Week
37

Stories To Read From FNArena
Friday, 15 September 2017

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Is Value Emerging In Macquarie Group?

Macquarie Group is taking its usual conservative view with regard to guidance, yet brokers pounce on the expectation of stronger performance fees in the first half.

-Estimates upgraded to reflect stronger performance fees -Value emerging, with upside from operating leverage? -Cost reductions key to the medium-term outlook

By Eva Brocklehurst

Macquarie Group ((MQG)) is taking its usual conservative view with regard to guidance, indicating FY18 should be "broadly in line" with FY17. Yet, stronger performance fees are also flagged for the first half and these are expected to be in line with the prior half. Macquarie Group has historically produced a stronger second half because of seasonality in its energy business and Macquarie Capital.

This stronger first half outcome could be linked to timing, but Bell Potter suspects the real reason is largely about improved incremental realisation rates as the fund pipeline matures. The broker highlights that past performance fees were sourced from only around 10% of funds that were set up around 10 years ago, and the strike rate can only get better.

Deutsche Bank envisages a stronger outlook, driven by the commentary regarding higher performance fees. The broker upgrades FY18 forecasts by 3% which implies FY18 profit growth of 6%. That said, performance fees are notably volatile and arguably non-recurring. Deutsche Bank cities the 63% reduction year-on-year in performance fees in FY17.

They are also non-recurring, in that they depend in part on profitable asset realisations in each period, despite being an integral part of the company's asset management division. Deutsche Bank also notes, with almost two thirds of revenue sourced offshore, any further strengthening in the Australian dollar from current levels would present a headwind to guidance.

Morgan Stanley agrees FY18 guidance looks increasingly conservative and the seasonality, with a skew to the second half, reinforces the point. The broker now forecasts around 6% growth in FY18 but notes commentary remains subdued regarding the two largest "annuity-style" divisions: asset management and corporate & asset finance.

Morgan Stanley suspects it will be challenging to repeat FY17's $1.4bn of lumpy items but upgrades FY18 estimates to $1.2bn to reflect the stronger performance fees. The broker targets $456m in performance fees in FY18, up from $264m in FY17, but well below the record levels of $700m in FY15/FY16.

Value?

Bell Potter considers the stock a long-term cash and growth story, with a strong balance sheet, funding and capital adequacy. The long-term value lies in the unique position the business holds as a global asset and risk manager, as well as an ability to adapt to changing market conditions.

Bell Potter, not one of the eight stockbrokers monitored daily on the FNArena database, maintains and $100 price target and Buy rating. The broker considers the stock a low risk and high return on investment proposition which deserves to trade at a higher global asset manager price multiple.

Goldman Sachs, also not one of the eight, increases forecasts for earnings per share by 1.1% in FY18, underpinned by the better performance fees and partially offset by lower M&A income because of subdued market conditions.

The broker now forecasts 5% net profit growth in FY18. While value is emerging, particularly compared with other diversified financials under coverage, Goldman still finds better value in the major banks and maintains a Neutral rating. Target is $90.14.

Morgans likes the longer term outlook, given the company's position in niche business areas and a proven management team. While a recent fall in the share price has returned some value to the stock, with a more challenged near-term growth profile the broker does not envisage quite enough upside yet, maintaining a Hold rating.

UBS upgrades to Buy from Neutral, following the pull-back in the share price. While the revenue outlook is subdued, the broker continues to believe there is upside to be had as operating leverage is delivered. At the very least, this provides some protection to shareholders should revenue slow. UBS believes revenue was boosted by substantial private equity-style gains on sales over the last year, which will be difficult to replace.

Cost Initiatives

The broker believes continued cost initiatives that the company has flagged are key to the medium-term outlook. Macquarie Group's cost base of $7.3bn is way out of line with its business mix and scale, UBS asserts. In recent years the cost base has blown out to be the same as National Australia Bank's ((NAB)), in dollar terms.

As the business mix is now skewed to asset management, lending and leasing the broker contends that paying staff on investment banking framework is no longer appropriate. UBS expects the cost-to-income ratio to fall to 67% in FY18, continuing a down trend from 85% in FY12.

The broker estimates every -5% reduction in the cost-to-income ratio provides 16% upside to earnings per share. Cost leverage aside, UBS does not believe Macquarie Group can grow revenue in constant-currency terms unless market conditions are very buoyant.

FNArena's database shows one Buy rating (UBS), five Hold and one Sell (Citi, yet to comment on the update). The consensus target is $89.09, signalling 4.6% upside to the last share price. Targets range from $72 (Citi) to $100 (Credit Suisse, yet to comment on the update).

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.

Smartgroup Adding Scale To Growth

Vehicle leasing and salary packaging business, Smartgroup, continues to consolidate the sector, acquiring another two businesses to add further scale.

-High win rate on tenders and track record of value-accretive acquisitions -Meaningful opportunities likely to become more difficult to obtain -Acquisitions drive the majority of growth in the two years to 2018

By Eva Brocklehurst

Vehicle leasing and salary packaging business Smartgroup ((SIQ)) continues to consolidate the sector, acquiring two businesses to add further scale. The acquisitions of RACV Salary Solutions and Aspire Benefits Management will complement its existing salary packaging and novated leasing business and be funded by existing cash and debt facilities.

Macquarie upgrades forecasts for earnings per share in 2018 by 12.9%. The broker believes the acquisitions have been made on attractive financial terms, while management has a demonstrated ability to extract synergy benefits such as better trading terms and productivity improvements.

Macquarie believes the stock deserves to trade at a premium to its peer group. Over the past two years it has commanded an 11% premium but this has narrowed and it is now trading in line with peers. The business is considered well-managed and Macquarie is attracted to the financial returns, strong cash flow and capital light model.

Ord Minnett is also attracted to the stock on that basis and initiates coverage with an Accumulate rating and $9.60 target, implying a 12-month total shareholder return of 10%. The broker's investment case is predicated on market leadership, as the company has around 34% share of externally-managed salary packages in Australia. There is also a high win rate on tenders and a track record of value-accretive acquisitions.

Over the medium term the broker believes earnings will be driven by organic growth, based on an evaluation of the salary packaging and novated leasing markets across state & federal governments and universities, amid opportunities in the health sector. This growth will come via new tenders and an increase in the penetration of the existing workforce of employer clients.

Morgans expects execution risk will be relatively low as the company has consolidated the sector over the past two years. Nevertheless, RACV Salary Solutions appears to be the last private business of scale and meaningful opportunities will now become more difficult to obtain. The acquisitions result in around 12% upgrades to 2018 forecasts for earnings per share.

Morgans estimates acquisition synergies of around $5.8m, broadly split between revenue/margin and cost savings. The company's expects the for synergy benefits to be realised in the second half of 2018. The company has acquired six businesses over the past two years, driving the majority of 2016-18 growth.

Acquisitions

Adelaide-based RACV Salary Solutions provides salary packaging administration and novated leasing services and will be acquired for $34m, including $7m subject to targets. Smartgroup has acquired the business on around 6.8x FY17 operating earnings (EBITDA) and around 3.8x with the full synergies are factored in.

Sydney-based Aspire Benefits Management, a specialist novated leasing provider, will be acquired for $6.2m, including $600,000 subject to targets. The business is acquired on circa 5.2x FY17 operating earnings and around 2.0x after the full synergies are factored in. Combined, these two add 14.8% to salary packaging customers and 11% to the novated lease car pool.

FNArena's database shows five Buy ratings and one Hold (Credit Suisse, yet to comment on the acquisitions). The consensus target is $9.03, suggesting -0.8% downside to the last share price. Targets range from $8.00 (Credit Suisse) to $9.90 (Macquarie).

Dry Season Pressuring Graincorp's Outlook

Following below-average winter rainfall, ABARES has revised its winter crop forecast and brokers evaluate the implications for Graincorp.

-Despite downgrades, potential still exists for a reasonable FY18 result -Share price may not yet be fully reflecting the deteriorating conditions -Smaller crop to result in increased competition for a smaller grain pool

By Eva Brocklehurst

Following below-average winter rainfall, ABARES has revised its winter crop forecast for wheat, barley, canola, sorghum and chickpeas. The prospect of a below-average crop has resulted in brokers reviewing the outlook for Graincorp ((GNC)).

The ABARES quarterly crop update may have been above many forecasts, because of a 16% upgrade to Victorian yield expectations, but in contrast, NSW and Queensland were below estimates, reinforcing suspicions of negligible grain exports from those states in 2018.

Credit Suisse, in recognising the tendency for crops to be downgraded as an average, or dry, season progresses, sets its Victorian forecast at a 50 percentile yield versus around 60 in the ABARES forecasts. The ABARES east coast crop forecast for 2017/18 is 18.7mt. This is down -6% on the June estimates.

Reflecting bearish expectations heading into the update from ABARES, the broker observes the stock market reacted quite favourably. Moreover, noting Graincorp is trading towards the lower end of its typical $8-10/share trading range and there little structural change to earnings, Credit Suisse suggests a near-term seasonal downgrade may present an opportunity.

Graincorp's market share in FY16, a similar sized crop year, was about 42%. In applying this to FY18 forecasts, Morgans calculates total grain receivables of 7.8mt, down from 13.7mt in FY17 and prior forecasts of 9.0mt. The broker hastens to highlight that this is not without risk, and the forecast is based on there being sufficient, and timely, spring rainfall across Australia's cropping regions.

While believing Graincorp remains on track to deliver FY17 earnings guidance, the broker reduces forecasts because of a slowing in fourth-quarter activity as, given concerns over the current crop, farmers have either decided to hold their stocks on-farm or sell into the domestic market to capture a premium price compared to that on offer in the export market.

Morgans downgrades FY18 forecasts to reflect the ABARES revisions and the impact of reduced grain volumes on the company's marketing businesses. The broker also revises down forecasts for oils & malt, to reflect higher electricity prices and an elevated Australian dollar. All up, FY18 net profit is forecast to be down -33.5%, at $100m.

Nevertheless, compared with the past when crop yields were below average, a large carry-in from the record 2016/17 crop, a contribution from the company's projects across oils & malt and a better fixed cost base suggests a reasonable result is still on the cards.

Morgans agrees the best time to buy Graincorp is during a poor season, in anticipation of improved returns, but considers the share price is not yet fully reflecting the deteriorating seasonal conditions. The broker would become a buyer of the stock under $8 and maintains a Hold rating at current levels.

Supply Chain

East coast grain markets are past peak capacity additions and likely to enter a period of capacity consolidation. Credit Suisse believes the company could, and should, be exploring options for closing its port at Newcastle and entering a capacity sharing arrangement with its competitor, thus increasing industry utilisation and providing a more transparent market valuation for port assets.

The broker acknowledges recent integration of the company's trading and logistics operations are consistent with operating a tighter/more integrated trading and supply chain, reducing surplus country storage capacity and improving return on assets.

Credit Suisse suspects, with planned expansionary capital expenditure being reduced from FY18, and a free cash flow yield forecast of 9.6% in FY17 and 10% in FY18, an increasing dividend pay-out is likely. The broker retains an

Outperform rating.

Bell Potter rounds off the trifecta. The broker, not one of the eight monitored daily on the FNArena database, has a Sell rating and $7.73 target and believes the ABARES crop estimates continue to carry a downward bias into the December report.

Forecasts are adjusted to reflect a further reduction in FY18 crop receivables in the network and lower crush margins in the canola business, based on lower canola production forecasts and recent corrections in the Canadian crush margins.

Bell Potter also incorporates changes to Australian dollar assumptions in the malt business and makes a modest reduction in estimates of marketing returns, based on a smaller contestable crop, which limits marketing options and lifts competition. Typically, smaller crops result in increased competition for a smaller grain pool and this results in a contraction of returns from grain marketing.

FNArena's database shows two Buy ratings and three Hold ratings. The consensus target is $9.63, suggesting 18.6% upside to the last share price. The dividend yield on FY17 in FY18 forecasts is 3.9% and 3.7% respectively.

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.

Sirtex Shifts Focus

Setting aside the disappointment that has abounded regarding a succession of of clinical trials and studies which failed to produce results the market was expecting, Sirtex Medical has shifted focus.

-New competitive treatments could pressure the use of SIR-Spheres -PD-1 receptor inhibitors the new competitive treatments to be watched -Publication of clinical trial data needed to support ongoing use of SIR-Spheres in the salvage setting

By Eva Brocklehurst

Setting aside the disappointment that has abounded regarding a succession of clinical trials and studies that failed to produce the results the market was expecting, Sirtex Medical ((SRX)) has shifted focus.

The company is using positive secondary data to apply for marketing approval with the US Food and Drug Administration for use of SIR-Spheres in advanced hepatocellular carcinoma (HCC), due to be submitted in the first half of FY18.

Two thirds of SIR-Spheres dose sales are generated from HCC and metastatic colorectal cancer (mCRC). Morgans observes the latest data has shown SIR-Spheres has a mixed impact on quality of life versus chemotherapy, but remains modestly cost-effective for advanced HCC patients in the UK.

Morgan Stanley suggests material reductions to costs should provide an earnings uplift in FY18, and while the SARAH and FOXFIRE studies failed to meet primary end-points, there is enough in secondary indications to support growth in the base business.

Competition

New systemic agents are poised to change the HCC landscape and likely to pressure the use of SIR-Spheres, Morgans asserts. Multi-kinase inhibitors Stivarga and Lenvima have shown adequate benefit and manageable safety profiles and may become the new standards of care for patients failing and/or intolerant to first-line therapy (in the case of Stivarga) and as a front-line treatment option (in the case of Lenvima).

Morgans believes programmed cell death protein 1 (PD-1) checkpoint receptor inhibitor, Opdivo, stands to become a backbone therapy. Keytruda, another PD-1 receptor inhibitor, should also be watched, in the broker's opinion.

What does this mean for SIR-Spheres? Morgans suggests intensifying competition, ongoing legal battles and no specifics around a viable go-forward strategy limits the upside for Sirtex Medical and downgrades the stock to Hold from Add.

Morgan Stanley's view is that clinical practice has not fundamentally changed over the past 12 months, despite the recent influx of clinical trial data. A more intense competitive dynamic has evolved and this may be the cause for disappointing US growth in FY17.

UBS is of a similar view, although concedes that investors would have been frustrated with the miss on operating earnings at the FY17 results. At around 80% of global revenue, the slowdown in the Americas is a focal point, the broker also acknowledges, with the company calling out heightened competition for patients and tighter reimbursement.

Asia Pacific remains the strongest performing geography, with 20% sales growth in Asia and 9.8% growth in treatment sites across the region.

Outlook

Morgan Stanley suggests publication of clinical trial data is necessary to support ongoing use of SIR-Spheres in the salvage setting and increasingly important for the outlook.

Among the options the broker canvases, data generated by the SARAH in HCC could elevate SIR-Spheres above competitor Theraspheres and restore overall US market growth, as well as stimulate reimbursement approvals across Europe. However, given the timelines for filing, the broker does not expect this to occur until the first half of FY19 at the earliest.

Morgan Stanley believes a return to double digit growth over time from a renewed commercial focus is a realistic expectation but accepts that rectifying the US business will take time. Cost savings should largely net off ongoing sluggish dose sales growth and a headwind from in the Australian dollar in FY19.

The broker still envisages value in the stock, given the high returns on equity, mid-teens growth in earnings per share and an undemanding valuation compared with Australian medical technology peers. FNArena's database has one Hold (Morgans) and two Buy ratings. The consensus target is $19.78, suggesting 25.4% upside to the last share price. Targets range from $16.53 (Morgans) to $24.80 (UBS).

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.

Material Matters: Iron Ore, Aluminium & Gold

A glance through the latest expert views and predictions about commodities. Iron ore; aluminium; copper; and gold.

-Many drivers contributing to the widening spreads in iron ore -Aluminium market seen shifting to deficit out to 2019 -Are copper investors getting ahead of the data? -Some gold stocks still have value despite rally: Deutsche Bank

By Eva Brocklehurst

Iron Ore

UBS outlines numerous factors affecting the iron ore market at present, and the spread between low and high quality iron ore. Despite gyrations in the iron ore price, the spread between low and high grade iron ore has moved between -35% and -45%, suggesting this increasing spread could be more structural than cyclical.

Strong domestic growth in China has meant steel production is elevated this year and demand for an iron ore has remained strong. The Chinese government crackdown on polluting and idle capacity commenced last year in earnest and Chinese steel makers are looking to maximise output per tonne of input. Hence, higher grade is being sought.

To meet this demand Australia and Brazil are lifting supply, while India is lifting low-grade supply. Even the Indian monsoon, which means exports drop away, limited the spread decline to -35%. It is now back out at -43%. This suggests there are many drivers contributing to the discounts being seen in the market.

Macquarie takes a look at the niche segment, lump, and suspects panic by by Chinese mills following government-led sinter production cuts has meant the premium is well above equilibrium. Lump is a coarse type of iron ore that can be charged directly into the blast furnace. This typically trades at a premium compared to the benchmark iron ore fines price because it saves steelmakers the cost of sintering.

Seaborne supply of lump accounts for less than one fifth of the total seaborne iron ore market and the market is dominated by Australian producers. Rio Tinto ((RIO)) and BHP Billiton ((BHP)) control more than 60% of the market. The broker believes Chinese government induced cuts to sintering are the major driver behind the current rally in lump prices.

Macquarie forecasts the lump premium to stay above equilibrium premium of US$10/t for the rest of the year, although suspects any expansion above US$15/t will be short-lived. Yet, even if restrictions to sintering stay in place in the December quarter, the broker expects a correction in mill profitability, and thus a reduction in crude steel production, should soften demand.

Aluminium

Deutsche Bank expects the global aluminium market to shift into material deficit in the second half of this year and hold this state through to 2019. On the back of a tighter market the broker upgrades aluminium price forecasts by 11% for the second half, to US$0.85/lb, and by 12% for 2018, to US$0.94/lb. The broker expects prices to be well supported until the end of the Chinese heating season reductions in March next year.

Deutsche Bank observes a shutdown of the legal smelting capacity in China is accelerating. A total of 5.7mt of illegal capacity across three provinces has been identified, with around 1.4mt Xinjiang and 1.6-2.1mt in Shandong already closed. The broker does not expect major Western re-starts apart from Alcoa's Warrick smelter, Rusal's Taishet and Vendanta's Jharsuguda expansion. Deutsche Bank lifts 2018 expectations for the global aluminium producers and upgrades Alcoa to Buy.

Copper

Strong economic data and solid supply and demand fundamentals have supported a rally in copper. Yet Goldman Sachs, in looking at the historical relationship between copper and global growth, suggests copper is above fair value. Futures positioning also suggests the copper investors are getting ahead of the data. Goldman Sachs expects lower copper prices over the next 6-12 months, although momentum and technical suppose upside risks in the near-term.

The broker's preferred copper exposure is OZ Minerals ((OZL)), given its long-life portfolio. Planned expenditure should deliver a broadly flat production profile over the next decade and a 13% return, which can be achieved while the company still maintains dividends in line with 2016.

Sandfire Resources ((SFR)) has a project in the wings at Monty and first copper is forecast for 2019. Yet even with the Monty feed, the current ore reserves indicates that DeGrussa is likely to have an end-of-mine life at around 2022. The broker notes there is yet to be a major extension discovery in the region. While the stock screens well on multiples and has a strong free cash flow, the broker's concerns mean a Neutral rating is maintained.

Gold

The ASX gold index has risen 15% since the start of reporting season and now the sector appears fully valued, in Deutsche Bank's view. The broker incorporates a proposed 3.75% WA state royalty into its forecasts and believes this will be a marginal drag on sector valuations. Across the broker's coverage, value is still envisaged for St Barbara ((SBM)) and OceanaGold ((OGC)). Alacer Gold ((AQG)) and Dacian Gold ((DCN)) are also screening cheap as their projects develop.

The broker downgrades Evolution Mining ((EVN)) to Hold and Newcrest Mining ((NCM)) and Northern Star Reasources ((NST)) to Sell, on valuation. Deutsche Bank notes mostly stable gold prices throughout FY17 and steady operating performances have resulted in profits being in line with expectations, amid strong cash flow and a strengthening balance sheet.

The broker also notes gold has regained its safe-haven status this year, with the mood shifting in early July when market expectations of the fourth US rate hike began to fade and the US Federal Reserve took a more dovish stance. This was exacerbated by rising political tensions on the Korean Peninsula.

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

Weekly Ratings, Targets, Forecast Changes

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

The FNArena database tabulates the views of eight major Australian and international stock brokers: Citi, Credit Suisse, Deutsche Bank, 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 September 4 to Friday September 8, 2017 Total Upgrades: 9 Total Downgrades: 8 Net Ratings Breakdown: Buy 41.13%; Hold 42.72%; Sell 16.15%

It has taken the end of the August reporting season, and the usual lull in the first week thereafter, to -finally!- register a full week in which broker upgrades for individual ASX-listed stocks outnumbered downgrades, and it still remained a tight affair.

By Friday, 8th September 2017, FNArena's register showed nine upgrades versus eight downgrades. Senex Energy winning a tender in Queensland was sufficient for two upgrades to Buy. Regis Resources' share price refusing to retreat was good for two downgrades. Nine upgrades jumped to Buy with long troubled Wellard the only one that had to settle for Neutral/Hold.

Regis Resources and Suncorp were the sole recipients for downgrades to Sell.

As expected, things quietened down substantially for amendments to valuations/price targets and earnings estimates. Senex Energy enjoyed the largest jump in consensus price target, up by 15%, handsomely beating Monadelphous and a few others. On the flipside, Orocobre and Alacer Gold both saw declines by -3%-plus.

Positive changes are on average larger than negative ones.

The latter observation also goes for changes to forecasts. Ardent Leisure takes the honours for upward adjustment with a big leap (+300%), followed by Orocobre, Macquarie Atlas and Webjet. On the negative side, NextDC suffered a blow of -30%, beating Senex Energy, Beach Energy and Baby Bunting.

It should be a relatively easy-going week ahead, with analysts now starting to prepare for out-of-season corporate results, starting with Myer on Thursday.

Upgrade

AUTOMOTIVE HOLDINGS GROUP LIMITED ((AHG)) Upgrade to Add from Hold by Morgans .B/H/S: 5/1/1

Industry data has shown the Western Australia new vehicle sales grew by 4.2% in August, the second month of positive growth in four months. The company faced a number of challenges in FY17 relating to finance impacts from tightening consumer credit conditions and declining vehicle sales.

Morgans suspects the risk/reward is now to the upside. The broker likes the strong exposure to an eventual upswing in the WA economy and believes it's only a matter of time before trading conditions improve. Rating is upgraded to Add from Hold, target is $3.60.

BABY BUNTING GROUP LIMITED ((BBN)) Upgrade to Add from Hold by Morgans .B/H/S: 2/2/0

The exit of another competitor in Queensland, Bubs, is an opportunity for Baby Bunting, Morgans believes. There is the potential to take on a couple of the leases where Baby Bunting does not have a presence.

In the short term the clearance of Bubs stock may impact sales growth for Baby Bunting and, therefore, margin but the broker believes the market will look through this for the medium-long-term.

Rating is upgraded to Add from Hold, as it is a reminder of the company's strengthening competitive position and the strong growth that is still on offer. Target rises to $1.96 from $1.80.

HANSEN TECHNOLOGIES LIMITED ((HSN)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 1/1/0

Ord Minnett upgrades to Buy from Accumulate. The stock has significantly de-rated through 2017 and is now trading at levels that are lower than at any point since the broker started coverage.

Ord Minnett suspects the stock is now set to deliver a strong cash result in the first half. As Hansen is typically a mean reversion business, the broker envisages 15% upside to base case.

Price target is reduced to $3.93 from $3.98.

SUNCORP GROUP LIMITED ((SUN)) Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/2

Citi analysts have upgraded to Buy from Neutral in response to recent share price weakness. Target price is kept at $14. The analysts find Suncorp shares have by now fallen far enough to account for the FY18 margin headwinds.

Also, at present level Citi thinks the shares offer an attractive entry point to gain leverage to the improving Australian general insurance market. The banking operations should stay reasonably strong, the analysts add.

They see better value on offer than in Insurance Australia Group ((IAG)).

See also SUN downgrade.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Buy from Neutral by Citi .B/H/S: 4/2/0

The company has been granted the Queensland government's domestic gas acreage in the Surat Basin. The project is expected to deliver first gas by 2019.

Macquarie believes this is a gift from the Queensland government and far better than any other project in the company's portfolio. The broker believes the project has the potential to deliver around 2mmboe per year at plateau rates, double the company's current production.

The main risk remains regarding reserve development is limited to wells that have been drilled on the permit to date. Rating upgraded to Outperform from Neutral. Target raised to $0.35 from $0.30.

The Queensland government has awarded the company an acreage position in the Surat Basin for nil cost and Citi analysts consider it favourably, pointing out the positioning is surrounded by Tier 1 projects.

The company expects to obtain regulatory approvals by mid-CY18 with first gas deliveries expected in CY19. This is sufficient for Citi to upgrade to Buy/High Risk from Neutral. Target price gains 5c to 35c.

The analysts explain their unrisked valuation has lifted to $0.51/shr, but in a bull-case scenario whereby the company performs better in terms of CSM costs, reserves and the gas price this valuation could well rise above $0.60/shr.

TELSTRA CORPORATION LIMITED ((TLS)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 3/3/2

Credit Suisse believes the majority of the negative news flow is now out of the way for Telstra and reflected in the share price.

The broker believes the new dividend policy and the creation of a special dividend pool provides flexibility for the company to maintain a $0.22 per share dividend for at least the next four years.

The broker upgrades to Outperform from Neutral. Target is raised to $4.00 from $3.90.

VOCUS COMMUNICATIONS LIMITED ((VOC)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 1/6/1

Ord Minnett has now more confidence around FY18 guidance and finds the current level an attractive entry point for the stock. Rating is upgraded to Accumulate from Hold. Target is reduced to $3.00 from $3.30.

For a company expected to be able to grow core operating earnings at low-to-mid-single digits in the near and medium term Vocus is the broker's preferred stock in the sector following a reset of expectations.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

WELLARD LIMITED ((WLD)) Upgrade to Hold from Reduce by Morgans .B/H/S: 0/2/0

FY17 results were extremely weak, Morgans observes, although in line with recent guidance.

FY18 is expected to be another challenging year. Uncertainty remains high and the broker does not expect the company to return to profitability until FY19.

Morgans suggests that further asset sales and/or new equity raisings may be necessary. The broker suspects the company is through the worst and upgrades to Hold from Reduce. Target is reduced to $0.11 from $0.15.

Downgrade

ASTRO JAPAN PROPERTY TRUST ((AJA)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

The company has agreed with hedge fund Blackstone to acquire its $1.1bn Japanese portfolio, consisting mostly of greater Tokyo B-grade retail and office assets. Ord Minnett expects the vote to be approved by unit holders on September 13.

Ord Minnett's suspects a superior alternative proposal is highly unlikely. As the stock is now trading at the present value of the proposed transaction price, the rating is downgraded to Hold from Buy and the target raised to $7.25 from $7.20.

This stock is not covered in-house by Ord Minnett. Instead, the broker white labels research by JP Morgan.

ALACER GOLD CORP ((AQG)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 4/1/0

Ord Minnett observes the miners have had a good run, yet consensus estimates may be too low following the broad-based rally in commodities. The broker envisages room to grind higher in the short term.

Nevertheless, the broker is also wary that prices sit above cost curve support and may provide incentives for incremental supply.

Rating is downgraded to Hold from Speculative Buy. Target is reduced to $2.30 from $2.90.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 3/2/2

Ord Minnett observes the miners have had a good run, yet consensus estimates may be too low following the broad-based rally in commodities. The broker envisages room to grind higher in the short term.

Nevertheless, the broker is also wary that prices sit above cost curve support and may provide incentives for incremental supply.

Iluka's rating is downgraded to Hold from Accumulate. Target is $10.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

NORTHERN STAR RESOURCES LTD ((NST)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/5/1

The Western Australian government has proposed an increase in the gold royalty to 3.75% from 2.50%. Macquarie observes high-cost mines will feel the pinch, as a mine with a cash margin of just $100/oz or $200/oz would experience cash profits pre-tax falling -20% and -10% respectively.

The proposed royalty increase has a negligible impact on the earnings outlook for higher-margin producers. However, strong share price performance in recent weeks has pushed some stocks beyond their targets. Macquarie downgrades Northern Star to Neutral from Outperform. Target is $5.40.

REGIS RESOURCES LIMITED ((RRL)) Downgrade to Underperform from Neutral by Macquarie and Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/3/5

The Western Australian government has proposed an increase in the gold royalty to 3.75% from 2.50%. Macquarie observes high-cost mines will feel the pinch, as a mine with a cash margin of just $100/oz or $200/oz would experience cash profits pre-tax falling -20% and -10% respectively.

The proposed royalty increase has a negligible impact on the earnings outlook for higher-margin producers. However, strong share price performance in recent weeks has pushed some stocks beyond their targets.

Rating is downgraded to Underperform from Neutral. Target is $3.40.

Ord Minnett observes the miners have had a good run, yet consensus estimates may be too low following the broad-based rally in commodities. The broker envisages room to grind higher in the short term.

Nevertheless, the broker is also wary that prices sit above cost curve support and may provide incentives for incremental supply.

Rating is downgraded to Hold from Accumulate. Target is raised to $4.10 from $4.00.

This stock is not covered in-house by Ord Minnett. Instead, the broker whitelabels research by JP Morgan.

SARACEN MINERAL HOLDINGS LIMITED ((SAR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/2/0

The Western Australian government has proposed an increase in the gold royalty to 3.75% from 2.50%. Macquarie observes high-cost mines will feel the pinch, as a mine with a cash margin of just $100/oz or $200/oz would experience cash profits pre-tax falling -20% and -10% respectively.

The proposed royalty increase has a negligible impact on the earnings outlook for higher-margin producers. However, strong share price performance in recent weeks has pushed some stocks beyond their targets.

Rating is downgraded to Neutral from Outperform. Target is $1.50.

SUNCORP GROUP LIMITED ((SUN)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 4/2/2

Macquarie has a negative outlook on the Australian general insurance sector.

Macquarie believes the company's underlying margins will take a structural step down in FY18 as reinsurance changes and Queensland CTP reform flow through the book.

The broker expects a -30 basis points headwind to margins from the changes to the reinsurance allowance. Rating is downgraded to Underperform from Neutral. Target is reduced to $12.70 from $14.50.

See also SUN upgrade.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 AUTOMOTIVE HOLDINGS GROUP LIMITED Buy Neutral Morgans 2 BABY BUNTING GROUP LIMITED Buy Neutral Morgans 3 HANSEN TECHNOLOGIES LIMITED Buy Buy Ord Minnett 4 SENEX ENERGY LIMITED Buy Neutral Macquarie 5 SENEX ENERGY LIMITED Buy Neutral Citi 6 SUNCORP GROUP LIMITED Buy Neutral Citi 7 TELSTRA CORPORATION LIMITED Buy Neutral Credit Suisse 8 VOCUS COMMUNICATIONS LIMITED Buy Neutral Ord Minnett 9 WELLARD LIMITED Neutral Sell Morgans Downgrade 10 ALACER GOLD CORP Neutral Buy Ord Minnett 11 ASTRO JAPAN PROPERTY TRUST Neutral Buy Ord Minnett 12 ILUKA RESOURCES LIMITED Neutral Buy Ord Minnett 13 NORTHERN STAR RESOURCES LTD Neutral Buy Macquarie 14 REGIS RESOURCES LIMITED Sell Neutral Macquarie 15 REGIS RESOURCES LIMITED Neutral Buy Ord Minnett 16 SARACEN MINERAL HOLDINGS LIMITED Neutral Buy Macquarie 17 SUNCORP GROUP LIMITED Sell Neutral Macquarie Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SXY SENEX ENERGY LIMITED 67.0% 33.0% 34.0% 6 2 BBN BABY BUNTING GROUP LIMITED 50.0% 25.0% 25.0% 4 3 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 50.0% 36.0% 14.0% 7 4 MND MONADELPHOUS GROUP LIMITED -86.0% -100.0% 14.0% 7 5 JHX JAMES HARDIE INDUSTRIES N.V. 50.0% 43.0% 7.0% 6 6 VOC VOCUS COMMUNICATIONS LIMITED -6.0% -13.0% 7.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 RRL REGIS RESOURCES LIMITED -63.0% -31.0% -32.0% 8 2 ORE OROCOBRE LIMITED 33.0% 60.0% -27.0% 6 3 AQG ALACER GOLD CORP 80.0% 100.0% -20.0% 5 4 ILU ILUKA RESOURCES LIMITED 14.0% 21.0% -7.0% 7 5 BWP BWP TRUST -80.0% -75.0% -5.0% 5 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SXY SENEX ENERGY LIMITED 0.358 0.310 15.48% 6 2 MND MONADELPHOUS GROUP LIMITED 11.021 10.475 5.21% 7 3 BBN BABY BUNTING GROUP LIMITED 1.928 1.888 2.12% 4 4 RRL REGIS RESOURCES LIMITED 3.480 3.433 1.37% 8 5 BWP BWP TRUST 2.776 2.770 0.22% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 ORE OROCOBRE LIMITED 4.173 4.316 -3.31% 6 2 AQG ALACER GOLD CORP 3.760 3.880 -3.09% 5 3 VOC VOCUS COMMUNICATIONS LIMITED 2.679 2.716 -1.36% 8 4 JHX JAMES HARDIE INDUSTRIES N.V. 19.653 19.789 -0.69% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 AAD ARDENT LEISURE GROUP 3.380 -1.620 308.64% 7 2 ORE OROCOBRE LIMITED 13.020 7.815 66.60% 6 3 MQA MACQUARIE ATLAS ROADS GROUP 44.094 28.510 54.66% 6 4 WEB WEBJET LIMITED 51.722 43.184 19.77% 5 5 MIN MINERAL RESOURCES LIMITED 121.075 118.575 2.11% 3 6 RRL REGIS RESOURCES LIMITED 31.785 31.423 1.15% 8 7 FPH FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED 31.477 31.301 0.56% 5 8 WES WESFARMERS LIMITED 254.238 253.113 0.44% 8 9 TOX TOX FREE SOLUTIONS LIMITED 13.620 13.580 0.29% 4 10 RIO RIO TINTO LIMITED 586.669 585.388 0.22% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 NXT NEXTDC LIMITED 3.905 6.160 -36.61% 6 2 SXY SENEX

ENERGY LIMITED -0.221 -0.204 -8.33% 6 3 BPT BEACH ENERGY LIMITED 7.097 7.430 -4.48% 6 4 BBN BABY BUNTING GROUP LIMITED 11.450 11.950 -4.18% 4 5 STO SANTOS LIMITED 12.723 13.059 -2.57% 8 6 BLD BORAL LIMITED 35.149 35.959 -2.25% 7 7 SUN SUNCORP GROUP LIMITED 86.750 88.388 -1.85% 8 8 IAG INSURANCE AUSTRALIA GROUP LIMITED 36.563 37.063 -1.35% 8 9 CGF CHALLENGER LIMITED 66.743 67.638 -1.32% 8 10 SIG SIGMA HEALTHCARE LIMITED 5.628 5.700 -1.26% 4 Technical limitations

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

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

Uranium Week: Three Week Run

By Greg Peel

Australia's largest diversified miner, BHP Billiton ((BHP)), announced last week the first ore had been extracted from the company's high-grade underground expansion into the Southern Mining Area of the Olympic Dam site, and the first copper cathode had been produced from its heap leach R&D trials.

Heap leach ore processing is a low-cost option being assessed for Olympic Dam to extract copper, gold, silver and uranium to support BHP's future growth plans.

While the suggestion is occasionally made, the Australian government has no intention of considering the construction of a nuclear power plant despite the ready availability of uranium in the country, and despite the fact Australia's legacy coal-fired generators are one by one reaching the ends of their working lives. The government would rather continue to pursue coal-fired options.

On the other side of the world, in more ways than one, the Norwegian government last week announced it will seek to phase out coal-fired power generation by 2030. The country has one new nuclear plant scheduled for start-up in 2018 and construction of another plant could begin in 2019.

Uncertainty continues in the US nuclear power industry, which is very much a state by state proposition. Dominion Energy said this week it would suspend plans to build a third reactor at its North Anna Nuclear Station in Virginia. Meanwhile, the Pennsylvania state parliament has passed a law urging the pursuit of "fiscally responsible policies" to preserve nuclear power in the state. It is in Pennsylvania where Exelon has announced it will prematurely close the infamous Three Mile Island plant unless policies changed.

Spot Uranium

The spot uranium market posted its third consecutive week of gains last week, but it's hardly anything to get excited about, so incremental have the price rises been. Last week saw a US40c increase to US$20.65/lb.

Buyers were relatively keen early in the week but interest faded by the end of the week as sellers tried to back off their offers, industry consultant TradeTech reports. Only 400,000lbs were traded in five transactions, compared to 1.1mlbs the week before.

The spot price remains -22% below the February high of US$26.50/lb and the average price for 2017 to date of US$22.03/lb is -16% below the 2016 average of US$26.32/lb.

TradeTech's term price indicators remain at US$24.30/lb (mid) and US$31.00/lb (long).

[U3O8]

The Short Report

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.

Summary:

Week ending September 7, 2017

Last week was another in which the ASX200 chopped around a lot but never got very far from 5700.

I flagged in last week's Report that Bapcor's ((BAP)) jump in shorts to 9.7% from 6.9% looked suspiciously like an ASIC data blip. It was. Bapcor shorts are now back at 5.8%.

Of all the red and green moves below, only three represent changes of one percentage point or more. One is Western Areas ((WSA)), down to 15.9% from 17.1%. Another is Orocobre ((ORE)), down to 17.3% from 18.6%.

I usually don't bother highlighting 1ppt moves in the shorts of nickel and lithium/graphite miners given (a) their short positions are so big, 1ppt is small in percentage terms and (b), their share prices are highly volatile, reflecting the volatility of underlying commodity prices.

The song remains the same for nickel, as the spot price had another week of wild gyrations, but this time it's worth looking into the battery-related stocks (see below).

The other stock is Navitas ((NVT)), which last week jumped from under 5% shorted to 6.0%. The education company last week announced a joint venture with Swansea University in Wales, and the share price enjoyed a pop.

Weekly short positions as a percentage of market cap:

10%+

SYR 19.7 ORE 17.3 WSA 15.9 MYR 15.4 IGO 14.5 SHV 13.2 JBH 12.8 RFG 12.6 DMP 12.4 AAD 11.8 ACX 11.7 GXY 11.3 HVN 10.7 MYX 10.5 MTS 10.5

No changes

9.0-9.9%

ISD, HSO, APO, GTY In: HSO, APO Out: BAP, JHC, NXT

8.0-8.9%

NXT, QIN, JHC

In: NXT, JHC Out: APO, HSO,

7.0-7.9%

BKL, RIO, AHG, GXL, FLT, TPM

In: GXL Out: IPD, BEN

6.0-6.9%

VRT, NEC, VOC, NSR, BEN, NWS, AAC, IPD, SEK, SAR, MND, NVT, TAH

In: BEN, IPD, NVT Out: GXL, PRU, OFX

5.0-5.9%

BWX, OFX, PRU, BAP, HT1, CCP, GMA, IPH, KAR, MSB, CTD, QUB, A2M, CSV, RCG, OSH, SDA, WOW, ING

In: BAP, OFX, PRU, SDA, WOW, ING

Out: MOC, AYS, SRX, AWC, DCN

Movers and Shakers

The death knell has sounded for the internal combustion engine, it would seem.

To date, France and the UK have both set legal deadlines for the end of fossil fuel-powered vehicle production by 2040. British Telecom (BT) has vowed to do the same for its 30,000-strong fleet of service vehicles, by 2030. This week, China got in on the act.

Beijing has not yet set a date, but it announced it will soon do so. Aside from looking to phase out fossil fuel power, Beijing already offers subsidies for electric and hybrid vehicles. When France and the UK announced their moves, the spot price of lithium received a kick. On China's announcement, it surged.

A handful of stocks listed on the ASX can be considered "battery-related", as miners of lithium or graphite. Among those are Orocobre, Syrah Resources, Galaxy Resources ((GXY)), Mineral Resources ((MIN)) and Pilbara Minerals ((PLS)).

MinRes spent a very long time in the 10% plus shorted club back when the iron ore price was collapsing, given the company also mines iron ore alongside its mineral services business. But when the market woke up to the fact MinRes also had a lithium project, the stock quickly disappeared right off the table. The lithium price had begun to move.

Funnily enough, MinRes has not reappeared. But in its place, this year has seen the ascendency of Orecobre, Syrah and Galaxy into the 10% plus club, and for the former two, the first and second highest positions. Pilbara popped into the bottom of the table for a while but has since dropped out again.

While no resource sector analyst disputes the upward trend in electric vehicles and subsequently batteries, views on the outlook for the global lithium demand/supply balance are less clear. Lithium is not rare, and given its sudden popularity, projects are sprouting up all over the place. It is, however, a costly and troublesome element to extract.

It is this last point that clouds the issue of whether lithium supply is going to race ahead of demand in the short term, given the EV and home battery growth trend is still in its early stages, or whether the trend will accelerate while miners struggle to get the stuff out of the ground (or pond, as is the case with lithium). This likely explains why (a), these particular miners are in the sights of the shorters and (b), their share prices are highly volatile.

Note that chemically, lithium is the most volatile metal. Somewhat fitting.

This week's Chinese news sparked big short-covering rallies in Galaxy and Syrah, although not so in Orocobre. Last week Orocobre shorts fell to 17.3% from 18.6%. It will be interesting, next week, to see what the ASIC data reveal about short movements this week.

ASX20 Short Positions (%)

To see the full Short Report, please go to this link

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.

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.

The Wrap: Economy, Consumers And Wealth

Weekly Broker Wrap: Economic perspectives; cattle; consumer stocks; banks & resources; wealth managers.

-Those looking for a near-term hike in official interest rates may be disappointed -Potential downside for net profits of Elders and Ruralco as cattle prices fall -Opportunities still exist in consumer stocks; Amazon expected to make landfall pre-Christmas -Macquarie upgrades banks & resources in model portfolio -Structural changes occurring in the wealth management segment

By Eva Brocklehurst

Economic Perspectives

In the wake of the Australian GDP numbers, which rose 0.8% in the June quarter, UBS reiterates forecasts. The broker expects GDP annualised to rise to 3% in the September quarter, albeit briefly, and suggests the pace overstates the reality of momentum and should represent the peak in growth. The broker suggests macro prudential tightening is still to fully impact the housing market, which is consistent with a call of a top for activity and price growth.

Consumption is expected to be weighed down in the coming year by fading household wealth when coupled with higher energy prices. The broker calls a trough in wages because of the minimum wage hike but suspects any pick-up in the months ahead will disappoint relative to the stronger jobs growth.

A new upside risks consists of booming public demand spilling over to private capital expenditure, given a sharp lift in capital expenditure intentions and non-residential building approvals. This comes amid strong business conditions and better global growth which has lifted exports. Overall, UBS suggests those looking for a near-term hike in official interest rates will be disappointed.

Cattle

A correction in cattle prices is underway. Spot prices on the Eastern Young Cattle Indicator have declined since the start of June to $5.50p/kg from $6.55p/kg. The price decline reflects increased supply, following dry weather, a stronger Australian dollar and a decline in the 90CL benchmark price. Wilsons forecasts an EYCI of $5.50p/kg in FY18 and $4.75p/kg in FY19.

All else being equal, this implies downside to the broker's net profit estimates for Elders ((ELD)) and Ruralco ((RHL)) of -2% and -3% in FY18 and -4% and -3% in FY19, respectively.

Under a scenario where the cattle price falls more sharply the broker assesses around -10-15% potential downside to existing net profit forecasts in FY18 and FY19 for both Elders and Ruralco. Both these agency businesses generate commission income on the value of cattle, sheep and wool turnover.

Consumer Stocks

Deutsche Bank believes large share price movements during reporting season have created opportunities in consumer stocks. Both JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)) delivered strong results and upbeat statements but underperformed sharply. Deutsche Bank envisages considerable upside in both, as sales and earnings growth are likely to continue despite price/earnings ratios barely into double digits.

Meanwhile, Woolworths ((WOW)) continues to show strong sales momentum and margin expansion in the second half, but has also underperformed. The broker believes a supermarket price war is unlikely.

The disconnect was further heightened by the performance of both Treasury Wine Estate ((TWE)) and Flight Centre ((FLT)) which provided results which were broadly in line with estimates but performed strongly. Deutsche Bank suspects guidance for longer-term margins is the key driver behind their performance as neither provided definitive FY18 guidance.

Citi suggests Amazon could launch pre-Christmas. The launch is subject to website and logistics testing but a formal launch is expected to occur some time in October. The broker expects Amazon to offer free delivery over a value threshold, with the Prime service to be offered later. Amazon will be buying directly from leading suppliers, holding inventory and setting retail prices.

This increases near-term gross margin risks for retailers, as price will be Amazon's lever. Amazon's strategy to match or be the lowest price and the market could spark a response from incumbent retailers, intent on not being beaten on price during the key pre-Christmas sales. Amazon will target gift categories in the short term given the logistics constraints.

Based on Citi's estimates, the incremental sales impact for the second quarter of FY18 could be around 0.2% of total Australian retail sales. Short term, the impact will be limited in the food, liquor, furniture, hardware and automotive categories. Areas of greater risks include electronics, department stores, leisure, clothing and footwear. The most exposed stocks the broker suggests include JB Hi-Fi, Harvey Norman, Myer ((MYR)), Super Retail ((SUL)) and RCG Corp ((RCG)).

Banks & Resources

Macquarie is raising its ratings on banks and resources to Overweight from Neutral. Miners stood out in the reporting season and, operationally, continue to surprise on the cost side. Marking to market commodity price moves still drives large upgrades. Moreover, cash to assets ratios for the sector have risen to 10% and net debt to equity has fallen to 26%.

A reversal in US dollar weakness poses the most significant near-term risk for the sector's performance, in the broker's opinion. The energy sector has also joined the miners, as earnings are upgraded.

Meanwhile, Macquarie has been running with a Neutral outlook for banks and now believes the valuation appeal of the sector is strong enough to offset the concerns around the political and housing-related risk. Relative earnings momentum is expected to be increasingly supportive for banks. Banks now trade at a 19% price/earnings discount to the market and the broker suggests this is too much, when the relative earnings growth differential is small.

Macquarie adds Commonwealth Bank ((CBA)) and removes Bank of Queensland ((BOQ)) within banks in its model portfolio, adding Mineral Resources ((MIN)) within resources. To fund these moves the broker removes Corporate Travel ((CTD)), Computershare ((CPU)) and JB Hi-Fi.

Wealth Managers

Major wealth operators in Australia – being the four major banks and AMP ((AMP)) - are slimming down wealth and life earnings. Bell Potter has explored the move to sell, part sell, review or exit parts of these businesses. The broker argues this is a structural change, not a cyclical one, and the wealth management landscape of the future will be different.

This comes at a time when the industry funds are ramping up their offerings and marketing budgets to take advantage of the opportunity being presented. Recent data suggests industry funds continue to take market share from public and retail segments, with SMSFs also making small gains.

The broker believes the trends are a major headache for AMP and the business does not have the appropriate strategy in place to combat the trends. Bell Potter has a Sell rating for AMP. In contrast, Buy-rated IOOF ((IFL)) is bucking the trend as its advisor numbers are growing and its market share has been taken to 4.0% in the last six months, with over 1000 advisers in total.

The broker also rates Onevue ((OVH)) and Praemium ((PPS)) as Buy, as these are beneficiaries of this shift to independence through their investment platforms, as well as a shift to outsource more functions from the majors.

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.

Macquarie Telecom Growing Hybrid IT

Macquarie Telecom is growing its hosting service at a fast rate, with a focus on hybrid IT that includes dedicated servers and data centre co-location. Canaccord Genuity initiates coverage.

-Increasing evidence that hybrid IT services can work better -Telecom business returns to modest growth after several years of declines -Trading materially below the rating of telco peers in Australia

By Eva Brocklehurst

Macquarie Telecom ((MAQ)) is growing its hosting service at a much faster rate than its telecom business, providing hybrid IT and data centre co-location. The market for private cloud (or managed hosting services) is forecast by Cisco to grow at 17% per annum over the next five years. This may be lower than the public cloud at 26% but still offers an attractive profile, Canaccord Genuity asserts.

Hosting, with a focus on hybrid IT services and data centre co-location, addresses the shift in business IT off-site to data centres and Macquarie Telecom can offer both private and public cloud services.

Canaccord Genuity notes the business has been growing revenue at 13% per annum over the last three years, which may be less than the higher rates achieved by peer NextDC ((NXT)) but operating leverage means that earnings should grow much faster. NextDC does not offer private cloud.

Migration Back To Private

Growth in public cloud adoption is exceptionally strong but there are some signs, the broker notes, that companies are finding a hybrid approach works better. There are several areas where some functions are being returned to private servers for economies of scale, such as where "bill shock" has occurred, and where network constraints make delivering high-quality video and streaming services particularly problematic, such as in regional and rural areas.

Evidence is cited where companies had to migrate some applications back to equipment on-site to improve performance, while some have found that migrating work to cloud environments merely swapped one problem for another, such as in the case of power outages.

Meanwhile, the company's telecom business has returned to modest growth after several years of decline. The broker highlights the telecom sector in Australia is highly competitive and aggregate revenue from the business/enterprise segment is, at best, flat. While recent growth is distinctly positive, in order to maintain revenues, the broker emphasises gaining customers is essential.

Canaccord Genuity expects revenue growth of 7% per annum between FY17-20, of which hosting offers 16% and telecoms 2%. Operating earnings (EBITDA) are expected to outstrip revenue, growing by 13% per annum.

The broker points out that the company's conservative depreciation policy will mean a significant uplift in charges in FY18. Net profit and earnings per share may actually decline in FY18. Meanwhile, the telecom business will benefit from investment in a new SD-WAN (software-defined wide area network) platform while there are preparations to in-source the network operations centre.

Build Or Buy Option

The company is in the process of deciding between building or buying new data centre capacity to accommodate growth in its hosting business. The broker's forecasts are based on the build option, as this is consistent with its business model to date. Renting wholesale space would be less capital intensive but at the cost of profit margins and, the broker suspects, some of the uniqueness of the company's proposition for investors.

The broker's modelling of the new data centre comprises a mixture of debt and new equity and, longer term, a second sale and lease-back to pay down debt. Canaccord Genuity considers the shares extremely good value and, adjusting for illiquidity, calculates a price target of $18 and initiates coverage with a Buy rating.

The broker observes, generally, telcos have de-rated materially over the last few years in Australia because of modest business growth and concerns about earnings from residential customers, as they battle with NBN access charges and the consequent effect on profit margins. On the broker's estimates, Macquarie Telecom trades on in FY18 enterprise value/operating earnings of 6.3, materially below the rating of telco peers in Australia.

Macquarie Telecom provides telco, managed IT, private cloud and co-location services in Australia. It operates data centres in Sydney (Intellicentres 1 and 2) and Canberra (Intellicentre 4), which will have a combined capacity of 14.5MW when the fit-out of Intellicentre 2 is completed. In FY17 telecommunications represented 65% of revenue but 46% of operating earnings. In contrast, hosting delivered 35% of revenue and 54% of operating earnings.

Uptrend to Resume For Reliance

By Michael Gable

In this week's report we analyse Reliance Worldwide ((RWC)).

RWC had been trending higher since the lows in February, then a good result in August saw the stock gap up and head to a new high. It has eased back in the last week, but this has been on lower volume. It is encouraging to see the stock not quickly fall back to where it was before the result. This implies that we are only seeing some shorter term profit taking and the stock should resume the uptrend sometime soon.

Content included in this article is not by association the view of FNArena (see our disclaimer). Michael Gable is managing Director of Fairmont Equities (www.fairmontequities.com)

Fairmont Equities is a share advisory firm assisting Private Clients with the professional management of their share portfolio. We are based in the Sydney CBD but provide services to private clients across Australia. We believe that the concepts of fundamental analysis and technical analysis of stocks are not mutually exclusive. Regardless of whether you are a trader or long term investor, combining both methods is crucial to success. As a result, the unique analysis of Fairmont Equities is featured regularly in the media such as Sky News Business, CNBC, The Australian Financial Review, and the ASX newsletter. Contact us for a free trial of our research and information on our portfolio management services.

Michael is RG146 Accredited and holds the following formal qualifications:

• Bachelor of Engineering, Hons. (University of Sydney) • Bachelor of Commerce (University of Sydney) • Diploma of Mortgage Lending (Finsia) • Diploma of Financial Services [Financial Planning] (Finsia) • Completion of ASX Accredited Derivatives Adviser Levels 1 & 2

Disclaimer

Fairmont Equities Australia (ACN 615 592 802) is a holder of an Australian Financial Services License (No. 494022). The information contained in this report is general information only and is copy write to Fairmont Equities. Fairmont Equities reserves all intellectual property rights. This report should not be interpreted as one that provides personal financial or investment advice. Any examples presented are for illustration purposes only. Past performance is not a reliable indicator of future performance. No person, persons or organisation should invest monies or take action on the reliance of the material contained in this report, but instead should satisfy themselves independently (whether by expert advice or others) of the appropriateness of any such action. Fairmont Equities, it directors and/or officers accept no responsibility for the accuracy, completeness or timeliness of the information contained in the report.

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.

Woodside: No Reason To Be Involved

Bottom Line 12/09/17

Daily Trend: Down Weekly Trend: Down Monthly Trend: Down Support Levels: $27.69 / $27.01 / $25.63 Resistance Levels: $33.97 / $36.94 / $38.89

Technical Discussion

Woodside Petroleum ((WPL)) is Australia's blue-chip oil and gas player with significant and successful exposure to the LNG sector. Its competitive advantages are its significant reserves of low-cost and expandable gas fields off WA. The Company operates in five parts; North West Shelf Business Unit, Browse Business Unit and Australia Oil Business Unit to name just a few. In June 2014, Royal Dutch Shell plc sold 19% in Woodside. For the six months ending the 30th of June 2017 revenues decreased 4% to $1.87B. Net income increased 49% to $507M. Revenues highlight the Pluto business unit section decrease of 8% to $1.03B. Net income shows an exploration and development Cost decrease of 67% to $62.7M. Exploration and evaluation expenses decreased 59% to $52M. Broker consensus is "Hold". The dividend yield is 3.4%. Reasons to be neutral: → Cost reduction initiatives in place. → Prevailing weakness expected in LNG markets. → Senegal offers longer term growth opportunities. → Expansion at Pluto is looking more likely. → Cash flow remains robust from existing operations. → Recent acquisitions are encouraging and increases the chances of exploring the back fill of North West Shelf. → The company is trying to shed its ex-growth tag.

We were concentrating on the weekly chart last time which showed price had just headed down into the typical retracement zone. On the face of it this is a bullish proposition although the problem was the speed of the pull-back which was looking decidedly impulsive in nature. Price is still hovering around the 50% - 61.8% retracement zone on this daily timeframe although this also highlights the strong leg down that commenced in April of this year. We could even count the recent leg lower as a 5-wave movement which at this stage of the trend should not complete the whole corrective pattern. In other words, even if a few buyers start to enter the fray, it could well be that a larger corrective pattern higher is going to take place as opposed to something more bullish longer-term.

On the positive side of things Type-A bullish divergence is in place although thus far it's failed to inspire a significant rally. Our oscillator is also sitting deep into the oversold position on the weekly chart (not shown) although this doesn't mean a great deal without the divergence. One thing is for sure, a push beneath the 61.8% retracement level at $27.69 will be the final nail in the coffin and likely result in a continuation down to the significant lows made in April of last year around $24.00. This wouldn't be ideal from an Elliott stance as it would mean the rally up to the high made in mid-April has been nothing more than a bounce. The bottom line is that plenty of caution is required here.

Trading Strategy

The energy sector is still struggling for traction although we do have exposure through BPT with the patterns continuing to unfold nicely. As long as oil can hold itself together we'll continue to run with that trade whilst allowing it room to breathe. Regarding Woodside, it goes without saying there's no reason to want to be involved which is result of the strong leg down over the past few months. Should the bullish divergence prove to be significant there is room for a decent bounce although there isn't enough in it to warrant a formal recommendation. It's best to continue to stand aside from this one.

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

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

Treasure Chest: Woodside's Longer Term Risk

Pressure on LNG prices put Woodside's returns at risk when contracts are negotiated at a time of peak oversupply.

- India renegotiating LNG pricing - Early Pluto contracts up for renegotiation in 2019 - Woodside may not be as low risk as assumed

By Greg Peel

The issue of LNG pricing has long been an issue for buyers and sellers in the global gas market. Traditionally, the price of exported LNG has been indexed to the prevailing price of oil. However, while the price of oil has had its ups and downs since the GFC, the price of gas has remained at low levels due to ever increasing shale production.

This means the spot price of gas is always lower than the indexed price of LNG, even after accounting for the premium to cover the cost of liquefaction for export, and sometimes materially so. Why, then, would importers of LNG pay oil indexed prices when they are that much higher than spot?

The reason is security. Buyers need to know they have a secure energy supply and thus are prepared to pay up for long term offtake contracts with suppliers. Typically such offtake contracts are negotiated before the construction and ramp-up of an LNG facility is complete, given sellers need to be secure in the knowledge their significant investment will be worth it. A buyer looking to exploit prevailing spot markets may miss out, and a seller offering spot prices may find themselves burning cash.

But as more and more gas is pumped out of the earth and ocean floor, and more and more LNG export facilities come on line, it is difficult to argue the case for ongoing elevated pricing.

Indian Takers

Goldman Sachs today notes press reports are suggesting India's Petronet may have successfully renegotiated terms with ExxonMobil with regard its 20-year offtake agreement from the Gorgon LNG plant in Western Australia. Petronet has agreed to increase its offtake volume by 67%, but only in exchange for a lower oil-linked pricing equation and better terms on shipping.

"We see this outcome, if finalised, as reflective of an oversupplied, buyers' market in which buyers want lower prices and suppliers want to reduce spot LNG exposure through medium/long term volume placement," says Goldman. The result may well be one of tempting others in the region to more aggressively seek similarly reduced terms, particularly those on contracts at significantly higher prices, the analysts suggest.

Goldman Sachs already believes the most recently completed Australian LNG facilities (not including PNG LNG) are likely to produce returns below the cost of capital over their life cycle. A renegotiation of pricing will only make this worse. There are nevertheless some projects that can yet achieve a clear positive from debottlenecking (improving production efficiency), Goldman notes, including PNG LNG and Woodside Petroleum's ((WPL)) Pluto LNG.

Woodside's Risk

Offtake contracts typically mitigate price risk in the LNG market, Citi notes. However, in the great Australian LNG boom of the past decade, resulting in the more recent start-ups of the likes of Gorgon and the various Queensland CSG LNG facilities, Woodside's Pluto in WA was an early mover. This means original offtake contracts will be coming up for repricing as soon as April, 2019.

Pluto production is 70-90% contracted but this means only some 20% is protected from price weakness from 2019 on, when all the new projects are hitting their straps and LNG hits peak oversupply. (And that's without considering the push by American producers to allow more export of abundant shale gas as LNG).

To make matters worse, Woodside has recently signed a 20-year deal to buy American LNG from Corpus Christi in Texas at what Citi describes as an "expensive" price.

Citi has remodelled its Woodside earnings forecasts to include losses from the Corpus Christi deal, which results in a -10% reduction over 2020-22, and has assumed a reduced oil-linked pricing mechanism from 2019, which takes off another -20%. Citi's 2019 earnings forecasts are now -39% below market consensus.

This leads to a dividend yield forecast in the same period of only 3.4%. FNArena database consensus forecasts suggest 4.0% in 2017 and 4.3% in 2018 (at the current exchange rate).

Citi is quick to acknowledge this potential earnings risk is several years away, and perhaps the ultimate impact could be significantly less than Citi is currently forecasting. Maybe Woodside can negotiate a better deal. Maybe the company will just trade exceptionally well. Maybe the gas price will recover.

And maybe not. Either way, Citi believes the market is being misled into perceiving Woodside as a low risk investment.

Citi retains a Sell rating and has a twelve month price target of $27.16. This is not the lowest target among the eight stockbrokers in the FNArena database. Credit Suisse (Underperform) has $25.60.

As is typically the case with a resources company, broker valuations, and therefore targets, cover a wide range. This is due to divergent views on the many variables involved in that valuation, from the oil price to currency to demand/supply assumptions. Morgan Stanley (Overweight) is the high marker on $36.65.

In total there are two Buy, four Hold and two Sell (or equivalent) ratings, for a consensus target of $30.00.

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.

Not In The Mood

In this week's Weekly Insights (published in two separate parts):

-Not In The Mood -Conviction Calls: CLSA, Morgans, Wilsons, CS, Ord Minnett, Citi -Post August Share Price Impact -CBA And The Premium Gone (Vol 3) -Rudi On BoardRoomRadio -Post August Broker Research Nuggets -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appear in part two on the website on Thursday]

Not In The Mood

By Rudi Filapek-Vandyck, Editor FNArena

Earlier in the week, Glenn Miller's In The Mood popped up inside my brain while I was reflecting upon the multiple dynamics exerting their influence on the local share market. Unfortunately, if I now somehow planted this classical tune full of brass exuberance in your head, you will have to undo it, because, if anything, this market is not in the mood.

Not in the mood at all.

Whether we focus on the de-rating for Australian banks since May, or on the failure of industrials stocks to outperform or at least solidly meet market expectations during the August reporting season, or on the fact that higher power prices and a much stronger Australian dollar have presented themselves as serious headwinds, the fact remains, outside of the occasional short-duration rally, the Australian share market hasn't shown any direction since May, with a bias to the downside, albeit not in a major fashion. (And we haven't even mentioned North Korea, Trump, US treasuries and/or the USD).

If it wasn't for the dividends, there would have been no gains worth mentioning for local share market investors, at least not at the index level.

Making matters worse, and contrary to prior years, portfolios stacked to the gills with dividend paying financials and industrials have not outperformed, quite the contrary as these were the large cap stocks that most prominently disappointed in August.

The FNArena/Vested Equities All-Weather Model Portfolio continues to chug along in a non-spectacular fashion, slightly better than the ASX200, with the portfolio taking a step back in July, then returning almost 2% in August, adding a mildly positive extension into September.

Overall, the reporting season allowed a number of high quality companies inside the portfolio to showcase their true value and in this we specifically think of Carsales.com ((CAR)), Orora ((ORA)), Altium ((ALU)) and NextDC ((NXT)), but even so, many of the subsequent rallies were soon overpowered by macro-considerations and downswings in general risk appetite.

Sometimes, history tells us, the market just is not in the mood. Instead of trying to move mountains, we sit tight and observe further developments.

Post August Share Price Impact

The impact from companies reporting their financial results extends much longer than the first few days post market update. Deutsche Bank analysts reminded investors about the lasting effect on share prices after having delivered a "beat", a "meet" or a "miss" during reporting season.

In simplistic terms, companies that "beat" expectations in August typically outperform by 2.5% over the first week after the release; and then by an additional 3% over the following six months. These numbers are averages derived from backward-looking data over the past decade.

In contrast, the best a company can hope for in case of a "miss" is for its share price to keep up with the market over the subsequent six months.

Deutsche Bank research also shows that if a company manages to "beat" expectations, but its share price fails to outperform, the next six months are likely to continue that underperformance.

The strategists put forward their own favourites among companies that delivered a "beat" in August: Medibank Private ((MPL)), Oil Search ((OSH)), Santos ((STO)), Star Entertainment ((SGR)), Tatts ((TTS)), Flight Centre ((FLT)), Fortescue Metals ((FMG)), GPT ((GPT)), Orora ((ORA)) and Perpetual ((PPT)).

Paid subscribers have access to FNArena's full assessment of the August Reporting Season, including excel file with all beats, meets and misses, plus stockbroker responses via the following link: https://www.fnarena.com/index.php/2017/09/05/fnarena-reporting-season-monitor-36/

CBA And The Premium Gone (Vol 3)

According to Martin Crabb, Chief Investment Officer at Shaw and Partners, Australian banks are now one standard deviation "cheap" in comparison with the rest of the Australian share market. The underlying suggestion here is there might be a trading opportunity at hand even if Crabb himself is not yet calling the sector an obvious (and outright) Buy.

He suspects share prices might get cheaper still, before embarking on the thus far elusive mean reversion move upwards.

On Crabb's analysis, bank share prices become irresistible when prospective total return (dividends plus share price appreciation) reaches 20%, but he's clearly not using FNArena data to underpin that research as the Big Four Banks, on FNArena data, are nowhere near 20% their twelve month return potential.

One quick look at the Big Four in Stock Analysis, on the FNArena website, does show prospective returns are solidly in the double digits, and we don't even need to include franking to come to that observation. Also, and in line with earlier observations, CommBank ((CBA)) and Westpac ((WBC)) shares are trading -6.1% and -7.7% below their respective consensus price target, while the gaps for ANZ Bank ((ANZ)) and National Australia Bank ((NAB)) respectively are only -5.2% and -3.1%.

For good measure: everyone can interpret these numbers any way they like, but I happen to think they do not suggest CBA and Westpac offer the best value; I think we are witnessing a change of sector leadership.

Making matters worse for CommBank shareholders: this is the only Big Bank whose price target is in decline, on the back of AUSTRAC and other scandals, and with sector analysts wrestling with the key question: how much damage exactly from the reputational descent, and how to translate it into financial numbers?

****

Equally interesting, I think, is the chart below, thanks to Deutsche Bank's most recent sector update. The chart depicts the banking sector's devaluation since mid-2012 as expressed through average Price-Earnings (PE) ratios relative to the industrials.

The horizontal black line shows the long term average discount is -18%; meaning banks tended to trade at a little above 80% of the broader market's valuation (best to ignore that spike to 105% as that was the result of share prices tanking in the midst of the GFC).

Since mid-2012, the relative valuation gap has expanded to -22%; meaning banks generally have traded below 80% of the broader market's valuation. Currently the gap between industrials and banks has stretched out to -31%, which explains why market strategists like Martin Crabb are getting interested again.

Note the chart shows the gap has been as wide as -35%, in mid last year, and what followed was a sharp rally. I also note banks haven't traded near their five-year PE discount average since May 2015. So here's the "other" observation that I have yet to come across elsewhere: the relative de-rating for Australian banks is still ongoing and that red line (past five year PE discount average) will be reset at a lower level, at some point.

Traders can get set for that catch-up rally, if they want to. Investors should be mindful of the second aspect. (Even though, admittedly, it's still better buying near the bottom of that chart than it is higher up).

****

Before anyone starts thinking that what has been happening to Australian banks is simply a big beat-up in a teacup; UBS sector analysts shared some worrying insights with their wholesale clientele on Monday afternoon. In-house research has taught the analysts one third of all mortgage applications in Australia in 2017 are not factual or accurate. The latest numbers gathered from Australians having done their mortgage application signalled a statistically significant deterioration from a similar survey in 2016.

The outright suggestion here is that the pressure is on for Australian households, and they lie more about their finances and income, to make sure all requirements set forth by the banks are being met. This also means mortgagors are more stretched than banks, and their shareholders, believe.

UBS's conclusion is this might translate into higher-than-expected losses if/when that long anticipated downturn arrives in Australia. No guessing as to why the house view is Underweight Australian banks. The analysts remain "very cautious" regarding the medium term outlook for the sector.

Misrepresentations are more prevalent through the broker channels, reports UBS: "Given the rising level of misstatement over multiple years we estimate there are now ~$500bn of factually inaccurate mortgages on the banks' books (ie 'Liar Loans' - a term used in USA during the Financial Crisis for mortgages where documentation was not accurate)"

[Note: CBA And The Premium Gone, volumes 1 and 2 were published in the previous two weeks - see Rudi's Views on the FNArena website]

Rudi On BoardRoomRadio

Last week's audio interview:

https://boardroom.media/broadcast/?eid=59af213cb424a110f411aed7

2016 - L'Année Extraordinaire

It was quite the exceptional year, 2016, and I did grab the opportunity to write down my observations and offer investors today the opportunity to look back, relive the moments and draw some hard conclusions about investing in the world today.

If you are a paid subscriber to FNArena, and you still haven't downloaded your copy, all you have to do is visit the website, look up "Special Reports" and download your very own copy of "Who's Afraid Of The Big Bad Bear. Chronicles of 2016, A Veritable Year Extraordinaire" (in PDF).

For all others who still haven't been convinced, eBook copies are for sale on Amazon and many other online channels. You'll have to visit a foreign Amazon website to also find the print book version.

All-Weather Model Portfolio

In partnership with Queensland based Vested Equities, FNArena manages an All-Weather Model Portfolio based upon my post-GFC research. The idea is to offer diversification away from banks and resources stocks which are so dominant in Australia, while also providing ongoing real time evidence into the validity of my research into All-Weather Performers.

This All-Weather Model Portfolio is available through Self-Managed Accounts (SMAs) on the Praemium platform. For more info: info@fnarena.com

Rudi On TV

This week my appearances on the Sky Business channel are scheduled as follows:

-Tuesday, 11.15am Skype-link to discuss broker calls -Thursday, noon-2pm -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

- I will be presenting in Adelaide on November 14th to members of Australian Investors Association and other investors, 7pm inside the Fullarton Community Centre, 411 Fullarton Rd, Fullarton. Title of presentation: Investing In A Slow Growing World - An Update

(This story was written on Monday 11th September, 2017. It was published on the day in the form of an email to paying subscribers at FNArena. This is part one. The second part will be published on the website as a separate story on Thursday).

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

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

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?) - Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate) - Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection) - Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow. - Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $380 for twelve months or $210 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible): http://www.fnarena.com/index2.cfm?type=dsp_signup

Rudi's View: Treasury Wine, PWR Holdings, Star Entertainment

In this week's Weekly Insights (published in two separate parts):

-Not In The Mood -Conviction Calls: CLSA, Morgans, Wilsons, CS, Ord Minnett, Citi -Post August Share Price Impact -CBA And The Premium Gone (Vol 3) -Rudi On BoardRoomRadio (Updated) -Post August Broker Research Nuggets -2016 - L'Année Extraordinaire -All-Weather Model Portfolio -Rudi On TV -Rudi On Tour

[Note the non-highlighted items appeared in part one]

Conviction Calls: CLSA, Morgans, Wilsons, CS, Ord Minnett, Citi

By Rudi Filapek-Vandyck, Editor FNArena

The Australian share market offers exposure to some high quality, genuinely strong growth stories. Think Aristocrat Leisure ((ALL)), a2 Milk ((A2M)), Corporate Travel ((CTD)) and Altium ((ALU)), to name a few. One of the more contentious names is Treasury Wine Estates ((TWE)). Having first disappointed investors in its ex-Foster's existence, the stock has nearly tripled since 2015 and yet another strong performance in August has ignited the next leg upwards for the shares.

The stock has never traded without a certain level of controversy and today certainly is no different. Stock Analysis on the FNArena website shows out of the seven stockbrokers covering the company, only Morgan Stanley and Ord Minnett have a positive rating. In the latter's case it's Accumulate, the number two level, instead of the highest rating which is Buy.

Only Morgan Stanley has a price target above today's share price. This smacks of a comparison with Cochlear ((COH)), yet another prime growth success whose share price is constantly above stockbroker valuations; thus nobody ever likes it, but shareholders cannot but keep smiling as the share price continues to rally higher.

Cochlear shares appreciated 2.5x since early 2014. Admittedly, they had a much tougher time during the three years prior.

One of the unwavering supporters of Treasury Wine, CLSA, thinks investors can still jump on board and enjoy further strong gains. The secret, so to speak, according to CLSA lies within the margin. The analysts firmly believe, with conviction, that management still has multiple levers to pull to push the operational margin to a level closer to that of the competition.

This, says CLSA, is not well understood by the market. Hence general scepticism and a sense of: surely this share price must come back down to earth shortly? Not so, predicts CLSA who remains confident enough to declare the stock a Conviction Buy with a price target of $17.

On the other side, Citi's latest update on the company represents the opposing side of the argument with Citi analysts stating the company is being treated like a luxury stock but 75% of all products sold are commercial which is enduring price and margin pressures. Citi analysts point out price per case has remained stagnant for the past two years. The analysts cannot see how the current valuation stacks up. They certainly do not share CLSA's conviction. Hence why Citi's rating remains Sell with a twelve month price target no higher than $10.90.

****

Over at stockbroker Morgans, the list of High Conviction Stocks has seen the addition of PWR Holdings ((PWH)), Aventus Retail Property Fund ((AVN)) and NextDC ((NXT)). These three new inclusions join ResMed ((RMD)), Westpac ((WBC)), Oil Search ((OSH)), Motorcycle Holdings ((MTO)), Bapcor ((BAP)) and Australian Finance Group ((AFG)).

****

Wilsons has decided to remove Rural Funds Group ((RFF)) from its Conviction Calls. The reason is a steep climb of the share price. Wilsons remains attracted to the business model and long term growth prospects but for now the rating has moved to Hold from Buy.

Rural Funds Group has been replaced with Ruralco ((RHL)) and Alliance Aviation ((AQZ)). Both join EML Payments ((EML)), Afterpay Touch ((APT)), Elmo Software ((ELO)), Class ((CL1)), Collins Foods ((CKF)), Ridley Corp ((RIC)), ImpediMed ((IPD)), Nanosonics ((NAN)), SomnoMed ((SOM)), Opthea ((OPT)) and Pinnacle Investment ((PNI)).

****

Over at Credit Suisse, the list of Australia Top Picks no longer includes Challenger ((CGF)) and CSL ((CSL)). Instead, Premier Investment ((PMV)) and Speedcast International ((SDA)) have been added. Remaining on the list: ALS Ltd ((ALQ)), Boral ((BLD)), Computershare ((CPU)), Caltex ((CTX)), Fairfax Media ((FXJ)), iSelect ((ISU)), Lend Lease ((LLC)), Nine Entertainment ((NEC)), Qantas ((QAN)), Star Entertainment ((SGR)) and Southern Cross Media ((SXL)).

Credit Suisse's Top Picks list also contains 2x short ideas (i.e. expected to see a decline in share price): Brambles ((BXB)) and IDP Education ((IEL)). The latter in particular must be hurting.

****

Small cap specialists at Ord Minnett put forward two key picks amongst small cap industrials; one positive (Buy) and one negative (Lighten). Top Buy Pick is salmon farmer Huon Aquaculture ((HUO)) whose undemanding valuation and prospects for a higher wholesale salmon price makes for an irresistible combination with Ord Minnett's forecasts currently above market consensus.

On the negative side, the broker doesn't like Collection House ((CLH)) with too high a gearing affecting the company's ability to bid on meaningful one-off sales, says Ord Minnett.

****

Finally, Citi has elevated Link Administration ((LNK)) as its favourite stock among diversified financials on the ASX. One key factor is the share price has been held back on apparent market concerns about growth in Link's funds admin operations. Plus the company's risk profile has increased post the transformational acquisition of CAS in the UK.

Citi analysts are not completely singing from a different song sheet on both issues, but they nevertheless are of the view that Link's share price deserves to be higher, also because they see potential for upside surprise.

Janus Henderson ((JHG)) is Citi's number two pick in the sector.

Note to paying subscribers: updates on Conviction Calls have been a regular feature in my Weekly Insights stories since early February this year, with only a rare exception. For past updates: see Rudi's Views on the FNArena website.

Rudi On BoardRoomRadio (Updated)

The latest audio interview (not to be confused with last week's):

https://boardroom.media/broadcast/?eid=59b75a3d0f7013455d23aa33

Post August Broker Research Nuggets

Local reporting season in August wasn't great, rather disappointing really, with banks and resources companies performing okay, but industrials revealed their soft spots, in the view of Deutsche Bank. The challenge for the market ahead is FY17 might be as good as it gets.

In practical terms, the analysts suggest a subdued reporting season means the local share market is in dire need of an international, macro-driven catalyst to decisively move higher. They still believe 6000 for the ASX200 by year-end is possible, but then their target for June 30, 2018 also sits at 6000.

Deutsche Bank strategists do point out current forecasts are that profit growth shall slow significantly in the year(s) ahead, which explains why FY17 growth has likely marked the peak, for the time being, but they also note if commodity prices remain steady at current levels, this will provide a big boost to profit forecasts, allowing resources companies to still achieve decent growth.

Deutsche Bank's overweighting towards "value" stocks in August didn't work out, but the strategists remain overweight Resources. Other observations made are that conviction among local analysts seems low, high growth, high PE stocks performed well, but commodities related exposure trumped all, while many of the "cheap" stocks (telcos, retailers) simply became cheaper in August.

****

Equity strategists at Citi share the view of their peers at Deutsche Bank. On their assessment, August results have brought the share market back down to earth. Outside the resources sector, Citi found little to cheer about, but the strategists remain confident higher for longer commodity prices will translate into more profits for the sector, and this underpins the forecast the ASX200 should still be able to reach 6400 by mid next year.

The table below shows how forecasts have changed at Citi pre- and post August reporting season. The strategists draw confidence from the fact that growth forecasts have become more realistic, while staying positive, and the outlook for reasonable return (double digit percentage total for the year ahead) should continue to support Australian shares.

****

Analysts at Wilsons believe it was a reporting season in which quality proved its mettle, and outperformed. This including many of the companies on Wilsons' Conviction List, they point out.

Amongst the stand-out results were, on Wilsons' assessment, Afterpay Touch ((APT)), MYOB ((MYO)), Autosports Group ((ASG)), Noni B ((NBL)), Citadel Group ((CGL)) and Zenitas Healthcare ((ZNT)).

For the most disappointing result of the season, Wilsons analysts point at Mayne Pharma ((MYX)) which subsequently was downgraded to Hold with forecasts cut -20-25%.

****

On Goldman Sachs' assessment, relative to consensus expectations the August 2017 reporting season was one of the weakest statistically in a dataset that goes back 22 years. The analysts found few genuinely good news stories, but a long list of stocks that de-rated significantly on the back of disappointing updates and analysts reducing forecasts.

Not helping matters is that implied margin expansion in market consensus forecasts might still be too optimistic. Goldman Sachs suspects further reductions might become necessary as August revealed Australian firms are facing rising wages, higher input costs (power in particular) and rising competition.

While increasing capex intentions have been mentioned as one of the season's positives, Goldman Sachs analysts note "a large portion of the spending appears to be being directed to defend existing positions or to offset rising cost bases suggesting incremental returns will be well below the market's current return on capital".

The analysts note dividend growth is now expected to be negative in twelve months' time, though admittedly Telstra's ((TLS)) big cut has a big impact on the general numbers.

As shown in the graph below, Australian companies are still returning more cash to shareholders (10% above the decade average) and they continue underspending on M&A and on capex.

Contrary to the general euphoria (in some corners) about capex intentions picking up, Goldman Sachs points out total capex in FY17 was -5% below the level spent in FY07; that's ten years ago. In contrast, total dividends paid out were 43% higher. One of the culprits in this story are, of course, commodity related companies; see graph below.

****

Stockbroker Morgans found the August reporting season "steady but uninspiring", accompanied by the observation the stock valuations that investors are paying for earnings remain elevated. Morgans cautions against expectations of above-average returns, but at the same time, there are still plenty of good news opportunities out there, acclaims the stockbroker.

Stand-out opportunities, in Morgans' view, include Ansell ((ANN)), IPH Limited ((IPH)), PWR Holdings ((PWH)) and Jumbo Interactive ((JIN)).

Further putting a dampener on potentially too rosy expectations, Morgans is of the view that positive economic data have thus far failed to translate into cyclical tailwinds and as such the Australian share market is lacking a genuine catalyst for the time being, probably meaning the market will remain range-bound for now.

2016 - L'Année Extraordinaire

It was quite the exceptional year, 2016, and I did grab the opportunity to write down my observations and offer investors today the opportunity to look back, relive the moments and draw some hard conclusions about investing in the world today.

If you are a paid subscriber to FNArena, and you still haven't downloaded your copy, all you have to do is visit the website, look up "Special Reports" and download your very own copy of "Who's Afraid Of The Big Bad Bear. Chronicles of 2016, A Veritable Year Extraordinaire" (in PDF).

For all others who still haven't been convinced, eBook copies are for sale on Amazon and many other online channels. You'll have to visit a foreign Amazon website to also find the print book version.

All-Weather Model Portfolio

In partnership with Queensland based Vested Equities, FNArena manages an All-Weather Model Portfolio based upon my post-GFC research. The idea is to offer diversification away from banks and resources stocks which are so dominant in Australia, while also providing ongoing real time evidence into the validity of my research into All-Weather Performers.

This All-Weather Model Portfolio is available through Self-Managed Accounts (SMAs) on the Praemium platform. For more info: info@fnarena.com

Rudi On TV

This week my appearances on the Sky Business channel are scheduled as follows:

-Tuesday, 11.15am Skype-link to discuss broker calls -Thursday, noon-2pm -Friday, 11.15am Skype-link to discuss broker calls

Rudi On Tour

- I will be presenting in Adelaide on November 14th to members of Australian Investors Association and other investors, 7pm inside the Fullarton Community Centre, 411 Fullarton Rd, Fullarton. Title of presentation: Investing In A Slow Growing World - An Update

(This story was written on Monday 11th September, 2017. It was published on the day in the form of an email to paying subscribers at FNArena. This is part two. The first part was sent as an email to subscribers on Monday and published on the website on Wednesday).

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

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

****

BONUS PUBLICATIONS FOR FNARENA SUBSCRIBERS

Paid subscribers to FNArena (6 and 12 mnths) receive several bonus publications, at no extra cost, including:

- The AUD and the Australian Share Market (which stocks benefit from a weaker AUD, and which ones don't?) - Make Risk Your Friend. Finding All-Weather Performers, January 2013 (The rationale behind investing in stocks that perform irrespective of the overall investment climate) - Make Risk Your Friend. Finding All-Weather Performers, December 2014 (The follow-up that accounts for an ever changing world and updated stock selection) - Change. Investing in a Low Growth World. eBook that sells through Amazon and other channels. Tackles the main issues impacting on investment strategies today and the world of tomorrow. - Who's Afraid Of The Big Bad Bear? eBook and Book (print) available through Amazon and other channels. Your chance to relive 2016, and become a wiser investor along the way.

Subscriptions cost $380 for twelve months or $210 for six and can be purchased here (depending on your status, a subscription to FNArena might be tax deductible): http://www.fnarena.com/index2.cfm?type=dsp_signup

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to Portfolio and Alerts in the Cockpit and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

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

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

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with News Network with respect to your use of its FN Arena website, its weekday news periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on its website, or anywhere else, from time to time. Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call or the Australian Super Stock Report, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

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

1. Reference to "FN Arena" and "News Network" means reference to News Network Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

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

3. Reference to "we" or "us" is reference to News Network.

4. Reference to "this website" or the "FN Arena website" means reference to www.fnarena.com, and includes reference to News Network's weekday news periodical, Australian Broker Call, as well as its monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on this website, or anywhere else, from time to time.

5. Reference to "news periodicals" means reference to News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other periodicals News Network may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to "publications" in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, and any other periodicals News Network may publish from time to time.

7. Reference to a "visitor" means, you, a visitor to this website, and includes a subscriber to Australian Broker Call and the Australian Super Stock Report, as well as any other publications or periodicals News Network may, from time to time, publish on this website.

8. News Network is a media company which employs financial journalists to report financial news. News Network's journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in News Network's news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations News Network reports on this website are not the opinions of News Network or any of its journalist or other employees. News Network is ONLY and specifically a matter-of-fact reporter of industry signals suggesting price direction probability of some shares. News Network simply delivers the information – it does not create it.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29. All original content is the copyrighted property of News Network.