girding their loins for one of the biggest transitions in history and will be jockeying for position in the M&A market.

As the transition gains pace, M&A is expected to thrive as players seek to redefine portfolios and companies divest non-core businesses, or businesses which may affect their sustainability credentials.

Some corporations will be seeking to offload less-aligned assets to meet new strategic imperatives, and some to just simplify ESG reporting to gain investor favour.

Others will be on the acquisition path, seeking assets that align with their ESG and fourth-industrial-revolution strategies, or to extract accretive ESG value where possible.

There is already movement at the station. PWC reports the number of deals involving private equity rose to 36% in the first half of 2021, compared with the long-term average of 25%.

It is likely that some M&A is also being brought forward to pre-empt the higher standards of a transition environment.

Financial services sector ripe for ESG-driven M&A

PWC expects the financial service industry may be one of the first cabs off the M&A ranks.

“ESG criteria continue to redefine risk management and value creation in the FS (Financial Services) industry,” says PWC on its website.

“FS deals around sustainability reflect the desire to acquire ESG assets and know-how.

“Alongside this, clear ESG reporting and credentials will only become more important in M&A transactions as regulations tighten across jurisdictions and investors seek out ESG-compliant opportunities.

PWC says wealth management is leading the financial services sector transformation.

“We expect ESG to ripple through the deals side of the industry in the coming months as risk weightings may increase on non-ESG compliant products and the insurance sector continues with its own sustainable transformation,” says PWC.

PWC’s Christopher Sure, Global Services Deals Leader for PWC Germany, says private equity’s willingness to participate in the growth phase is pushing multiples and purchase prices higher.

As a result, he expects many financial-services corporations will likely accelerate their transformation disposal activities.

Innovation and leveraged loan growth for M&A

It will be interesting to see how corporations use the leveraged SLL market to drive value.

Linklaters says the European leveraged loan market is starting to embrace ESG issues.

In Europe, companies are already using leveraged ESG finance for direct lender/unitranche deals; fund finance; real estate fund and infrastructure finance; mergers and acquisitions and dividend recapitalisations.

In terms of M&A, observers expect that strong alignment between strategy and sustainability will play a part not only in the success of a company, but in its merger-and-acquisition plans.

Advanced companies on the sustainability front may be able to extract sustainability value from laggard targets, making acquisitions more accretive.

Such purchases could theoretically earn a company margin step-down from the lender in instances of outperformance on sustainability accretion, yielding further windfalls.

While it is possible that a large company with poor sustainability credentials could extract value by bringing in-house sustainability knowledge from smaller competitors; it is less likely given the complexity, politics and standard practice of M&A integration.

Smaller companies with strong sustainability credentials are likely to command higher prices; which in turn could act as a moat.

On the flipside, they could attract hostile attention as big laggards remove threats and snap up some positive ESG inputs.

In terms of process, most companies are likely to embark on a transformation process first in order to extract value from M&A; suggesting a role for SLLs in change management, which we discuss in a separate article.

In order to access SLLs for M&A, ideally both the lender (in particular) and the target would need to offer clear reporting to provide greater assurance of meeting loan covenants.

Here come the deals

To date, most SLLs have been struck with investment-grade companies, primarily through revolving credit facilities (RCFs), notes Bloomberg.

But this year, ESG leveraged loans staged a rise.

More than a quarter of European leveraged term loans now have a SLL pricing mechanism including ESG language, says S&P Global Market Intelligence's LCD.

Bain Capital and Cinven entered an agreement to buy Lonza Ingredients for a total of 4.2bn Swiss francs.

Lonza Ingredients is a global provider of specialty chemicals for microbial control solutions that eliminate or control harmful and unwanted micro-organisms, that are used in disinfectants, preservatives, sanitisers, personal care products, coatings and industrial uses.

Lonza Ingredients secured a US$1.13bn term SLL to help finance its buy-out.

In terms of SLL contract provisions, White & Case tells 9fin.com: "It's still quite ad-hoc as to whether ESG provisions are included in leveraged loans and so it is dealt with on a deal-by-deal basis."

This is likely to change as the adjustments process and SLLs are increasingly streamlined.

Vehicle glass repair and replacement company Belron used a SLL as part of a dividend recapitalisation.

Dividend recapitalisation is a form of leveraged recapitalisation that involves the issuing of new debt by a private company that is later used to pay a special dividend to shareholders, reducing the company's equity financing in relation to debt financing.

It is newly incurred debt, not company earnings, and common shareholders are less likely to benefit from such arrangements.

Dividend recapitalisations can be used to exit an investment, recover an initial investment without losing a stake in a company, and eliminates the necessity to use profits to distribute dividends, particularly in a low-interest rate environment.

Belron negotiated a US$1.62bn term B loan and a EUR840m TLB with step-ups and step-down margins. (7.5bps down for meeting recyclable glass and decarbonisation KPIs; and a -10bps penalty for failing.)

Conducting ESG due diligence for M&A and JVs

ESG due diligence is shaping up as a critical element in the M&A and joint-venture process.

Covington reports that a global survey of private-equity general partners shows 54% gained a reduced bid price after conducting ESG due diligence and 32% had an increased price.

Covington cites an instance in which a Chinese buyer shaved -$10m off the asking price for a European manufacturer of tableware after uncovering environmental liability, weak working conditions and board processes, as well as the potential for labour disputes.

Helsinki University says the main benefits of ESG due diligence include risk mitigation; positioning for future ESG-related opportunities; impacts on valuation; and higher long-term returns.

Covington's Sustainability Toolkit outlines the key ESG due-diligence considerations for those embarking on M&A and joint-venture transactions.

Participants need to identify, quantify and evaluate ESG risks posed by a transaction (according to industry and through the supply chain, including cultural values and the social repercussions of the post-merger integration strategies that may affect synergies); then determine risk mitigation measures or adjust the pricing to reflect the impact of the risk.

They also need to gain an understanding of the target's ESG risk-management objectives and operations; and it is a good idea to compare the target's voluntary reports with its SEC filings.

When it comes to joint ventures, Covington says arrangements work best when partners have similar sustainability policies and standards; and those with a majority stake in a project usually shoulder the greatest risk.

Martin Vezer from Sustainalytics's Thematic Research Team writes in Research Gate that M&As can carry a range of ESG risks, including losses associated with withdrawn or terminated transactions, credit rating downgrades, valuation volatility and various financial and legal consequences; and concludes that ESG compatibility can be a contributing factor to the success of M&A deals.

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

Weekly Ratings, Targets, Forecast Changes - 12-11-21

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 November 8 to Friday November 12, 2021
Total Upgrades: 11
Total Downgrades: 10
Net Ratings Breakdown: Buy 55.40%; Hold 37.97%; Sell 6.63%

For the week ending Friday November 12, there were eleven upgrades and ten downgrades to ASX-listed companies covered by brokers in the FNArena database.

Full year results for Orica were a beat versus consensus forecasts and as a result the company headed the table for the largest percentage upgrades to forecast earnings last week. Credit Suisse decided to lift its rating for the company to Outperform from Neutral, and noted management initiatives to improve product pricing, delivery of which should result in profit upside.

Despite ratings downgrades by Citi (Neutral from Buy) and Morgans (Hold from Add) on the basis of recent share price outperformance, both brokers were upbeat on Orica's FY21 results and refreshed strategy to drive profitable growth.

At first glance, ratings upgrades for Xero by Ord Minnett (Hold from Lighten) and Citi (Buy from Neutral) were inconsistent with slightly disappointing first half results. However, Ord Minnett had a relatively low starting target price of $103, which has now been raised to $130, and now sees lower rates of churn and rising average revenue per user.

Meanwhile, Citi attributed weaker than anticipated core accounting growth to lockdowns. While holding only modest expectations for North America, the analyst sees new markets opening up for Xero, Nonetheless, across all brokers in the FNArena database, the company was top of the list for the largest percentage downgrades to forecast earnings last week.

Second on that list was Tyro Payments after revealing gross margin and total transaction value pressure (TTV) in the current period. Macquarie can see the TTV is rapidly recovering after lockdowns though remains cautious on the competitive environment, which will likely intensify through 2022.

Ord Minnett was similarly enthusiastic about the latest TTV figures and expects the momentum will continue to the end of 2021.

Finally, GrainCorp had a very positive week and came in second behind Orica for the largest percentage upgrade to forecast earnings. Credit Suisse suggests the company's position as a competitive player in the east coast grain market has rarely been stronger.

This comes as FY21 results landed at the top end of the recently-upgraded guidance range. UBS attributes this to a bumper east coast winter crop and strong margins in the Processing segment, while Morgans believes the upgrade cycle is very much intact.

Total Buy recommendations take up 55.40% of the total, versus 37.97% on Neutral/Hold, while Sell ratings account for the remaining 6.63%.

Upgrade

AUSTAL LIMITED ((ASB)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/1/0

Austal has received approval to take on the lease of Marine Group Boat Works in the port of San Diego. Credit Suisse observes this is a major development for Austal, particularly given the environmental and regulatory pressures with respect to new or expanded dry docks in the area.

A dry dock in San Diego could support the awarding of contracts for Austal as a prime contractor. The broker raises FY22 and FY23 forecasts by 2% and 6%, respectively. Rating is upgraded to Outperform from Neutral and the target increased to $2.50 from $2.25.

ALUMINA LIMITED ((AWC)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/3/0

Alcoa will deploy technology improvements to reduce its capital expenditure and carbon intensity. Macquarie suggests the long-term earnings outlook has improved after incorporating updated AWAC production guidance.

The broker upgrades to Outperform from Neutral because of an improved earnings outlook and the potential for cash returns in the short term. Target is raised to $2.00 from $1.90.

COLES GROUP LIMITED ((COL)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/1

Citi analysts have used a general sector update on retailing in Australia, in which they predict a slower-than-broadly-anticipated normalisation post covid and post lockdowns, to upgrade Coles to Buy from Neutral.

Earnings estimates have been lifted and this pushed up the price target to $19.60 from $18.90.

CSL LIMITED ((CSL)) Upgrade to Outperform from Neutral by Macquarie .B/H/S: 2/4/0

Having reviewed the opportunities and risks for CSL's immunoglobulin, and notwithstanding elevated multiples, Macquarie envisages a favourable growth profile and says the balance sheet remains attractive.

Over the medium to longer term, immunoglobulin growth should be supported by increased diagnosis of conditions in which the product is used. The new plasma collection platform could also improve efficiency.

The broker upgrades to Outperform from Neutral and raises its target to $338.00 from $302.50.

ORICA LIMITED ((ORI)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 2/5/0

Credit Suisse reports Orica's full-year results were in-line at the underlying earnings level and slightly ahead in both earnings before tax and profit after tax.

The broker notes the company's ability to achieve price increases has been a point of debate among investors, but delivery should offer profit upside.

New strategy will focus on four customer and product verticals, and the company is confident new systems to improve transparency and reduce cross subsidies should improve product pricing.

The rating is upgraded to Outperform from Neutral and the target price increases to $17.26 from $17.23.

See also ORI downgrade.

PENDAL GROUP LIMITED ((PDL)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/2/0

FY21 net profit was broadly in line with Ord Minnett's forecasts. Lower performance fees from JO Hambro have meant a reduction in forecasts going forward.

The broker suspects fixed cost growth will dampen near-term operating leverage while fund flows are likely to be lumpy.

Ord Minnett increases the rating to Buy from Accumulate while reducing the target to $8.50 from $8.60.

See also PDL downgrade.

QUBE HOLDINGS LIMITED ((QUB)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/1/0

Qube Holdings has upgraded its FY22 earnings outlook to 'strong' growth from 'solid' growth following a first quarter performance beat on management's expectations.

Credit Suisse noted high agri, steel and container volumes drove better-than-expected logistics activity, while strong grain, steel, clinker and vehicle volumes offset covid impacts in port and bulk activity.

Given recent weak share price performance, the rating is upgraded to Outperform from Neutral and the target price of $3.55 is retained.

SHAVER SHOP GROUP LIMITED ((SSG)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/0/0

A surge in trading following the re-opening of retail stores in NSW and Victoria is expected to result in increased earnings and Ord Minnett upgrades to Accumulate from Hold.

Shaver Shop provided a trading update which indicated sales in the year to date eased -0.9%, which the broker considers is quite modest given the widespread closures. Online sales increased 58.6% over the same period and currently represent 50.2% of total sales.

Target is raised to $1.25 from $1.20.

UNITI GROUP LIMITED ((UWL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/1/0

Ord Minnett expects Uniti Group will be a beneficiary of the current environment for greenfield property development. While private dwelling approvals have returned to some level of normality recently, new approvals are still elevated compared with longer-term averages.

The broker expects strong growth in the future construction work as developers plan for larger populations in greenfield areas. The broker expects wholesale revenue will be 50% of group revenues in FY22 and upgrades to Accumulate from Hold.

The broker also envisages the buyback program will be an efficient allocation of capital in the context of options for growth in adjacent markets as well as M&A. Target is $4.21.

XERO LIMITED ((XRO)) Upgrade to Hold from Lighten by Ord Minnett and Upgrade to Buy from Neutral by Citi.B/H/S: 3/1/2

As reported yesterday, Ord Minnett saw Xero's H1 performance as broadly in-line, though international subscriber growth was slower-than-expected.

Average revenue per user (ARPU) for the international business lifted significantly, aided by the recent Planday acquisition, but ARPU in A&NZ only showed limited improvement.

As confidence has grown in the company's ability to lift ARPU and reduce churn, Ord Minnett has lifted its price target to $130 from $103. Rating is upgraded to Hold from Lighten.

Xero's H1 update included slightly weaker-than-anticipated core accounting growth, comment analysts at Citi, but that is seen as a result of lockdowns.

Regardless, subscriber growth in North America was lower than expected, but then average return per user (ARPU) surprised on the upside.

Citi continues to see solid growth for the medium term, with modest expectations for North America, but including Xero penetrating into new markets.

Target price rises to $160 from $135.70. Upgrade to Buy from Neutral.

Downgrade

CREDIT CORP GROUP LIMITED ((CCP)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/0/0

Credit Corp Group provided unchanged FY22 earnings guidance at its AGM, and raised the lower end of its purchased debt ledger (PDL) guidance. Despite this, Ord Minnett lowers its rating to Accumulate from Buy, due to a recently strong share price.

The target price rises to $35 from $32 as the broker sees credit starting to rebuild in the system and future PDL supply also appears to be emerging, particularly in the US.

Management highlighted its new product development pipeline, including US Consumer Lending, Auto Lending and a buy now, pay later product.

JB HI-FI LIMITED ((JBH)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/3/1

Citi analysts have used a general sector update on retailing in Australia, in which they predict a slower-than-broadly-anticipated normalisation post covid and post lockdowns, to downgrade JB Hi-Fi to Neutral from Buy.

Modest increases have been added to forecasts. Price target has gained $1 to $54.

METCASH LIMITED ((MTS)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/2/0

Citi analysts have used a general sector update on retailing in Australia, in which they predict a slower-than-broadly-anticipated normalisation post covid and post lockdowns, to downgrade Metcash to Neutral from Buy.

Only modest increases have been applied to forecasts. Price target gains 10c to $4.20.

ORICA LIMITED ((ORI)) Downgrade to Neutral from Buy by Citi and Downgrade to Hold from Add by Morgans and Downgrade to Neutral from Outperform by Credit Suisse.B/H/S: 2/5/0

Citi comments Orica's FY21 results call with analysts reaffirmed the company's strong earnings momentum which is expected to continue in the months ahead.

A refresh of the company's strategy is welcomed, though the analysts also believe it remains too early to expect any tangible benefits from it.

Given the share price has performed strongly, Citi has decided to downgrade to Neutral from Buy. Target price lifts to $15 from $14 on higher forecasts.

After recent share price strength for Orica, Morgans lowers its rating to Hold from Add, despite FY21 results that beat consensus forecasts. The target price rises to $15.26 from $13.70. A final dividend of 16.5cps was declared.

The analyst points to strong 4Q trading that has continued into 1Q22. Increased ammonium nitrate prices are expected to broadly overcome rising input costs and a pass-through lag. The broker approves of management's refreshed strategy to drive profitable growth.

Credit Suisse is constructive regarding Orica yet downgrades to Neutral from Outperform ahead of the FY21 result. Commodity cost pressures are likely to have increased throughout the second half and extend into the first half of FY22.

Higher import parity pricing is expected to create a more favourable environment allowing the company to increase prices, providing some offset. The broker upgrades the target to $17.23 from $16.11.

See also ORI upgrade.

PENDAL GROUP LIMITED ((PDL)) Downgrade to Neutral from Outperform by Credit Suisse .B/H/S: 5/2/0

While the FY21 results were ahead of Credit Suisse's expectations and the stock is considered inexpensive, catalysts are likely to be more negative over the short term. Credit Suisse envisages downside risk should institutional outflows persist for longer.

Consequently, the rating is downgraded to Neutral from Outperform. The broker will be on the look out for signs that outflows are turning around as well as for the benefits of the multi-year global expansion. Target is reduced to $7.20 from $8.70.

See also PDL upgrade.

REA GROUP LIMITED ((REA)) Downgrade to Sell from Neutral by UBS .B/H/S: 2/3/1

UBS raises its target price for REA Group to $170 from $160 after an "outstanding" first quarter result. While the broker upgrades its FY22 and FY23 EPS forecasts by 8% and 9% respectively, the rating is downgraded to Sell from Neutral on valuation.

While the group recorded 16% listing volume growth in October, the analyst feels volumes will remain volatile for the remainder of FY22. Management cautioned over second half risk from potential regulatory measures to slow house price inflation.

RAMSAY HEALTH CARE LIMITED ((RHC)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 2/3/1

Ramsay Health Care's operational outlook remains at the mercy of the global pandemic, comments Ord Minnett, as the hospital operator's market update yesterday indicated yet again ongoing negative impacts pretty much everywhere.

Earnings estimates have been lowered in response, with the broker highlighting confidence is not lost in that Ramsay will benefit from the coming recovery.

As such, Ord Minnett has not touched its FY23 forecasts, and those forecasts assume a return to near pre-pandemic conditions.

Downgrade to Accumulate from Buy, with an unchanged price target of $74.

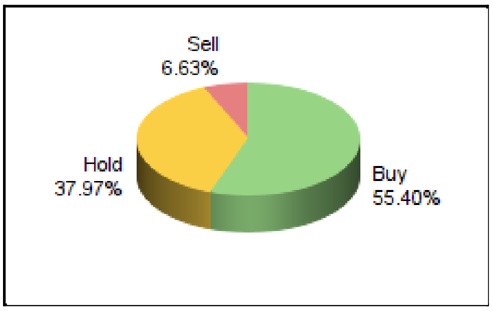
SERVCORP LIMITED ((SRV)) Downgrade to Neutral from Buy by UBS .B/H/S: 0/1/0

Servcorp has reaffirmed FY22 guidance, noting operating conditions are improving. Occupancy rates in September were slightly below June which UBS believes reflects recent mobility restrictions in Australia.

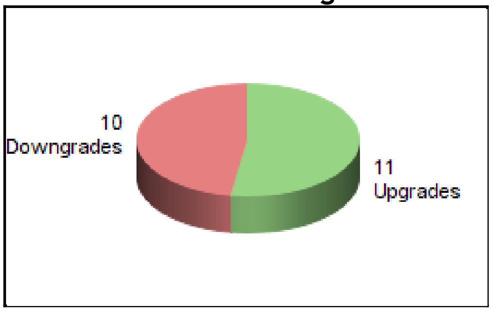
The broker considers the stock a recovery trade as it is highly leveraged to improving market dynamics. The post-pandemic environment is also likely to be structured more favourably as competitors face significant challenges.

As the stock has rallied around 34% since the FY21 results, the broker downgrades to Neutral from Buy. Target is raised 11% to $4.60.

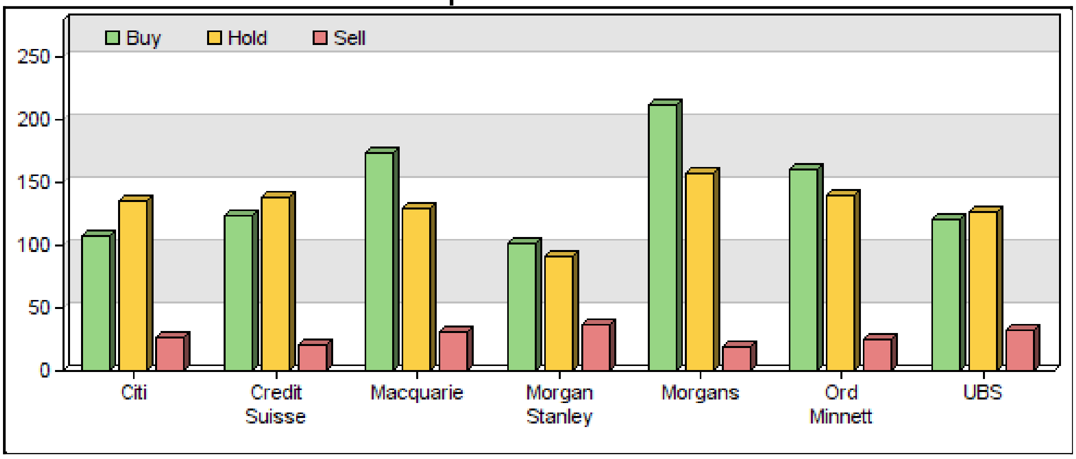
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	ALUMINA LIMITED	Buy	Neutral	Macquarie
2	AUSTAL LIMITED	Buy	Neutral	Credit Suisse
3	COLES GROUP LIMITED	Buy	Neutral	Citi
4	CSL LIMITED	Buy	Neutral	Macquarie
5	ORICA LIMITED	Buy	Neutral	Credit Suisse
6	PENDAL GROUP LIMITED	Buy	Buy	Ord Minnett
7	QUBE HOLDINGS LIMITED	Buy	Neutral	Credit Suisse
8	SHAVER SHOP GROUP LIMITED	Buy	Neutral	Ord Minnett
9	UNITI GROUP LIMITED	Buy	Neutral	Ord Minnett
10	XERO LIMITED	Buy	Neutral	Citi

11	XERO LIMITED	Neutral	Sell	Ord Minnett
Downgrade				
12	CREDIT CORP GROUP LIMITED	Buy	Buy	Ord Minnett
13	JB HI-FI LIMITED	Neutral	Buy	Citi
14	METCASH LIMITED	Neutral	Buy	Citi
15	ORICA LIMITED	Neutral	Buy	Credit Suisse
16	ORICA LIMITED	Neutral	Buy	Morgans
17	ORICA LIMITED	Neutral	Buy	Citi
18	PENDAL GROUP LIMITED	Neutral	Buy	Credit Suisse
19	RAMSAY HEALTH CARE LIMITED	Buy	Buy	Ord Minnett
20	REA GROUP LIMITED	Sell	Neutral	UBS
21	SERVCORP LIMITED	Neutral	Buy	UBS

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	ASB	AUSTAL LIMITED	75.0%	50.0%	25.0%	4
2	XRO	XERO LIMITED	17.0%	-8.0%	25.0%	6
3	QUB	QUBE HOLDINGS LIMITED	63.0%	38.0%	25.0%	4
4	AWC	ALUMINA LIMITED	40.0%	20.0%	20.0%	5
5	CSL	CSL LIMITED	33.0%	17.0%	16.0%	6
6	MP1	MEGAPORT LIMITED	40.0%	25.0%	15.0%	5
7	COL	COLES GROUP LIMITED	43.0%	29.0%	14.0%	7
8	SUN	SUNCORP GROUP LIMITED	57.0%	43.0%	14.0%	7
9	SIQ	SMARTGROUP CORPORATION LIMITED	60.0%	50.0%	10.0%	5
10	TWE	TREASURY WINE ESTATES LIMITED	33.0%	29.0%	4.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	17.0%	50.0%	-33.0%	6
2	ORI	ORICA LIMITED	29.0%	57.0%	-28.0%	7
3	MTS	METCASH LIMITED	58.0%	75.0%	-17.0%	6
4	CCP	CREDIT CORP GROUP LIMITED	83.0%	100.0%	-17.0%	3
5	REA	REA GROUP LIMITED	17.0%	33.0%	-16.0%	6
6	JBH	JB HI-FI LIMITED	17.0%	33.0%	-16.0%	6
7	RHC	RAMSAY HEALTH CARE LIMITED	8.0%	17.0%	-9.0%	6
8	PPT	PERPETUAL LIMITED	43.0%	50.0%	-7.0%	7
9	PTM	PLATINUM ASSET MANAGEMENT LIMITED	-80.0%	-75.0%	-5.0%	5
10	PDL	PENDAL GROUP LIMITED	71.0%	75.0%	-4.0%	7

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	MP1	MEGAPORT LIMITED	18.942	17.678	7.15%	5
2	ORI	ORICA LIMITED	15.647	14.616	7.05%	7
3	XRO	XERO LIMITED	133.000	124.450	6.87%	6
4	CCP	CREDIT CORP GROUP LIMITED	35.167	32.950	6.73%	3
5	REA	REA GROUP LIMITED	170.700	165.400	3.20%	6
6	ASB	AUSTAL LIMITED	2.625	2.563	2.42%	4
7	QUB	QUBE HOLDINGS LIMITED	3.378	3.308	2.12%	4
8	CSL	CSL LIMITED	311.233	305.317	1.94%	6
9	DHG	DOMAIN HOLDINGS AUSTRALIA LIMITED	5.327	5.237	1.72%	6
10	AWC	ALUMINA LIMITED	2.110	2.090	0.96%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	PTM	PLATINUM ASSET MANAGEMENT LIMITED	3.290	3.550	-7.32%	5
2	SIQ	SMARTGROUP CORPORATION LIMITED	8.420	8.630	-2.43%	5

3	SUN	SUNCORP GROUP LIMITED	13.130	13.403	-2.04%	7
4	PPT	PERPETUAL LIMITED	40.803	41.412	-1.47%	7
5	RHC	RAMSAY HEALTH CARE LIMITED	68.880	69.475	-0.86%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	ORI	ORICA LIMITED	68.424	50.407	35.74%	7
2	GNC	GRAINCORP LIMITED	69.618	57.575	20.92%	4
3	MP1	MEGAPORT LIMITED	-15.680	-18.000	12.89%	5
4	29M	29METALS LIMITED	6.367	5.720	11.31%	3
5	HLS	HEALIUS LIMITED	44.657	40.490	10.29%	6
6	SWM	SEVEN WEST MEDIA LIMITED	10.115	9.293	8.85%	4
7	SGM	SIMS LIMITED	207.900	193.817	7.27%	6
8	VCX	VICINITY CENTRES	10.600	9.967	6.35%	6
9	CSR	CSR LIMITED	36.617	34.873	5.00%	6
10	NEC	NINE ENTERTAINMENT CO. HOLDINGS LIMITED	16.570	15.800	4.87%	5

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	XRO	XERO LIMITED	13.838	20.523	-32.57%	6
2	TYR	TYRO PAYMENTS LIMITED	-1.540	-1.290	-19.38%	4
3	JHX	JAMES HARDIE INDUSTRIES PLC	148.667	175.764	-15.42%	6
4	RHC	RAMSAY HEALTH CARE LIMITED	187.317	212.000	-11.64%	6
5	TCL	TRANSURBAN GROUP LIMITED	7.336	8.079	-9.20%	6
6	DOW	DOWNER EDI LIMITED	35.150	37.775	-6.95%	4
7	SUN	SUNCORP GROUP LIMITED	68.486	72.571	-5.63%	7
8	ANN	ANSELL LIMITED	228.968	240.439	-4.77%	6
9	LNK	LINK ADMINISTRATION HOLDINGS LIMITED	21.610	22.593	-4.35%	5
10	DMP	DOMINO'S PIZZA ENTERPRISES LIMITED	232.540	238.540	-2.52%	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: Australia's Nuclear Opportunity

As the spot uranium price climbed just over 6% last week, a key adviser to the Australian government advances the case for nuclear.

-Small scale reactors versus large scale batteries
-Rolls Royce establishes a small modular reactor business
-Prices required by Paladin Energy for a Langer Heinrich restart
-Uranium spot price rises just over 6% for the week

By Mark Woodruff

One of the key architects behind Prime Minister Scott Morrison's gas-led recovery plan suggests nuclear energy represents a strategic regional opportunity for Australia.

Andrew Liveris, the former Chief Executive of Dow Chemicals, believes the country needs to overcome concerns about nuclear energy and instead see its potential to reduce carbon emissions.

Liveris notes small scale reactors are "more proven" than the use of large scale batteries to store renewable energy and suggests Australia should repurpose its ageing coal power plant fleet with nuclear technology.

Liveris suggestion is a carbon price of between US$40 and US$80/tonne should be set by the government to incentivise business to wind back carbon emitting operations. Europe has had a carbon price for 16 years while California has a working model.

These comments come after recent significant announcements on nuclear from China, which plans to build some 150 new reactors in the next 15 years as part of its emissions reduction plans.

France also intends to construct new reactors as the basis for a re-industrialised and low-carbon economy, while the UK has recently introduced new funding for large reactors and funded the commercialisation of small reactors.

Following an equity raise, UK-based Rolls-Royce has announced the Rolls-Royce Small Modular Reactor (SMR) business has been established to advance and deliver the next generation of low-cost, low-carbon nuclear power technology.

If approved for use in the UK, Rolls-Royce SMR could reportedly build up to16 reactors across the country for as early as the 2030s.

Company news

ASX-listed **Paladin Energy** ((PDN)) is the premium and most liquid name in the uranium sector on the ASX, according to Shaw and Partners, and is the broker's preferred exposure to an improving uranium market.

Following the release of an updated reserve/resource statement by management, the analyst notes a well-defined and low-risk pathway to production for the 75%-owned Langer Heinrich uranium mine in Namibia.

It's believed **contact pricing above US$50/lb will allow the restart of operations**.

Apart from Langer Heinrich, the company has a significant high-grade exploration portfolio, the broker notes.

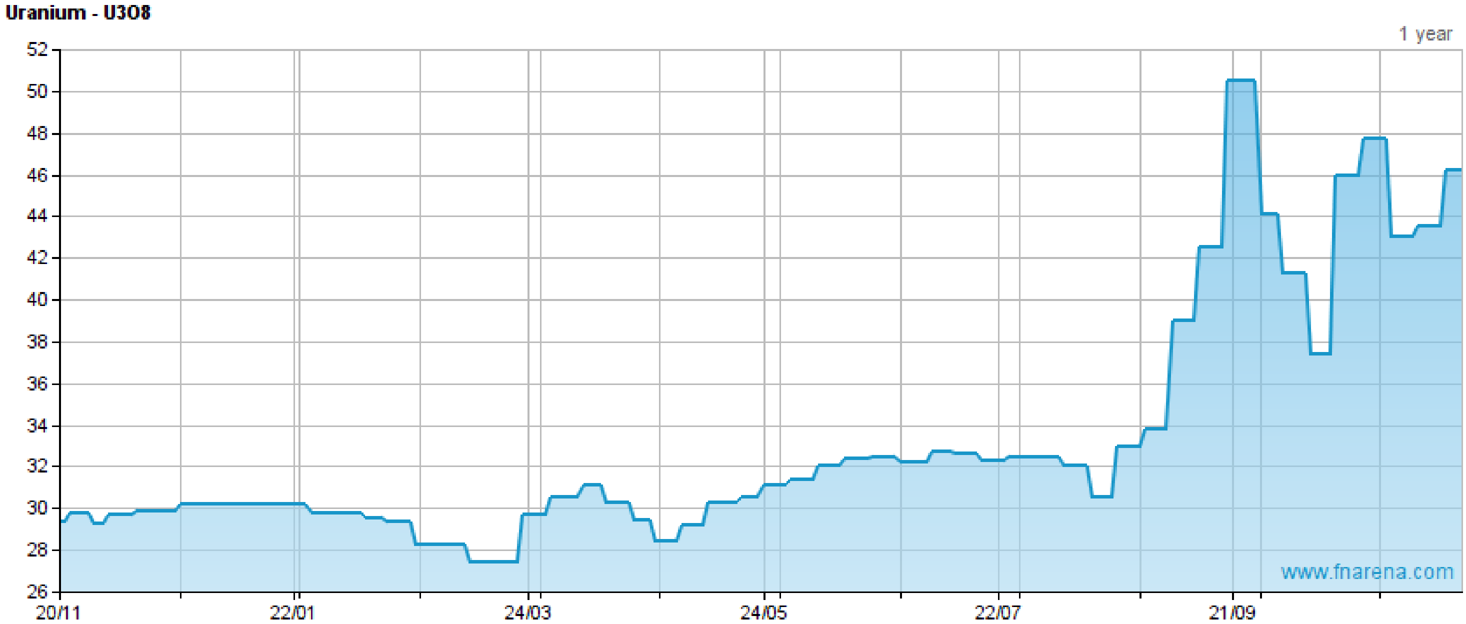
Uranium pricing

TradeTech's Weekly **Spot Price** Indicator ended last week at US$46.20/lb, up US$2.70/lb from the previous week. After this 6% rise, the spot price Indicator is up 24% over the last two months, and up nearly 70% since the 2021 low of US$27.40 seen last March.

The price of uranium has risen 52% since the beginning of the calendar year and 57% year-on-year. The average Weekly Spot Price in 2021 is US$33.79/lb, US$4.08/lb above the 2020 average.

There were around 2.5mlbs U3O8 traded last week, compared to 1.8mlbs in the prior week. Buyers for the week included financial entities, utilities, traders and producers, while sellers included traders, financial entities and producers, industry consultant TradeTech reports.

TradeTech's **term price i**ndicators are US$43.75/lb (mid) and US$45/lb (long).



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

FYI

Australia Gears Up For The Crypto Era

Regulators and banks prepare for a brave new crypto world as Australians champ at the bit.

-A series of major developments in the crypto sector signal a new chapter in Australian finance
-Alongside a report out of the Australian Senate, CBA customers will be able to trade cryptos via a new app
-ASX gains its first crypto-themed listing, the first of many

By Ed Kennedy

History is likely to remember 2021 as the year cryptocurrency achieved legitimacy in Australia and the world.

Crypto critics remain and many supporters still retain at least some concerns about the crypto universe, but not even the fiercest critic could deny that major moves this year have injected confidence into the sector, which is set to grow in size and support.

A review of big recent developments in Australia illustrates this vividly.

Those seeking to understand the Aussie crypto scene will need to understand how these landmark events will prove the cornerstones of a new era in Australian finance.

A Snapshot of Australia's Embrace of Cryptos

Multiple statistics affirm that Australians have keenly embraced cryptos.

According to Finder's *Cryptocurrency Report 2021* published in September, 17% of survey respondents indicated they owned cryptos as at June 2021.

Another survey from Finder in January contended 25% of Australians either already held cryptos, or were planning to do so.

The Senate Weighs In

Whenever a legislator mentions the crypto, the industry takes notice.

While cryptocurrency is by nature decentralised, the capacity of a centralised public authority to substantially enhance or hinder activities in the sector depends upon its inclination.

The contrasting experiences of crypto traders and professionals in the US and China in recent months - as discussed further in *An Idea With Currency: The American Quest For A New Crypto Accord* and linked below - are illustrative of this.

While digital currency exchanges have been required to register with AUSTRAC since 2018, the regulatory approach of

Australia towards cryptos has been described as 'light touch' - until now.

Substantial momentum for change has developed since the recent publication of a landmark final report by the Senate Select Committee on Australia as a Technology and Financial Centre.

Released in October, it offers 12 recommendations - reforms that aim to position Australia as a leading crypto hub. Such reforms would occur in the realms of licensing and regulation, alongside taxation.

Recommendation 1 calls for the Australian government to "…establish a market licensing regime for Digital Currency Exchanges, including capital adequacy, auditing and responsible-person tests under the Treasury portfolio."

Recommendation 2 calls for the establishment of "... a custody or depository regime for digital assets with minimum standards under the Treasury portfolio".

Concerning tax, there are two notable recommendations which, if implemented, would provide visible and direct outcomes to crypto traders and businesses alike.

Recommendation 6 suggests "…that the Capital Gains Tax (CGT) regime be amended so that digital asset transactions only create a CGT event when they genuinely result in a clearly definable capital gain or loss."

Recommendation 7 proposes "…that the Australian Government amend relevant legislation so that businesses undertaking digital asset 'mining' and related activities in Australia receive a company tax discount of 10% if they source their own renewable energy for these activities."

Other recommendations from the report are sure to generate significant discussion such as the call for a policy review into the prospects of a central bank digital currency (CBDC) as proposed in Recommendation 8.

Similarly, Recommendation 10's proposal "…that in order to increase certainty and transparency around de-banking, the Australian Government (should) develop a clear process for businesses that have been de-banked" and that it "should be anchored around the Australian Financial Complaints Authority which services licensed entities", is particularly significant given de-banking is an issue of anguish for much of the local crypto scene.

Commonwealth Bank of Australia's ((CBA)) announcement of a trading platform adds another layer to this, as shall be discussed further along.

<u>The Committee Chair On The Context Of The Recommendations</u>

Reflecting upon the significance of the recommendations during an interview with the ABC's Lisa Millar last month, Senator Andrew Bragg, chair of the Senate Select Committee, emphasised that Canberra needed to strike the right balance between being responsive to calls among the local crypto sector for regulation, while avoiding overreach.

"..what we've recommended is a regulatory reform agenda, which is balanced between protecting consumers, but ensuring that we don't destroy innovation. Because one thing Canberra is good at doing is destroying innovation," said Senator Bragg.

While many may see the recommendations as cutting edge, Senator Bragg has indicated this is also about Australia getting up to speed with other nations.

"If adopted in full, the Senate's crypto reform agenda would bring Australia's regulations in line with the best in the world, like the UK and Singapore", said Senator Bragg in a statement on his website published in early November.

More bluntly, in reflecting upon the consequences of Australia not moving to implement these recommendations during the aforementioned ABC interview, Senator Bragg painted a picture of a future in which Australia would fall behind other nations in the crypto space.

"Well, we won't have the jobs, and we won't have the utility and the choice for people, unless we move in this direction," said Senator Bragg. "So, the jobs will be in Singapore and the UK, and people will be stuck with the same old products, from the same old vested interests."

Senator Bragg hoped to introduce the report's recommendations within a year.

<u>The CBA Moves On Cryptocurrency</u>

In early November, the CBA announced it would provide the means for its customers to buy and sell up to 10 different crypto assets via its app.

Bitcoin, in addition to other household names in the crypto world such as Ethereum and Litecoin would be among this collection.

The pilot program is set to start before year-end, and product improvements are expected in the new year.

This was the first move of its kind by a major bank in Australia, and will occur via a partnership between the CBA, the crypto exchange Gemini, and the blockchain analysis firm Chainalysis.

Many expect it is only a matter of time before the remaining three major banks seek to offer their customers with a similar service, although others suspect the CBA will be the sole actor in this space for the next little while.

For the Australian industry more widely, CBA's shift into crypto trading is expected to yield numerous benefits.

Not only will the visibility of crypto trading under the CBA umbrella confer greater validity upon the sector among the general public - spurring many would-be traders who have toyed with the idea of owning cryptos to finally dip their toes in the water - it is hoped this move will help drive down de-banking.

The ASX Officially Kicks Off A New Era

Also in early November, the ASX launched the first crypto-themed ETF on the ASX. The **BetaShares Crypto Innovators ETF** ((CRYP)) debuted on Thursday, November 4, at $11.23 per share.

The ETF offers investors an exposure to up to 50 holdings. But instead of offering direct investment in crypto coins, this ETF offers exposure to global companies that conduct business in the sector; Coinbase, Silvergate Capital, Marathon Digital Holdings, and Galaxy Digital Holdings being among the more notable names.

Although CRYP is the first of its kind on the ASX, the **Cosmos Global Digital Miners Access** (DIGA) ETF launched on Chi-X in recent weeks.

Bitcoin is also in the sights of VanEck Australia, the fund manager's website allowing interested parties to register their interest for an ETF in this space. So while CRYP makes history as the first on the ASX, others should soon follow.

Taking Account Of Change

Given the enthusiasm with which Australians have sought to trade cryptos, there is little doubt that the aforementioned developments will - allowing for the volatility seen regularly in the crypto sector - help increase local trading activity.

While measuring the precise popularity of cryptos across national populations can be challenging, Australian consumers have been considered among the keenest embracers of crypto in the world, and further growth and regulation is expected.

The local crypto scene is almost certain to hit some speed bumps but the sector is preparing for a new era - its most interesting chapter yet - and the wider Australian financial industry is set to travel with it.

Further Reading

An Idea With Currency: The American Quest For A New Crypto Accord

https://www.fnarena.com/index.php/2021/10/28/an-idea-with-currency-the-american-quest-for-a-new-crypto-accord/

Senator Andrew Bragg interview with Lisa Millar, ABC (Online) 21 October 2021:

https://www.abc.net.au/news/2021-10-21/liberal-senator-andrew-bragg-australia-could-be-crypto-hub/13596444

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WEEKLY REPORTS

The Short Report - 18 Nov 2021

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

Summary:

By Greg Peel

Week Ending November 11, 2021.

Last week saw the ASX200 tumble to 7360 from 7470 largely on a one-day sell-off sparked by a bigger than expected jump in US inflation.

But yet again, there was very little movement among stocks shorted 5% or more. With two exceptions, any red and green below is just bracket creep.

One exception is Kirkland Lake Gold ((KLA)), which jumped to 21.9% shorted from 9.3% and which we can completely ignored. The Canadian-based miner is listed in three countries, thus opening up occasional geographic arbitrage opportunities. It could well disappear off the table next week.

The other is Polynovo ((PNV)), which saw its shorts increase to 7.1% from 6.1% the week before. See below.

Weekly short positions as a percentage of market cap:

10%+
KLA 21.9
FLT 12.1
KGN 11.5
RBL 10.5

In: KLA

9.0-9.9

Z1P, WEB

Out: KLA

8.0-8.9%

MSB, EOS, COE, ING

No changes

7.0-7.9%

PNV

In: PNV

6.0-6.9%

A2M, BHP, MND, MTS, BET

In: BET Out: PNV, TPW

5.0-5.9%

TPW, AMA, TGR, OBL, RSG, BPT

In: TPW Out: BET

Movers & Shakers

Polynovo is a medical devices company but not in the realm of machines that go "ping", rather products such as a man-made synthetic polymer that treats deep wounds. So it's sort of a biotech without the "bio" part.

On October 20, Polynovo provided a trading update that indicated sales had been impacted more than expected by covid across the company's many geographies. The market took this news in its stride.

Yet last week, within the aforementioned index tumble, the stock plunged -18% on no new news in the meantime.

Perhaps the only explanation here is that when markets take a turn for the worse, investors tend to jettison their more risky smaller stocks first before considering the sale of larger, more established names. Yet Polynovo's share price has not since recovered.

Polynovo shorts have climbed to 7.1% from 6.1%.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.1	0.1	MQG	0.2	0.2
ANZ	0.6	0.6	NAB	0.7	0.6
APT	1.0	1.0	NCM	0.3	0.4
BHP	7.2	6.9	RIO	0.3	0.3
BXB	0.4	0.3	TCL	0.3	0.3
CBA	0.6	0.6	TLS	0.2	0.2
COL	0.5	0.5	WBC	1.1	1.1
CSL	0.2	0.2	WES	0.2	0.2
FMG	2.5	2.2	WOW	0.4	0.4
GMG	0.0	0.0	WPL	1.3	1.3

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

The Wrap: Dividends, Retail, BNPL & Business Travel

Weekly Broker Wrap: Dividends; retail; BNPL; banks and business travel.

- Australian dividend growth outpaces the rest of the world
- Which retail sectors will benefit from Black Friday sales?
- BNPL winners and losers
- When will business travel fully recover?

By Mark Woodruff

Australian dividend growth outpaces the rest of the world

BHP Group ((BHP)) will be the world's biggest dividend payer in 2021, distributing $25.6bn in combined payouts from the UK and Australian divisions.

This comes as **Australian dividends are expected to show record growth of 60% in 2021, a rate around four times faster than forecast for the rest of the world**, according to the Janus Henderson Global Dividend Index.

Banks were instrumental in this performance, after restoring dividends towards pre-pandemic levels, as were miners after capitalising on high commodity prices, explains Janus Henderson. More than 60% of Australia's third quarter payouts were contributed by miners, after a tripling of year-on-year dividends.

Banks were assisted by the lift in prudential limits and lower-than expected loan impairments. The final dividend for Commonwealth Bank ((CBA)) was only down -12.5% from its pre-pandemic level, with ANZ Bank ((ANZ)) close behind. Meanwhile, payouts for National Australia Bank ((NAB)) and Westpac ((WBC)) are expected to be only -15% lower than pre-pandemic levels.

Of course it should be noted Australia's relative payout strength reflects a rebound from a low base as Australian companies were among the worst hit last year. In Japan and the US, companies did not cut dividends by as much and consequently their payouts showed less growth than the global average.

Which retail sectors will benefit from Black Friday sales

Despite potentially less discounting during the end-of-year trading period, due to supply chain issues and inflation, ANZ Bank economists expect sales will be strong.

They expect improved labour market resilience and strong household deposits will result in end-of-year spending on retail more similar to elevated 2020 levels than the pre-covid years. Additionally, due to lingering reticence post recent reopenings, travel dollars will still be partially allocated towards retail.

To get a grip upon changing patterns for end-of-year non-food retailing spend, the analysts compare Cyber Monday and Black Friday. After exceeding Boxing Day spending for the first time last year, Black Friday is expected to the biggest retail sales day. Cyber Monday sales, which tend to be around 66-75% of Black Friday spending, are expected to be within the same range.

Potentially, last year's data may provide some clues as to which retail sector stocks may benefit this year. Along with last year's pronounced jump in **electronics spending** on Black Friday, **women's fashion and hobby store purchases** also boosted sales growth, points out ANZ.

[Black Friday is the day after Thanksgiving in the US, and Cyber Monday is the following Monday when online retailers offer discounts. A la Halloween, these US-specifc shopping events have insuinuated themselves into Australia via the influence of Amazon et al, and snapped up by local retailers as another promotional opportunity - Ed]

BNPL winners and losers

Looking at the BNPL sector on a global basis, **US-based Affirm Holdings has the highest gross merchant value (GMV)**, according to data compiled by Citi.

However, PayPal is catching up given its expanding geographical presence. The company generated GMV growth of 39% (the highest quarter-on-quarter rate), partly due to the launch of Pay in 4 in Australia. The company also intends to launch in Spain and Italy during the December quarter.

Meanwhile **in the US alone, Affirm continues to have the higher GMV**, after September quarter merchant sales of US$2.7bn, which compares to US700m and US460m for **Zip Co ((Z1P)) and Sezzle Inc ((SZL))**, respectively.

Shop Pay, powered by Affirm and available to all eligible Shopify merchants in the US, is driving Affirm's growth, resulting in a material increase in active merchants for the September quarter. Moreover, Split Pay (Affirm's Pay in 4 offering) has increased to around 12.5% of merchant sales in the September quarter from 6% in FY21.

Affirm has 102,000 merchants integrated as of September, compared to 44,000 for Sezzle and 17,000 for Zip Co. Also, given Affirm's focus on larger-ticket items, the company's spend per customer is double that of Zip Co and Sezzle.

While Zip Co's app downloads and website visits in the US rose month-on-month in October, Citi feels this is arguably a weak performance when considering the step-up in marketing required to rebrand from Quadpay to Zip. That being said, Zip's 2Q AGM trading update points to a better than expected start.

While **Afterpay's ((APT))** US website visitation growth continues to slow, to 9% from 14% in September, active app users continue to increase. The latter increased by 5% month-on-month in October. According to Citi, this points to traction for the 'Shop Anywhere'/Virtual card which allows app users to transact at non-integrated retailers.

When will business travel fully recover?

The world's largest business travel association is predicting a surge in 2022 global business travel spending. **A full recovery by 2024 is also expected, a full year earlier than previously thought.**

The latest report from the Global Business Travel Association (GBTA) points to a 38% jump in spending in 2022, as recovery and pent-up demand kicks into a higher gear.

The expected 14% rebound in 2021 business travel spending was slower than the GBTA forecast last February, due to pandemic surges, variant introductions, uneven vaccination rates and mounting supply chain challenges.

The same factors may impact on the current forecast, acknowledges the association, along with rising labour shortages and inflation. There's also the potential for a lagging recovery in Asian markets and broad adoption of remote working models.

Long term cuts to, or elimination of, business trips is another threat, along with increased sustainability practices and policies for business travel.

In terms of regions, during 2021 North America led with business travel rising by 27%, while Latin America, Middle East and Africa (MEA) and Asia-Pacific (APAC) all experienced 15% to 20% growth. While initially lagging in 2021, business travel demand in Europe is set to outpace most other parts of the world this year.

Meanwhile, a recovery in Asia Pacific has been held back by slower border re-openings and not at all helped by a downgrade to China's expected growth rate.

According to the GBTA, corporate travel managers will now have to balance duty of care with rising costs, sustainability priorities, and new considerations on the return on investment (ROI) of business travel.

Nonetheless, a GBTA poll of 400 global business travellers provides cause for optimism. It revealed that 86% of respondents feel travel is needed to accomplish business goals, while 81% predict their level of domestic business travel in 2022 will be greater than, or match pre-pandemic levels.

RUDI'S VIEWS

Rudi's View: Ansell, Mach7, Nitro Software, ResMed And Santos

In this week's Weekly Insights:

-Managing Risk In Earnings
-All-Weather Model Portfolio
-Conviction Calls
-Research To Download

By Rudi Filapek-Vandyck, Editor FNArena

Managing Risk In Earnings

If you thought global supply chain bottlenecks remain on investors' radar because the outlook for inflation depends on it, you'd be half correct.

One of the market narratives that has grown popular recently is that many of those bottlenecks are finding relief, which not only means inflation pressures should start to subside, but bond markets will have to retreat from their uber-aggressive pricing of central bank rate hikes, which can only be good news for share markets.

Relief from bottlenecks also means corporate margins might not come as much under pressure as feared, so that makes for a **double positive**.

Enter the strong rally we have been witnessing in US equities since late September (apparently also supported through short-covering by those who had positioned themselves for a bigger fall previously).

The upshot is most experts and commentators have seemingly resigned to the fact this bull market continues to showcase its ability to surprise positively.

On my observation, most on the cautious side of the market who have been preparing for a much greater fall for equities are now prepared to accept any share market correction might not arrive until next year.

Regardless, those experts say, headwinds are building on the back of ongoing severe energy shortages across Europe, repeated set-backs in adjustments to life with covid, decelerating growth in China, and ongoing inflation challenges in the US (eating into household spending).

As the end-of-year holidays are just around the corner, many companies will likely still be struggling to get products on the shelves, meaning consumers are faced with limited supply and higher prices.

And so, it seems, the calendar year of 2021 will come to an end while holding a basket of numerous contradictory narratives, and with markets showing a penchant for positive surprise.

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In Australia, the risk is very much concentrated in corporate market updates and financial results.

As I reported last week, forecast EPS growth for the year ahead for the ASX200 has halved to some 6.5%, but one can make the argument the bulk of the decline in expectations over the past 2.5 months is due to the fall in the price of iron ore, and various other commodities, plus a non-exciting reporting season from the banks.

If we take guidance from the financial reporting season post-September, on Monday the **FNArena Corporate Results Monitor** shows of all reporting companies, 54.2% have beaten expectations, with both "meets" and "misses" in balance for the remaining 55.8%.

Admittedly, the tally stands at 35 companies only, and most of the disappointments recently have come through AGM addresses and quarterly market updates.

Also, those numbers hide the fact that analysts have actually been very busy making major amendments to their forecasts as the likes of Orica ((ORI)), GrainCorp ((GNC)), Megaport ((MP1)) and 29Metals ((29M)) surprised to the upside, but with the likes of Xero ((XRO)), Tyro Payments ((TYR)), James Hardie ((JHX)), Ramsay Health Care ((RHC)) and Ansell ((ANN)) triggering downgrades.

See also FNArena's weekly update (available every Monday morning):
https://www.fnarena.com/index.php/2021/11/15/weekly-ratings-targets-forecast-changes-12-11-21/

In recent editions of Weekly Insights, I singled out the risk of individual corporate profit disappointment as one of the key risks for the Australian share market. However, for those among us who run a diversified portfolio, it is not easy to protect against such risk.

Should we abandon the small-cap, loss-making technology disruptor trading on elevated multiples or is it the cheaply valued covid-victim that nobody pays any attention to that has now become the riskiest holding?

What about all companies in between?

The problem with this type of risk is that it is always much easier to identify in hindsight. Companies on a roll can just as easily miss expectations as companies under operational pressure can finally beat lowly benchmarked expectations. But there never is any certainty until we get to know the details.

Which is why the real task for investors is to assess the outlook and implications post the latest market update.

One company whose challenge post-2020 has surprised me is Ansell. In hindsight, I underestimated how much of a boost last year's global pandemic, lockdowns and hospitalisations meant for the company's bottom line.

The difference between last year and 2021 can be easily read from the share price graph: last year the share price rallied as high as $42-plus, it is now languishing above $31.

That's a Big Ouch for loyal shareholders, and I am one of them.

From a broader picture perspective, Ansell's problems this year are the direct result of the unusually positive circumstances experienced in 2020 and the fact most analysis and assessments in the share market are conducted on a twelve month comparison.

The Devil's Advocate might say Ansell has simply joined the likes of Marley Spoon ((MMM)), Redbubble ((RBL)), Kogan ((KGN)) and numerous others but I disagree on the basis that Ansell has been a wonderful performer over the past decade, and there is no tangible indication that positive growth trajectory has now ended.

On that basis, I remain confident Ansell will separate itself from the lesser quality comparables that have equally found it difficult to continue performing this year, though potential for more disappointment remains.

A big and well-deserved shout out goes to the analysts at Macquarie whose analysis pointed to faster-than-expected price declines in some categories of protective gloves, which has surprised management at the company.

The likes of Metcash ((MTS)), Coles ((COL)) and Woolworths ((WOW)) were equally among last year's covid-winners, but their hurdle to surpass this year has clearly been less of an operational mountain.

A weaker share price does not necessarily compensate for the fact that risk remains for more disappointment from Ansell when the half-year financials are due in February. The All-Weather Model Portfolio has therefore reduced its exposure to the company.

Our assessment is probably best summarised by Ord Minnett, who on Friday, after cutting forecasts in preparation for ongoing tough times operationally, concluded with the statement Ansell shares offer "*attractive value given our confidence the company will emerge from the pandemic with greater market share and sustainably higher earnings*".

It just won't happen soon. Shareholders will have to be patient.

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Ramsay Health Care, on the other hand, showed once again that emerging as a beneficiary from post-pandemic restrictions is equally easier said than done.

Many a forecaster has identified this company as one of the obvious beneficiaries on the ASX, but reality keeps presenting barriers and limitations, as per last week's market update.

Once again, shareholders will have to be patient for longer.

Investors with less patience might be less inclined to stick with a company whose share price is unlikely to display much positive momentum leading into the new calendar year.

Which is why **Wilsons**' strategists responsible for the **Focus List** have sold out of ResMed ((RMD)) on the assessment most of next year's upside seems to be priced in already.

It has to be noted though, plenty of experts disagree, in particular since competitor Philips Respironics is still battling headwinds to please the FDA and get its competing products back in the market.

Wilsons' Focus List sold more than half of its exposure to Westpac ((WBC)) shares post disappointing FY21 result. Sector-wise, Wilsons has moved Underweight Australian banks which can serve as an indication of what the view is on the broader outlook for the sector in the year ahead.

Instead, the Focus List has added freshly listed Judo Capital ((JDO)), a disruptor for the local banking sector targeting business lending, the most profitable area of core banking. Plus the Focus List increased weightings for Aristocrat Leisure ((ALL)), Macquarie Group ((MQG)), and Goodman Group ((GMG)).

With earnings momentum rolling over for Australian companies, Wilsons' preference sides with companies whose earnings momentum is likely to remain positive throughout 2022.

Within this context, I can also report the two largest exposures on the List are CSL ((CSL)) and BHP Group ((BHP)), while Santos ((STO)) and Insurance Australia Group ((IAG)) stand equally above the field.

Among the smaller cap inclusions, we find EML Payments ((EML)), Silk Laser Australia ((SLA)) and Telix Pharmaceuticals ((TLX)), as well as newly listed Healthco Healthcare and Wellness Reit ((HCW)).

ResMed remains proudly held in the FNArena/Vested Equities All-Weather Model Portfolio, which also includes Ansell and Ramsay Health Care.

Recent editions of Weekly Insights

Three Risks Into Year-End:

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

Bonds Versus Earnings:

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

Australia's Share Market Sweet Spot:

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

-All-Weather Model Portfolio

The Portfolio's monthly review for October:

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

Conviction Calls

Guardians of the **Shaw and Partners Large Cap Portfolio** have decided it's best to adopt a more cautious view on global growth and inflation.

They have expressed an attraction to companies with pricing power and/or inflation-linked revenue streams. Changes made to the portfolio recently are designed to provide a greater hedge against inflation.

-Have been added: Amcor ((AMC)) and Brambles ((BXB)).

-Increased exposures: Macquarie Group ((MQG)), Santos ((STO)) and Woodside Petroleum ((WPL)) with Shaw and Partners still preferring oil & gas exposure over your typical mining company.

-No longer in the portfolio: Downer EDI ((DOW)), Suncorp Group ((SUN)), and Westpac. The latter has been dumped post what is described as a "poor" FY21 result with the shares now seen as ex-catalyst for the medium term.

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The (self-declared) software sector fanatics at the same firm, i.e. Shaw and Partners, have now removed Nitro Software ((NTO)) as a Top Pick.

In Nitro's place comes Mach 7 Technologies ((M7T)) which, judging from stockbroker Morgans' updates, seems very much undervalued by the market.

Shaw analysts agree with that assessment, of course, commenting [Mach7] "*appears to have fallen through the cracks and is now too cheap for its attractive fundamentals*".

The stock has been elevated to sector Top Pick, with Whispir ((WSP)) and Gentrack Group ((GTK)) in Top Pick positions two and three.

Nitro Software is still a relatively unknown software services provider which only listed on the ASX in December last year with a non-profitable business model, but full of potential, of course!

Post the initial lukewarm reception as a publicly listed entity, investors have shown their appreciation relatively quickly with the share rallying since April from near $1 to $3.75.

Shaw's decision to remove Nitro as a sector Top Pick seems logical after such a strong move upwards, but the acquisition of Connective, based in Belgium and the third largest e-sign business globally, has further fueled general optimism and enthusiasm for the stock among analysts elsewhere.

Evans & Partners analysts Julian Mulcahy and Kieran Harris, for example, are talking about a "transformational acquisition" that has significantly improved their conviction in Nitro's high growth outlook. Especially considering Connective operates from within the most stringently regulated market that is the EU.

The broker believes Connective will allow Nitro to truly compete with DocuSign and Adobe, with Nitro post acquisition offering comparable products, cheaper prices and plenty of reference sites in a still nascent market segment that should facilitate plenty of growth ahead.

Evans & Partners' valuation is $6.06 - still well above Nitro's share price.

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The **Conviction List** at **Wilsons** has seen the inclusion of clinical stage ASX-listed biopharma hopeful Immutep ((IMM)).

That decision has since been followed up by a sharp sell-down, then a partial recovery in the share price as the company updated on its Phase III clinical trials for Efti.

Backing up Wilsons' judgment were, among others, analysts at CLSA who quickly issued a research report in which they made it clear they did not understand why the share price response to the data had been so savagely negative.

CLSA responded by increasing its price target to $1.33 from $1.19, while retaining a Buy recommendation.

Before the market reaction, Wilsons' decision had been motivated by a seeming disconnect between Immutep's opportunities and a languishing share price.

Other stocks included in the Conviction List are ARB Corp ((ARB)), Collins Foods ((CKF)), Aroa Biosurgery ((ARX)), ReadyTech ((RDY)), and Plenti ((PLT)).

Research To Download

RaaS on K2Fly ((K2F)):

https://www.fnarena.com/downloadfile.php?p=w&n=554D7837-0575-EBB3-54393CCF3FACAB5D

(This story was written on Monday 15th November, 2021. It was published on the day in the form of an email to paying subscribers, and again on Thursday as a story on the website).

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