Week
14

Stories To Read From FNArena

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Charter Hall Education On Strong Growth Path

Charter Hall Education Trust has acquired 13 early learning centres in various stages of development, providing an attractive growth path.

-Stock trading at historically expensive levels versus net tangible assets and yield spreads -Fixed cost of debt declines to 1.75% between FY20-25 -Distribution guidance of 16.5-16.6c per unit provided

By Eva Brocklehurst

Charter Hall Education Trust ((CQE)) continues to provide brokers with an attractive outlook, based around a low level of risk and high earnings visibility. The company has acquired 13 early learning centres for $75.3m, mostly in inner city Melbourne, Sydney and Brisbane locations. Two of the centres are completed, while five will be acquired on completion and six will be funded through development.

The portfolio is being acquired with an average yield of 6.5%, a 7.5% coupon being achieved on those centres that are funded through development. This, Moelis calculates, implies a 5.8% yield is being paid for the completed centres.

The benefits of the transaction, the broker assesses, include 2% net tangible asset (NTA) accretion, 2% accretion to unit earnings in FY20/21 and a re-set of the balance sheet. The broker raises its target to $3.09 from $3.03 and retains a Sell rating, as the stock is trading at a 20% premium to NTA.

Charter Hall Education Trust is a very strong business, that offers low risk and an attractive investment, Canaccord Genuity asserts, while acknowledging the stock is trading at historically expensive levels when compared with NTA and yield spreads. As the valuation is now slightly stretched, the broker has a Hold rating with a $3.37 target, increased from $3.19 largely as a result of near-term development assumptions.

With the stock trading at a meaningful premium to NTA, Shaw and Partners believes it makes sense to take advantage of relatively cheap equity to fund growth initiatives. The transaction will increase the scale of the company's portfolio, reduce gearing and provide scope for further growth.

The broker lowers FY20-21 estimates by -1.5% and -0.6% respectively, partly because of a revision to the timing of the rolling out of developments and raises the target to $3.09 from $3.03. A Hold rating is maintained, as Shaw and Partners assesses market expectations and/or the asset valuation uplift are largely reflected in the share price.

The company is also in due diligence on a further $14m in acquisitions. The broker now assumes around $30m per annum of acquisitions over the next 3-4 years in its estimates. Shaw and Partners estimates, if the company fully redeployed its $108m in debt capacity to acquire assets on a 6.2% yield, there could be an estimated 0.7c per share per annum of earnings benefit.

Transaction Details

The acquisition will be funded by a fully underwritten $120m institutional placement at $3.35 per unit. A non-underwritten $5m purchase plan will also be offered to retail investors. The company has increased its available debt facilities by $50m and re-set its hedge book. This results in the fixed cost of debt declining to 1.75% between FY20-25. As part of the transaction distribution guidance of 16.5-16.6c per unit has been provided which reflects growth of 3-4%.

Canaccord Genuity assesses its leverage ratios have improved dramatically, despite increased development assumptions. Had the company not raised the equity, the broker calculates the FY19 loan to valuation ratio (LVR) would have risen to around 35%, the highest it would have been since FY12 when the business was recovering from tenant issues.

The centres being acquired will have a weighted average lease expiry (WALE) of 17.9 years. This raises the company's WALE by 6%, to 10.1 years. Occupancy is 100%. The company's portfolio continues to be weighted 33% to Queensland, 29% Victoria and 22% NSW and Goodstart Early Learning remains the largest tenant by rent, at 45%.

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Big W Still A Headache For Woolworths

While a buyback is pleasing and should underpin the stock in the short term, brokers suspect the closure of struggling Big W stores may not be enough to counter the headwinds facing Woolworths.

-Rationalisation of Big W necessary as many stores were loss-making -Yet costs continue to rise and prices are being pressured by competition -Supermarkets to be the primary driver of share performance

By Eva Brocklehurst

An anticipated buyback by Woolworths ((WOW)) has pleased brokers, although the announcement was overshadowed by the completion of the review of discount department store Big W.

Woolworths has announced a $1.7bn off-market buyback following the sale of its petrol division. Ord Minnett considers the stock valuation elevated, as it was incorporating a premium for capital management as well as the company's market leading position in grocery.

The capital return is 8% accretive on an after-tax basis, and Citi agrees the focus on tax-effective returns is driving the share price at present, while the rationalisation of Big W stores is a necessary step to align supply and demand in discount department stores.

The broker expects the premium to fundamental valuation will reverse as the shares are tended into the buyback over coming weeks, and assesses 50-60% of the share register will benefit from the buyback for the 4% of the market capitalisation being repurchased. This includes almost all Australian superannuation funds, which represent around 35% of the register.

Meanwhile, the company's third quarter trading update indicated like-for-like sales at Big W rose 6%, although not adjusted for Easter. Macquarie notes the late timing of Easter in 2019 will be a drag on reported numbers in the third quarter and a benefit to the fourth. However, the broker is disappointed Big W sales momentum has not converted to profit, partly attributable to the shift in mix online and a higher cost to serve.

Shaw and Partners, not one of the eight stockbrokers monitored daily on the FNArena database, believes a reduction in the Big W footprint will not change the fact that recent results were 'tepid' and Woolworths went backwards in nearly every division. The broker questions whether the company strategies to turn Big W around will actually be successful.

Costs continue to rise and prices keep coming down across the company's businesses. Australia is the second most concentrated grocery market in the world (behind New Zealand) and the broker suspects competition is likely to become far more aggressive. Shaw and Partners is uncomfortable with the lack of growth and retains a Sell rating, with a $29 target.

Big W

Woolworths will close 30 stores over the next three years and two distribution centres at the end of the leases. This is a positive step, brokers suggest, as many of the stores were loss-making. Ord Minnett found the number of stores to be closed a fair number but, despite the strong sales growth, there are impediments to earnings as the discount department store industry is under pressure.

Rival Target ((WES)) is also closing stores. Citi calculates Big W has cut the store footprint by 16% which, when combined with Target's -20% reduction, is driving consolidation in the segment of around -5% over the next five years. Kmart (WES), on the other hand, is expanding its footprint by 23% over the next five years and is expected to have half of the discount department store industry floor space by FY23.

Citi believes this is the start of a longer-term rationalisation of the segment, which will remain under pressure in terms of sales per square metre and profitability. Macquarie's research signalled the potential to close 60 stores but the broker acknowledges 30 is a step in the right direction.

The actual stores were not identified although the company has indicated the decision is based on trading performance, with the 30 stores having the lower sales per square metre and highest rent per square metre in the network. This surprised Deutsche Bank as it implies that the stores are generally in higher-quality locations (or maybe involve bad deals that should never have been signed with landlords).

The closure of the two distribution centres, one in South Australia and one in Queensland, in 2021 and 2023 respectively, will result in a benefit to inventory. Credit Suisse observes the closure of the stores whittles away the lease liability and reduces ongoing losses, enabling the company more time to achieve a better position for the chain.

Management is guiding to an FY19 earnings (EBIT) loss of -$80-100m for Big W. While sales have grown strongly in the third quarter, guidance for FY19 earnings compares with a loss of -$110m in FY18, signalling only $20m in improvement. Credit Suisse calculates the closure of the stores and distribution centres is likely to reduce losses by around -$50m but the improvement potential remains unclear.

Woolworths will book a -$270m impairment for the closures and an additional -$100m for brand carrying value. The cash impact of the announcement is -$250m and expected to occur in FY21 and FY22.

Deutsche Bank points out that the sales growth of Big W is coming from lower-margin hard goods and online, which poses additional operating expenditure and merchant fees. The broker believes the weak performance in apparel needs to be stemmed for any hope of a profit.

Food

On the food side momentum is robust, and Ord Minnett expects Coles ((COL)) will be less of a competitive threat because of the challenges it faces. The broker believes Woolworths' investment in its business, including digital, service and supply chain are sound uses of sales growth.

UBS suggests a positive surprise in food and beverages is the next catalyst for the company, with sales results due on May 2. The broker appreciates the risk/reward skew is becoming more balanced yet envisages scope for earnings upgrades in the near term.

Deutsche Bank welcomes the reduction in the Big W footprint but agrees supermarkets will be the primary driver of the share performance going forward. The broker downgrades to Hold from Buy, given the risks and the fact the stock is trading with little room for error.

Despite the positive catalysts the stock is trading on 24x FY19 estimates for earnings per share and Macquarie considers operating leverage in food and beverages is evasive, maintaining an Underperform rating.

FNArena's database shows one Buy rating (UBS) five Hold and two Sell. The consensus target is $28.37, suggesting -8.4% downside to the last share price.

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Charter Hall Retail Well Placed For Acquisitions

Charter Hall Retail will acquire Rockdale Plaza, providing an opportunity for both non-rental income and improved mix of stores.

-Rockdale Plaza considered accretive to portfolio quality -Substantial amount of income underpinned by covenants with large chains -UBS suspects Big W stores in the company's portfolio will not be closed

By Eva Brocklehurst

Charter Hall Retail ((CQR)) has benefited from the active sale of assets and is now in the fortunate position of being able to select acquisitions in a less competitive market. The company will acquire Rockdale Plaza, Sydney, for $142m, a high-quality metro asset with strong operating metrics.

This provides an opportunity for non-rental income such as parking and advertising as well as a re-mix of stores. Charter Hall Retail is also expected to focus on improved sales from refurbishing some of the anchor sites. Citi considers the purchase consistent with the company's strategy and accretive to the portfolio quality, noting specialty sales of $11,703 per square metre are growing at 4.9%.

Ord Minnett agrees the specialty store tenants of Rockdale Plaza are, on average, 23% more productive than the company's portfolio average, balanced by 12.7% occupancy costs which are 190 basis points above the company's portfolio average.

Brokers also assess the price as reasonable, particularly given the location is 12km from the Sydney CBD, and productivity is high. Credit Suisse acknowledges the company's low gearing has enabled the flexibility to pursue acquisitions.

Citi believes there are more sellers than buyers of Australian shopping centres and retail values are likely to fall. Hence there is downside risk to the stock, especially given pre-deal pricing. The broker retains a Sell rating for the stock, in line with other retail peers.

Macquarie considers the stock a relatively defensive proposition, as a substantial amount of its income is underpinned by covenants with Woolworths ((WOW)), Coles ((COL)) and Wesfarmers ((WES)). Still, with the stock trading at 6% premium to net tangible assets (NTA) the broker finds it difficult to be constructive, maintaining an Underperform rating.

Funding

The acquisition will be funded with a $150m placement to institutional unit holders at a $4.51 fixed price. The company will also undertake a unit purchase plan, expected to raise up to $10m, and the proceeds will be used to reduce debt.

UBS assesses the transaction as 1% accretive to earnings per share, comprising 1.5% dilution from the acquisition offset by the re-setting of the interest hedge book. A $500,000 rental guarantee was also provided. The company has reaffirmed FY19 guidance for earnings per share growth of 2%.

Rockdale Plaza is anchored by a Woolworths supermarket and Big W as well as Aldi. There are 46 specialty stores, representing around 50% of the income. Big W has a lease until 2027, with a 10-year option, and is paying below market rents, Ord Minnett notes.

Macquarie points out specially store sales are solid and foot traffic is up 3% year-on-year. The company has signalled there is upside by the conversion of apparel stores into food catering and services and will decrease the mid-market women's apparel footprint. The first lease expiry is with Aldi, in 2023.

Store Closures

Woolworths will close around 30 Big W stores over the next three years as well as two distribution centres. Charter Hall Retail does not provide individual store rent/sales productivity but UBS is comfortable that the five existing stores have a weighted average lease expiry (WALE) of 18.5 years, which signals the stores are unlikely to be closed, or a substantial lease termination fee will be payable.

More broadly, UBS observes pressure on department stores and discount department stores, noting Myer ((MYR)) is closing Hornsby and Belconnen. While this presents an opportunity for landlords, there is increasing risk space will be returned faster than there is the ability to fill it.

There are two Hold ratings and three Sell on FNArena's database. The consensus target is $4.15, suggesting -9.2% downside to the last share price. The dividend yield on FY19 and FY20 forecasts is 6.3% and 6.4% respectively.

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Incitec Pivot Issues Brushed Aside

Incitec Pivot has provided further detail on the financial impact of the myriad problems impacting in FY19. These are mostly considered one-off issues and a better FY20 is expected.

-Impact of the Queensland rail outage expected to be -$100m in FY19 -Further outage at Louisiana, full production expected from second week of April -Lower global fertiliser prices not helping sentiment

By Eva Brocklehurst

Brokers are prepared to look through the messy first half that Incitec Pivot ((IPL)) is likely to deliver, as the business is impacted by plant outages, adverse weather and the usual ups and downs in commodity prices.

The company has provided more details regarding the financial impact of previously disclosed problems, as well as two other issues that are likely to have negative impacts in FY19 - the closure of the Portland plant and lower distribution volumes in Australian fertiliser.

Macquarie suspects FY19 will be the seasonal and cyclical low point for Incitec Pivot and its performance should subsequently improve. The broker reduces FY19 estimates for earnings per share by -18% to reflect the issues.

The impact of the Queensland rail outage, caused by flooding, is expected to be - $60m in the first half and -$100m in the full year. The company is establishing alternative logistics to take advantage of the rail line that is already open between Richmond and Townsville.

Issues regarding the carbon dioxide removal system at the Louisiana ammonia plant were mitigated in February but the return to full capacity has been taking longer than expected, and the plant now needs to be taken down again in order to deal with compressor electronic controls. Full production is expected from the second week of April and nameplate achieved for the remainder of FY19.

Ord Minnett reduces forecasts for Louisiana production volumes to 166,000t from 320,000t. While the reduced earnings contribution stems from the shutdown, the broker points out there is a benefit from pushing the next turnaround at the plant out to October 2020 from October 2019.

Then there is Australia's east coast drought. Dry weather has reduced fertiliser distribution volumes by -200,000t, resulting in a likely -$20m negative impact to earnings (EBIT) in the first half. Incitec Pivot does not expect any substantial recovery to lost volumes in the second half.

Weather has also been extreme in the US, as an extended winter and floods in key agricultural regions have delayed spring planting, leading to high inventory levels for fertiliser. Weather conditions are expected to ease, although Macquarie suggests farmers are more likely to use urea as they move through the season.

Deutsche Bank agrees lower global fertiliser prices, arising from the delayed North American planting season, are not helping sentiment but retains a Buy rating on the stock and considers the majority of the events plaguing the company are largely one-off in nature.

Portland Closure

The only additional information in the trading update was the closure of Portland single superphosphate manufacturing. The company will close the Portland facility at a cost of -$13m. Production will be consolidated at Geelong. The Portland primary distribution centre will remain in operation.

Ord Minnett assesses the recent performance in the share price is unjustified, as the stock has valuation support and is trading at a significant discount to rival Orica ((ORI)). Fertiliser and ammonia prices remain headwinds for the business, the broker asserts, while explosives demand in Australia is likely to be flat to slightly negative.

Moranbah

Credit Suisse finds the absence of a specific note on the impact from re-contracting at Moranbah, as well as US ammonium nitrate sales, is marginally positive. There was also no further update on the future of manufacturing at Gibson Island.

Macquarie agrees no news is good news regarding Moranbah. The broker factors in a reduction to earnings of -$10m over the next two years because of the expectations for lower contracted ammonium nitrate prices, but does not

assume any loss in volume. The broker expects the company will retain the vast majority of volumes because of lower costs from its vertical integration and location advantages.

UBS also envisages a positive volume outlook for explosives, as mining demand normalises, although market over-supply and re-pricing will weigh on earnings growth and operating leverage. Stronger ammonia and diammonium phosphate prices are the main upside risk to the broker's Neutral rating.

FNArena's database shows four Buy ratings and four Hold. The consensus target is $3.80, suggesting 24.6% upside to the last share price.

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Fortescue's Iron Bridge To Underpin Blend

The Iron Bridge magnetite project has strong economics, brokers acknowledge, but this depends heavily on Fortescue Metals obtaining a significant premium to benchmark pricing.

-Far more compelling than existing WA magnetite projects -Expected to raise overall product quality for Fortescue Metals -Yet incremental shareholder value more difficult to ascertain

By Eva Brocklehurst

Blending opportunities are to the fore as Fortescue Metals ((FMG)) and partners move forward with the 20mtpa Iron Bridge magnetite project. Iron Bridge is located south of Port Hedland in Western Australia and has a large resource located in four deposits. The project has strong economics, brokers accept, although this depends heavily on the ability to sustain a significant premium to 62% iron benchmark pricing.

Macquarie incorporates the development scenario into its estimates for the first time and envisages potential for the higher grade material to blend with lower-grade products over time and improve overall realised prices.

The company's price realisations have been steadily improving. Macquarie notes realisations for the lowest-quality product, Super Special Fines, have spiked in recent weeks and are now at similar levels to the better-quality products. Fortescue Blend has also experienced a step up in realisations since mid February.

The broker calculates Iron Bridge magnetite is likely to receive a price of over US$100/dmt at current benchmark prices. The anticipated production rate is higher than the broker expected, while capital costs are lower.

On Credit Suisse's calculations, the project requires realised pricing of around US$80/t in order to generate positive net present value (NPV). As a caveat, the broker acknowledges NPV estimates may be the wrong metric to use to analyse Iron Bridge, given the large endowment, time to first production and inability to effectively quantify the blending opportunity.

The main question, therefore, is whether the lower-than-expected capital intensity can achieve expected recoveries, at the stated costs, when scaled up from the current pilot plant.

FMG Iron Bridge (88% Fortescue Metals, 12% Baosteel) owns 69% of the project in partnership with Formosa, which has 31%. Fortescue Metals will be operator and control marketing rights.

The company will fund its US$1.85bn share through a combination of specific project debt as well as operating cash flow. The partners have already spent $500m on a full-scale module demonstration plant. Morgan Stanley believes the debt is manageable and Fortescue Metals can comfortably fund its project share from the balance sheet.

Returns

Citi finds the internal rate of return (IRR) of 10.4%, modelled using a long-term iron ore price of US$55/t and 67% concentrate price of US$65/t, is modest and the company will need to achieve better than this to generate an acceptable return.

Still, the broader blending opportunities are notable. The company considers it relatively straightforward to blend the full 20mtpa into its products at Port Hedland and asserts, if it chooses to blend the concentrate into its current product mix, this would lift average grades for more than 50% of production to over 60% iron.

Credit Suisse acknowledges being impressed with the numbers being crunched, assessing Iron Bridge is far more compelling than existing magnetite projects in Western Australia. That said, the broker's medium-term view on pricing is also more subdued and the payback and returns are, therefore, more modest.

Timeframe

The decision to proceed will allow growth of higher-grade production. First production at Iron Bridge is expected in 2022 with a full ramp up in 12 months. All-in sustainable costs (AISC) are flagged at US$45-55/dmt and the mine life is assessed at over 20 years. Capital cost is envisaged at US$2.6bn.

Credit Suisse highlights the company's track record in delivery, although notes the mid range of AISC does not allow for additional capital that may be required for new power generation sources, nor any contingency. Fortescue

Metals is confident that third-party sources can fulfill power requirements and, if they cannot, the company and partners would build additional power at additional project expenditure.

Deutsche Bank has upgraded Fortescue Metals to Hold, after further news on iron ore supply disruptions from Cyclone Veronica in WA, pointing out there are not many businesses where value is added by producing less.

Iron ore prices have continued to head higher, supporting the dividend potential and the company's bottom line. The broker observes the downside has been limited, as the market again adjusts to changing supply-side circumstances.

Macquarie assesses the rapid rise in iron ore prices has resulted in a spot price valuation materially above its base case. The broker estimates the share price is currently factoring in a long-term realised price of less than US$45/dmt, although this assumption benefits from current weakness in the Australian dollar and low shipping rates.

There are two Buy ratings, four Hold and two Sell on FNArena's database. The consensus target is $6.84, suggesting -12.3% downside to the last share price. Targets range from $5.50 (Morgans, yet to comment on the update) to $8.30 (Macquarie). The dividend yield on FY19 and FY20 forecasts at present FX values is 10.8% and 9.2% respectively.

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Bank Woes Unlikely To Abate Soon

The pressure on bank margins is unlikely to abate soon and brokers find it difficult to be overly positive about the sector.

-Deposit spreads an important lever for banks to manage net interest margins -Re-pricing initiatives difficult to implement amid increased regulatory, political pressure -Mortgage lending standards unlikely to be relaxed, investor property growth slows to under 1%

By Eva Brocklehurst

It is tough times for Australia's banks. Banking revenue is under pressure from various avenues, amid dwindling asset growth, margins and fee & trading income. This comes with a background of increased regulatory scrutiny and the need to remediate customers for past wrongdoing.

Credit Suisse notes changes to lending standards have decreased maximum borrowing capacity by -20-25% and also dampened demand. Margins are under pressure and the front-book pricing is below the back book. At the broker's Asian Investment Conference, a phrase used was 'fees are a dirty word'. Most of the uncertainty, the banks concluded, was around aligned dealer group fee-for-no-service issues.

Credit Suisse also points out Westpac's ((WBC)) approach to re-funding fees has set a conservative standard that may require the other banks to revisit their remediation provisions. The broker also assesses cost reduction programs are incremental at best.

Some banks have flagged potential for further expenditure on technology that may disrupt the recent cost trajectory but most acknowledge there are still difficulties in terms of regulatory expectations.

There may be healthy dividend yields and supportive relative valuations but Macquarie finds the obstacles to growth make it difficult to have a more constructive view on the sector.

Net Interest Margins

What is positive? There is a renewed focus on conditions in money markets amid heightened prospects for cuts to the Reserve Bank's cash rate after some particularly dovish commentary from central bank. If a recent improvement in net interest margins is sustained, JPMorgan believes this would present reasonable support for bank margins.

Major banks were less active in term wholesale markets over March but a recent improvement in issuance spreads appears to have been maintained, largely, the broker suspects, because of the jawboning by the Reserve Bank.

Front book mortgage spreads were unchanged with only second-tier banks re-pricing. Still, the broker acknowledges the margin environment in mortgages is difficult and this is expected to continue. JPMorgan believes deposit spreads will be an important lever for banks to manage net interest margins, although any upside is likely to be modest.

Macquarie agrees improving funding conditions provide a speck of hope for bank margins. However, elevated funding costs are largely locked in for the first half and the benefit should only eventuate in the second half if current conditions persist. The broker calculates a -10 basis points fall in bank bill swap rates (BBSW) versus Overnight Index Swaps (OIS) spreads should contribute 1-2.5 basis points to bank margins.

Nevertheless, on the asset side, the broker continues to envisage margin pressures from the gap in front/back book pricing. Re-pricing initiatives will be difficult to implement amid increased regulatory and political pressure. The broker assesses bank margins will decline by -5-8 basis points over the next three years. While the cash rate is unchanged, lower bond yields create a short-term drag on bank margins without any potential reprieve.

Mortgage Growth

While major bank housing loan growth set a new record low in February, Morgan Stanley suspects this is not the end of it. The broker does not expect lending standards will be relaxed and envisages downside risk to its forecasts for around 2% mortgage growth in FY19 and FY20. Limits remain on very high debt-to-income ratios and detailed verification of borrower expenses is expected.

Lenders are now screening borrowers for usage of 'buy now pay later' facilities, gambling and other negative behavioural traits. The broker also envisages obstacles in loan-to-valuation ratios, given falling house prices.

More borrowers are nearing the maximum loan size in response to falling capacity, as APRA (Australian Prudential Regulatory Authority) data shows that 18% of new debt in 2018 was at over 90% of capacity versus 14% of new debt in 2014 being at that level. Investor loans for the major banks are also going backwards. Investor property growth has slowed to under 1% per annum at a system level versus around 10% in 2015.

Morgan Stanley observes ANZ Bank ((ANZ)) is experiencing the biggest declined in investor property growth, although the CEO recently stated the bank is taking steps to prudently increase it volumes in the investor segment.

The broker believes recent regulatory scrutiny has led to a greater reduction in lending appetite at Westpac and ANZ. Total credit provided to the private sector from financial intermediaries increased by 0.3% in February and over the 12 months total credit was slightly lower at 4.2% growth. Housing credit increased by 0.3%, business credit by 0.3% and personal credit decreased -0.1%.

Lending growth at ANZ has lagged the system over the past 12 months but the bank performed strongly in corporate, leading its peers, Credit Suisse observes. While National Australia Bank's ((NAB)) lending growth marginally lagged the system, its strength was in housing, up 4.4% and ahead of its peers. NAB also performed more strongly in corporate and household deposits.

Market share losses for ANZ in mortgages persisted in February and housing credit growth at NAB also slowed towards system levels, which suggests to Macquarie that the recent outperformance on the balance sheet was underpinned by a pricing advantage that is unlikely to be sustained.

Macquarie continues to anticipate housing credit will trough at around 1.5% growth in 2020. The broker also expects business credit to soften and bank balance sheets to grow just 2-2.5% in FY19-21.

New Zealand

Credit Suisse points out capital is the 'elephant in the room', and the Reserve Bank of New Zealand proposal has caused banks to consider how they manage their NZ business. The banks believe a lack of fungibility of capital (movement between geographies) could potentially lead to APRA requiring an increase in the unquestionably strong group level for capital, in order to maintain Australian capital levels above 10.5%. On paper, the return on equity (ROE) for their NZ businesses is expected to fall to 10% from 15% before management takes action.

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Material Matters: Lithium, Coal & Alumina

A glance through the latest expert views and predictions about commodities. Global PMIs; lithium; oil; coking coal; iron ore; and alumina.

-Demand growth ongoing for lithium and new supply yet to materialise -Increasing risk of further falls in Venezuelan oil output -Australian hard coking coal prices expected to remain linked to Chinese prices -Iron ore market looking tighter than Credit Suisse previously envisaged -Shanxi becomes the highest cost alumina refining region in China

By Eva Brocklehurst

PMIs

Manufacturing demand has picked up, which augurs well for global mining production, UBS asserts. Purchasing manager indices (PMIs) for key economies have indicated manufacturing activities were recovering in March, with the UK, China and the US reporting growth of 5.8%, 2.6% and 2.0% respectively.

However, UBS notes PMIs for Germany and the Eurozone dipped -7.4% and - 73.7% respectively. Trade tensions are also easing, and the broker notes developing Asian markets have lifted their contributions to global growth, although some emerging markets languished.

Lithium

The performance of lithium in 2018 was less than ideal, amid meaningful falls in Chinese pricing and expectations of oversupply. Canaccord Genuity suspects the outlook is not as poor as these two details suggest. Demand growth is ongoing and new supply is yet to materialise. Average prices ex-China are up year-on-year.

Most producers missed their targets in 2018 and the broker has less confidence in forward supply forecasts. The main response is likely to come from the higher-cost hard rock lithium this year and brine should follow early in the 2020's. The market share of hard rock lithium is expected to increase to 68% by 2025, from 48% currently.

Meanwhile, demand is likely to reach an inflection point in the mid 2020s and the broker forecasts demand of 2.2mt of lithium carbonate by 2030. This would be up 700% on 2018 estimates.

Still, supply growth is likely to outpace demand from 2020-24 before a deficit emerges by 2025. In the longer term, supply is expected to struggle to keep pace. In the here and now, stronger pricing is required to turn sentiment and lift equities, Canaccord Genuity believes, and this may not happen.

The broker prefers lower-cost projects over pure-play concentrate producers, because of pricing pressure. Top picks in Australian lithium equities include Orocobre ((ORE)), Kidman Resources ((KDR)).

Oil

The instability in Venezuela continues and rolling blackouts are crippling its oil industry. Assuming President Maduro remains in power and US sanctions stay in place, ANZ commodity analysts can envisage a continued fall in production and exports over the next 18 months.

Venezuela sources 80% of its power supply from the Guri hydroelectric complex in the state of Bolivar. Relying significantly on one facility, the country is struggling to make up lost output. Reports suggest the national oil company, PDVSA, has been forced to curtail production at its heavy oil projects in the Orinoco belt.

The analysts note the grid's increasing fragility is generating public anger and could become a tipping point for a transition of power. If such a transition took place the US is likely to lift sanctions.

The analysts assume the worst-case scenario of 500,000 b/d of crude production by the end of the year. As the current sanctions alone are not envisaged bringing about a change of government, the analysts await evidence of a change in the political climate before adjusting forecasts.

Coking Coal

China's premium coking (metallurgical) coal reserves are depleting and there is little supply coming online. Credit Suisse observes, large state-owned enterprises in China remain highly leveraged and require a strong coking coal price to reduce their debt to levels mandated by the government.

Credit Suisse has become more positive on the sustainability of the US$200/t hard coking coal price and expects Shanxi prices may remain in this vicinity. The Australian prime hard coking coal price is more volatile than Shanxi but broadly traces the same trends.

A recent separation in the two prices has been driven by China's coal import ban in late 2018 and apparent restrictions on Australian coal in 2019. Platts reported steel mills have been told to reduce exposure to contracted metallurgical coal exports. Credit Suisse points out China is short on low-sulphur hard coking coal so the mills will need Australian coal and continue to buy on spot. Hence, Australian hard coking coal is expected to remain linked to Chinese prices.

Iron Ore

Credit Suisse assesses the iron ore market is looking tighter than envisaged several weeks ago. The broker had assumed a -50mt cut to Vale's output whereas the new guidance is for a reduction of -65-75mt. Moreover, following Cyclone Veronica in Western Australia, Rio Tinto ((RIO)) has announced force majeure and a -14mt outage. BHP Group ((BHP)) expects to lose -6-8mt.

Credit Suisse assumes, based on the new supply guidance, a -30-40mt iron ore shortfall that could draw deeply on port inventory. The broker suspects its US$80/t price forecast for the year is now looking a little low.

Alumina

Credit Suisse has learned, following a visit to alumina refineries in Shanxi, that refineries in Shandong that use imported bauxite are no longer the highest cost units. Instead, inland refineries in the north-east of China, particularly Shanxi, have become the highest cost.

Some Shanxi refineries are becoming starved of supply, taking around RMB550/t for third-party bauxite, which is up from RMB200/t in 2016. Most refineries are still operating, hoping the provincial government will relent on tough environmental policies. Authorities have closed open-pit bauxite mines to prevent dust adding to air pollution.

Credit Suisse also points out Shanxi is too far from the coast to sustainably use imported bauxite and there is actually no shortage of bauxite in Shanxi. There is also no shortage of alumina in China. However, the current Chinese alumina price is close to the average cost and probably too low to be sustainable.

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

ESG Focus: Impact Investing Emerges From The Shadows

Two new reports aim to pull impact investing into mainstream finance acceptance.

-Landmark report sets benchmark for industry size -Second report spells out four tenets of credible impact investing, to assist investors -Next four years seen as critical for what still is fringe segment of ESG investing

By Sarah Mills

Impact investing in global markets has just breached the $500bn mark, according to a landmark report published in early April by the Global Impact Investing Network (GIIN), double previous estimates.

Impact investing, also known as core investing, is a relatively small but fast growing segment of the ESG market – for which 2018 figures ranged from $12trn in 2018, according the Forum for Sustainable and Responsible Investment, and $76trn, according to the Boston Consulting Group, depending on the criteria used.

Unlike ESG integration investing, which focuses on investing in the best-in-class companies, impact investing cuts to the chase and invests only in projects that will yield a benefit to the environment or society.

It usually pioneers ways to use resources or improve equality in areas such as water, energy, materials, food and health, and is closely linked to the UN Sustainable Development Goals.

To date, no clear estimates have been provided on the primarily private market's size due to a lack of data and the speed of the industry's development.

To remedy this, the GIIN Sizing the Impact Investing Market report has collated the assets under management of more than 1,340 impact investors, including asset managers, foundations, banks, development finance institutions, family offices, pension funds, insurance companies and others.

The report shows that more than 50% of impact investing assets worldwide held by about 860 asset managers in venture capital, private equity, fixed income, real estates and public stocks.

The report also reveals 31 economic development financial institutions hold 27%; foundations hold 2%; and family holdings less than 1%. Wealthy high-net individuals were not included in the study.

Assets reported included green bonds and stocks.

More than half of all assets are managed within the United States and Canada, and about 21% in Europe.

GIIN CEO and co-founder Amit Bouri says the survey provides an important baseline for not only assessing the current state of the market but for developing more sophisticated benchmarks.

"It will also lead to deeper conversations about the market's future potential," says Bouri, who told Reuters the figures reflect shifting sentiment about the role of capital in society.

Bouri says the initiative is important to ensure the market continues to scale with integrity, particularly in light of high-profile scandals such as the US college admissions scandal.

Organisations such as the World Bank and the Organisation for Economic Co-operation have expressed concerns about the lack of industry standards and the growing trend of "impact washing" and "green washing".

Report: Core Characteristics of Impact Investing

Fresh from the press, The Global Impact Investing Network (GIIN) has published its Core Characteristics of Impact Investing report to help financial markets and investors navigate the growing and complex array of investments, and to help them distinguish impact investing from other approaches.

Given the rapid growth of the industry and a few high-profile scandals, the report also attempts to set basic standards that will help "scale up integrity" and provide a foil to the growing trend of "impact washing" and "green washing".

The report lays down four tenets of credible impact investing to help investors understand the key elements of impact investing, define the credibility of their practices and consider the quality of the practices of potential

investment partners.

“We are launching these Core Characteristics at a critical time in impact investing; the next couple of years will either see it remain on the fringe of the financial markets or press forward into the mainstream,” GIIN CEO and co-founder Amit Bouri, said in a press release.

“To tackle issues on the scale of the Sustainable Development Goals and global climate targets, we must think much bigger and engage a much broader set of investors.

“Scale is essential. But it must be scale with integrity, to ensure we are achieving impact at scale, not just capital at scale.”

The four tenets include:

Intentionality: Projects should display clear impact objectives and thorough strategies ahead of execution. This is what distinguishes impact investing from approaches that simply focus on avoiding harm or mitigating risk.

Evidence-based investment design: Empirical evidence must form the basis of any impact investing strategy.

Impact management: Measurement of progress towards objectives is critical. The report recommends using feedback loops to increase the positive impacts over the life of the investment and decrease risks, or unintended negative consequences.

Contribution to industry growth: Impact investment requires that participants share conventions and standards for describing goals, strategies and performance, including non-proprietary and non-private positive and negative learnings, evidence and data.

Bouri says the central aim of the Core Characteristics is to provide clear reference points and practical actions to establish the baseline expectations for impact investing.

“The current impact investing market is estimated to be $502 billion, which means trillions of dollars in the capital markets are still sitting on the sidelines, that could be put to work for people and the planet,” Bouri says.

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

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 March 25 to Friday March 29, 2019 Total Upgrades: 7 Total Downgrades: 9 Net Ratings Breakdown: Buy 42.32%; Hold 42.72%; Sell 14.96%

Total downgrades for individual ASX-listed entities continue to outnumber upgrades among the eight stockbrokerages monitored daily by FNArena, even as the share market struggles to advance close to its 2018 peak.

For the week ending Friday, 29th March 2019, FNArena counted seven upgrades being outnumbered by nine downgrades. Not helping the numbers, gold miner St Barbara received three upgrades during the week, so in terms of individual stocks receiving upgrades and downgrades, the gap is more pronounced than it appears.

In particular when we consider Sandfire Resources received two upgrades during the week. On the opposite end of the ledger, no such double downgrades are present.

Most of the activity revolves around mining and energy companies with each of Independence Group, Mount Gibson, Oil Search, Origin Energy and Woodside Petroleum receiving a downgrade.

Positive changes to valuations and price targets, on the other hand, remained largely an industrial affair, with each of Superloop, Collins Foods, Challenger and Austal worth mentioning. The negative side contains more hefty reductions, led by St Barbara, then Pilbara Minerals, Sigma Healthcare, and Premier Investments.

Earnings estimates are experiencing large amendments each way. Companies enjoying large boosts to forecasts include Superloop, Galaxy Resources, Western Areas, Suncorp and Challenger. Oversized reductions have fallen upon Pilbara Minerals, Sigma Healthcare, EclipX Group, and, in more moderate fashion, St Barbara and Westpac.

Upgrade

CHALLENGER LIMITED ((CGF)) Upgrade to Hold from Sell by Deutsche Bank .B/H/S: 1/6/0

The relationship between Challenger and its Japanese partner is deepening and Deutsche Bank notes MS Primary will now provide to Challenger an annual amount of reinsurance, across both Australian and US dollar annuities, of at least JPY50bn (circa $640m) per year for a minimum of five years.

The revised arrangement remains subject to review in the event of any material adverse change for either of the parties and comes also with an increased equity stake in Challenger. Target price jumps to $8 from $7. Rating has been upgraded to Hold from Sell.

COLLINS FOODS LIMITED ((CKF)) Upgrade to Add from Hold by Morgans .B/H/S: 3/0/0

The KFC brand continues to perform well domestically, which implies a better performance from the company's Australian operations, Morgans suggests. Yum! Brands and Restaurant Brands have recently reported positive quarterly sales for their KFC operations.

The broker expects Europe will remain challenging for the company in the short term but a return to sustainable positive same-store sales growth could provide the medium-term catalyst for a more aggressive roll out.

The broker upgrades estimates for earnings per share by 0.5-2% for FY19-21, primarily reflecting higher KFC Australia assumptions. The broker believes there is meaningful value to be realised in Collins Foods and upgrades to

Add from Hold. Target is raised to $7.78 from $6.90.

ST BARBARA LIMITED ((SBM)) Upgrade to Neutral from Underperform by Credit Suisse and Upgrade to Buy from Hold by Deutsche Bank and Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/3/0

The feasibility study at Gwalia has abandoned the underground ore pumping technology concept. The geometry could not meet the pumping rate that the pre-feasibility study had assumed. Long-term plans revert to the trucking option but this has also been downgraded.

Production guidance is also downgraded by around -20%. The stock was already trading at a premium to valuation, which Credit Suisse observes was elevated by prior guidance for higher production at lower costs.

The maturity of Gwalia is seen battling the limitations of technology. The broker considers that positive news on the Simberi sulphide expansion may offset the value lost by the downgrade to Gwalia.

Rating is upgraded to Neutral from Underperform. Target is reduced to $3.30 from $3.90.

Deutsche Bank has upgraded to Buy from Hold. Now that the company has announced it will stick to trucking to move ore at Gwalia after alternative options have proved too expensive, Deutsche Bank has remodelled the outlook for the goldminer.

Admittedly, this has resulted in -20% less in Net Present Value (NPV) but the analysts retain a positive view on Gwalia overall. They also believe St Barbara can pay out 20c per annum to shareholders in a sustainable manner.

Price target drops to $3.80 from $4.80 prior.

The feasibility study for the Gwalia mass extraction project has assessed the viability of pumping as technically feasible but, with a doubling of the original cost assumptions amid more difficult geometry in the orebody, this has now been abandoned in favour of trucking.

Ord Minnett considers the recent sell-off a buying opportunity, believing the company is in solid shape. Rating is upgraded to Accumulate from Hold. Target is reduced to $3.80 from $4.60.

SANDFIRE RESOURCES NL ((SFR)) Upgrade to Outperform from Neutral by Macquarie and Upgrade to Neutral from Sell by UBS .B/H/S: 2/4/2

Macquarie upgrades to Outperform from Neutral after recent share price weakness. The company is exposed to strong near-term copper prices.

The broker envisages potential acquisition or the formal go-ahead for the Black Butte development project as key catalysts for the stock. Target is steady at $7.80.

Upgrades to commodity price estimates have driven a 5% upgrade to the valuation of Sandfire Resources. UBS observes the valuation is very sensitive to near-term commodity assumptions because of the 3-4 years of remaining mine life at DeGrussa.

Management is trying to extend life through regional exploration. While the stock now trades in line with UBS's valuation, the broker suggests there is risk of M&A. Rating is upgraded to Neutral from Sell and the target raised to $7.00 from $6.70.

Downgrade

GOLD ROAD RESOURCES LIMITED ((GOR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/0

Macquarie downgrades to Neutral from Outperform after recent share price strength as first gold from Gruyere is imminent.

The target is raised to $1.10 from $0.90, given the more leveraged longer-term outlook.

INDEPENDENCE GROUP NL ((IGO)) Downgrade to Neutral from Buy by UBS .B/H/S: 1/4/1

UBS observes the shares have gained around 30% since the start of the year, underpinned by higher nickel prices and a solid operating performance in the December quarter.

While downgrading to Neutral from Buy the stock remains the broker's preferred nickel exposure, trading on a 15-20% free cash flow yield for FY20-21.

The broker suggests exploration success could be very accretive but for now the stock is fair value. Target is raised to $5.00 from $4.90.

MOUNT GIBSON IRON LIMITED ((MGX)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/2/0

Macquarie downgrades to Neutral from Outperform because of a lack of valuation upside and a rise of over 70% in the share price over the past three months.

The target is raised to $0.90 from $0.78 to reflect both a softer Australian dollar and an increase in the value of the resources currently outside of the mine plan.

NEW HOPE CORPORATION LIMITED ((NHC)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/3/0

Following the company's first half results, where it highlighted a higher proportion of low-grade coal in the sales mix, Macquarie envisages a challenge to earnings.

The broker also incorporates updated commodity prices and FX forecasts.

Macquarie reduces its earnings outlook for the business and downgrades to Neutral from Outperform. Target is reduced to $3 from $4.

ORIGIN ENERGY LIMITED ((ORG)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/4/0

Following changes to retail electricity pricing and the associated impact on energy market earnings, Citi downgrades to Neutral from Buy. The broker believes the stock valuation correctly reflects a US$55/bbl long-term oil price.

Lower revenues are expected to be offset by the -$100m reduction in costs from FY18-21, as churn rates increase and costs to acquire customers become cheaper.

The broker needs more clarity on margin compression and the quantifiable impact on profitability for FY19 and beyond. Target is reduced to $7.42 from $8.62.

ORICA LIMITED ((ORI)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 2/4/1

Ord Minnett has reviewed the production and earnings outlook for the company, noting production delays at Burrup are expected to continue. Utilisation rates at the Yarwun plant remain critical to meeting increased ammonium nitrate requirements from BHP Group ((BHP)), as anti-dumping provisions create a tight market.

Ord Minnett suspects costs may increase, as a result, in order to meet contracted customer demands. The broker reduces earnings forecast for FY19 by -6.4% and by -5.7% for FY20. Rating is downgraded to Lighten from Hold and the target reduced to $16.20 from $17.15.

OIL SEARCH LIMITED ((OSH)) Downgrade to Sell from Neutral by Citi .B/H/S: 4/3/1

The company may be demonstrating a focus on maximising value from current assets but Citi downgrades to Sell from Neutral because of weaker macro conditions in LNG.

The broker believes the next 12 months will still provide potential for positive catalysts, such as the gas agreement in early April and exercising the Alaskan option. Target is reduced to $7.64 from $7.91.

The broker now includes a benefit from late-life gas that provides production backfill for PNG LNG and Papua LNG.

WESFARMERS LIMITED ((WES)) Downgrade to Hold from Add by Morgans .B/H/S: 1/3/3

Morgans can see the attraction of a business whose products are exposed to electric vehicles, wind turbines and other renewable applications, but also sees Malaysian political risk as a major factor. While the bid is only indicative at this stage, the licence for Lynas Corp's ((LYC)) Malaysian plant is up for renewal in September.

The issue for the plant has always been one of radioactive waste, which leads the broker to question why Wesfamers would exit coal on ethical grounds and then decide to get into rare earths. While more detail is required, Morgans pulls back to Hold for now on increased risk and drops its target to $34.54 from $36.50.

WOODSIDE PETROLEUM LIMITED ((WPL)) Downgrade to Sell from Neutral by Citi .B/H/S: 3/4/1

Citi believes Woodside Petroleum is in a difficult position in a crowded LNG market. Something has to give, and investors may be disappointed.

Any farming down of Scarborough and Pluto T2 is likely to be sold at a risk-adjusted price and the broker suspects consensus still values the project at current equity interest levels. Citi does not expect Scarborough to reach its FID target of 2020. The company appears adamant it will not farm down at a discount to fair value, implying investors could take on the full brunt of the marketing risk.

If Browse were to move forward in a timely manner then new equity is likely required and/or the pay-out ratio reduced, in the broker's view. Citi downgrades to Sell from Neutral and reduces the target to $31.12 from $34.30.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 CHALLENGER LIMITED Neutral Sell Deutsche Bank 2 COLLINS FOODS LIMITED Buy Neutral Morgans 3 SANDFIRE RESOURCES NL Buy Neutral Macquarie 4 SANDFIRE RESOURCES NL Neutral Sell UBS 5 ST BARBARA LIMITED Neutral Sell Credit Suisse 6 ST BARBARA LIMITED Buy Neutral Deutsche Bank 7 ST BARBARA LIMITED Buy Neutral Ord Minnett Downgrade 8 GOLD ROAD RESOURCES LIMITED Neutral Buy Macquarie 9 INDEPENDENCE GROUP NL Neutral Buy UBS 10 MOUNT GIBSON IRON LIMITED Neutral Buy Macquarie 11 NEW HOPE CORPORATION LIMITED Neutral Buy Macquarie 12 OIL SEARCH LIMITED Sell Neutral Citi 13 ORICA LIMITED Sell Neutral Ord Minnett 14 ORIGIN ENERGY LIMITED Neutral Buy Citi 15 WESFARMERS LIMITED Neutral Buy Morgans 16 WOODSIDE PETROLEUM LIMITED Sell Neutral Citi Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SBM ST BARBARA LIMITED 30.0% -20.0% 50.0% 5 2 CKF COLLINS FOODS LIMITED 100.0% 67.0% 33.0% 3 3 SLC SUPERLOOP LIMITED 67.0% 50.0% 17.0% 3 4 PMV PREMIER INVESTMENTS LIMITED 33.0% 17.0% 16.0% 6 5 CGF CHALLENGER LIMITED 6.0% -6.0% 12.0% 8 6 ASB AUSTAL LIMITED 83.0% 75.0% 8.0% 3 7 CGC COSTA GROUP HOLDINGS LIMITED 58.0% 50.0% 8.0% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 SIG SIGMA HEALTHCARE LIMITED -100.0% -50.0% -50.0% 4 2 EPW ERM POWER LIMITED 50.0% 83.0% -33.0% 3 3 IGO INDEPENDENCE GROUP NL -8.0% 8.0% -16.0% 6 4 WES WESFARMERS LIMITED -31.0% -19.0% -12.0% 8 5 PLS PILBARA MINERALS LIMITED 67.0% 75.0% -8.0% 3 6 ORI ORICA LIMITED 6.0% 13.0% -7.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SLC SUPERLOOP LIMITED 1.713 1.515 13.07% 3 2 CKF COLLINS FOODS LIMITED 7.693 7.400 3.96% 3 3 CGF CHALLENGER LIMITED 8.218 7.949 3.38% 8 4 ASB AUSTAL LIMITED 2.603 2.525 3.09% 3 5 EPW ERM POWER LIMITED 1.917 1.887 1.59% 3 6 IGO INDEPENDENCE GROUP NL 4.433 4.417 0.36% 6 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 SBM ST BARBARA LIMITED 3.540 4.620 -23.38% 5 2 PLS PILBARA MINERALS LIMITED 1.017 1.100 -7.55% 3 3 SIG SIGMA HEALTHCARE LIMITED 0.483 0.518 -6.76% 4 4 PMV PREMIER INVESTMENTS LIMITED 18.032 18.640 -3.26% 6 5 WES WESFARMERS LIMITED 32.174 32.419 -0.76% 8 6 ORI ORICA LIMITED 17.670 17.789 -0.67% 8 7 CGC COSTA GROUP HOLDINGS LIMITED 5.843 5.852 -0.15% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 SLC SUPERLOOP LIMITED -4.450 -6.000 25.83% 3 2 GXY GALAXY RESOURCES LIMITED 1.583 1.272 24.45% 5 3 WSA WESTERN AREAS NL 3.086 2.526 22.17% 6 4 SUN SUNCORP GROUP LIMITED 84.729 74.729 13.38% 8 5 CGF CHALLENGER LIMITED 50.500 45.786 10.30% 8 6 CRN CORONADO GLOBAL RESOURCES 61.903 56.666 9.24% 3 7 ORE OROCOBRE LIMITED 11.672 10.915 6.94% 8 8 IGO INDEPENDENCE GROUP NL 9.228 8.817 4.66% 6 9 FMG FORTESCUE METALS GROUP LTD 87.452 84.564 3.42% 8 10 EVN EVOLUTION MINING LIMITED 13.036 12.636 3.17% 8 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 PLS PILBARA MINERALS LIMITED -14.250 1.100 -1395.45% 3 2 SIG SIGMA HEALTHCARE LIMITED 2.048 4.113 -50.21% 4 3 ECX ECLIPX GROUP LIMITED 16.800 22.440 -25.13% 4 4 SBM ST BARBARA LIMITED 31.933 33.635 -5.06% 5 5 WBC WESTPAC BANKING CORPORATION 214.329 223.543 -4.12% 8 6 AQG ALACER GOLD CORP 40.426 42.132 -4.05% 3 7 SPK SPARK NEW ZEALAND LIMITED 20.227 20.866 -3.06% 4 8 KMD KATHMANDU HOLDINGS LIMITED 22.024 22.715 -3.04% 4 9 AWC ALUMINA LIMITED 25.309 25.834 -2.03% 5 10 DHG DOMAIN HOLDINGS AUSTRALIA LIMITED 7.441 7.584 -1.89% 7 Technical limitations

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

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Uranium Week: On The Slide

The spot uranium price has been in a downward trajectory over the past nine weeks, continuing its slide last week.

-Global energy demand accelerates -Spot uranium price decline accelerates -Brexit also impacting on UK utilities' cautiousness

By Greg Peel

Global energy demand grew by 2.3% in 2018, the International Energy Agency reports, to mark the fastest growth this decade. Aside from simple economic growth driving demand, greater demand for heating and cooling in different regions, implying colder winters and hotter summers, had an impact.

Natural gas is the fuel source of choice, representing 45% of the rise in energy consumption. Gas demand growth was especially strong in China and the US.

Nuclear energy grew by a comparative 3.3%, but did return to pre-Fukushima demand levels thanks to new reactors in China and restarts in Japan. Globally, nuclear met 7% of the increase in electricity demand.

Buyers' Strike

The spot uranium market has been in a downward trend for the past nine weeks and the slide has been accelerating in recent weeks. Last week was another in which buyers were thin on the ground, with utilities basically out of the market ahead of the section 232 report to be delivered to the White House on April 14. Brexit uncertainty is also cited as a reason utilities are currently cautious.

A uranium producer entered the market on Friday seeking proposals for the delivery of 1mlbs U3O8 equivalent in either April or May, but failed to move the dial. The spot price fell steadily over the week and after 1.1mlbs were exchanged, industry consultant TradeTech's weekly spot price indicator fell -US$1.10 from the prior week to US$24.90/lb, where it closed out the month.

The spot price finished March down -US$3.10 from end-February and is now down -13.4% year to date, but still up 18% year on year. A total of 5.9mlbs U3O8 equivalent changed hands in the month in 39 transactions.

Weakness in the spot market has now impacted on the mid-term market. TradeTech's mid-term price indicator has fallen -US$2.00 to US$28.00/lb. The consultant's long term indicator remains unchanged at US$32.00/lb.

Only two transactions were concluded in term markets in March, totalling 3.1mlbs for delivery 2020-25.

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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 March 28, 2019

Last week began with the US three-month to ten-year yield curve inverting, triggering a global stock market sell-off. The ASX200 was not spared. By week's end the pullback had played out and a sharp recovery had begun.

I noted last week that shorts in agrichemicals company Nufarm ((NUF)) had jumped to 11.6% from 7.6%, which would reflect either a genuine response to a weak earnings result and suspended dividend, or ASIC data blip. The fact Nufarm shorts last week rose further to 13.9% confirms the former.

The only other stock to see a short position move of one percentage point or more last week was goldminer Silver Lake Resources ((SLR)), which has debuted in the table at 6.4% from under 5% prior.

Silver Lake is in the process of merging with peer Doray Minerals ((DRM)) so someone is simply trying to arbitrage outcome share price-wise between the two.

Beyond that we might note that investment platform Hub24 ((HUB)) continues to quietly move its way higher up the table, while peers such as Netwealth ((NWL)) or Praemium ((PPS)) are nowhere to be seen.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+ ING 17.6 SYR 17.4 GXY 17.0 JBH 15.5 NUF 13.3 NXT 13.2 ORE 12.0 MTS 12.0 BWX 11.5 BAL 11.1 SDA 10.9

Out: PPT, MYR

9.0-9.9

PPT, IVC, IFL, MYR, DMP, CSR, SUL, HVN, HUB, PLS

In: PPT, MYR, HVN, HUB 8.0-8.9%

BKL, AMC, BOQ

Out: HVN, HUB, LYC

7.0-7.9%

KGN, RWC, SGM

Out: AMP

6.0-6.9%

AMP, BGA, BEN, DHG, SLR, MSB, BIN, WSA, KDR

In: AMP, SLR , WSA, KDR

5.0-5.9%

RSG, CGF, APT, CCP, CAR, GMA, HT1, COE, RIO, LNG

In: COE, LNG Out: KDR, WSA, CGC

Movers & Shakers

See above.

ASX20 Short Positions (%)

Code Last Week Week Before Code Last Week Week Before AMC 8.3 8.0 RIO 5.2 5.2 ANZ 1.3 1.5 S32 1.0 1.0 BHP 3.8 4.0 SCP 1.3 1.0 BXB 0.3 0.5 SUN 0.4 0.6 CBA 2.3 2.3 TCL 1.7 1.9 COL 2.1 2.2 TLS 0.8 0.8 CSL 0.3 0.3 WBC 2.1 2.0 IAG 0.5 0.6 WES 2.2 2.1 MQG 0.3 0.4 WOW 2.4 2.7 NAB 1.0 0.9 WPL 0.6 0.7 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.

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

The Wrap: Households, Amazon & The Budget

Weekly Broker Wrap: household leverage; Amazon; and the Commonwealth budget.

-Expenditure likely to slow because of weak income growth, labour market weakening -Amazon's reliance on shipping from the US suggests to Morgan Stanley limited impact on Australian retailers -Commonwealth budget stimulus considered unlikely to offset slowing GDP growth

By Eva Brocklehurst

Household Leverage

UBS notes households are still leveraging. Even though growth in liabilities dropped to a five-year low of 4.2%, the household debt-to-liabilities ratio lifted to a record high of 199% in the December quarter.

Falling house prices were the main contributors to household wealth, dropping -2.1% quarter on quarter to be down -1.3% year on year. What is critical to this number is that the negative household wealth effect is consistent with an ongoing drag on consumption, as spending slows because of weak income growth.

UBS assesses the lead indicators of the labour market are weakening. Even job vacancies, as measured by the Australian Bureau of Statistics, have slowed to a 2-year low. The impact of peaking construction activity is also starting to be felt. Unemployment is expected to rise. UBS expects the Reserve Bank will shift to an easing bias by May and reduce the cash rate by -25 basis points in both July and August.

Amazon

Morgan Stanley has refreshed its analysis of Amazon's prices and range. While JB Hi-Fi ((JBH)) appears competitive, the supermarkets and Rebel ((SUL)) seem less so. Amazon looks to be highly reliant on shipping from the US or its 'global store', and this limits the current impact on Australian retailers.

While finding Amazon's local item growth difficult to measure, Morgan Stanley suspects the majority of units eligible for Prime delivery are being delivered from the US and this typically means delivery in 9-13 business days and a minimum order of $49, compared with the Prime delivery from Australia of two business days.

The broker observes two possible reasons for this: insufficient Australian warehouse capacity and reluctant Australian suppliers. Hence, the broker believes the current offering is unlikely to be having a significant direct impact on Australian retailers.

Across the products the broker compared, Amazon was significantly more expensive on items that third-party sellers were selling, versus items that were being sold by Amazon Australia or Amazon US. This highlights the importance of Amazon's first party stock levels and range, ultimately determined by its warehouse capacity and the willingness of suppliers.

Budget

The Commonwealth government's 2019 budget provided substantial stimulus in the form of income tax relief. There were immediate tax offsets for single and dual income families while the middle tax bracket was reduced to 30% from 32.5% as of FY25. The prior $25,000 instant tax write-off for small business has been increased to $30,000 and the turnover threshold for qualification increased to $50m from $10m.

Citi notes the nature and timing of the payments is conducive to expenditure in the September quarter and there could be a boost to retail expenditure of 1-1.5% in that quarter. That said, the broker notes the payment is against a backdrop of potentially higher household savings.

Citi expects the vast majority of the government's initiatives that impact household income will be adopted by the Australian Labor Party, if it wins the next election. Citi maintains Buy ratings on Coles ((COL)), Super Retail and Accent Group ((AX1)).

The household tax cuts and hand-outs were much smaller than UBS expected and a significant portion is expected to be saved or used to repay debt. The budget reinforces the broker's view for a sharp slowing in the GDP outlook. UBS forecasts 1.9% GDP growth for 2019. Macquarie considers the tax cuts good news for retailers, as businesses are likely to invest in new IT equipment.

This translates to positive news for JB Hi-Fi, Harvey Norman ((HVN)) and Officeworks ((WES)). Evidence from the past suggests the bulk of the stimulus will be spent quickly on clothing, footwear, department stores, recreational goods and casinos.

Despite the attempts to boost expenditure, Macquarie does not believe this will be enough to offset the structural decline facing bricks & mortar retailers. The broker remains negative on the fundamentals of retail landlords and believes the equity market pricing of retail A-REITs is at fair value. In the listed property sector the broker prefers Mirvac Group ((MGR)), Goodman Group ((GMG)) and Charter Hall ((CHC)).

The infrastructure expenditure forecast from the budget has increased by 33% over the next decade and, with Lendlease ((LLC)) classifying its engineering & services business as non-core, Macquarie believes the expanded infrastructure expenditure may make the division more appealing for a potential purchaser.

Morgan Stanley observes infrastructure expenditure may have been stepped up but extends the cycle rather than boosting it. The headline has been lifted to $100bn of expenditure over 10 years. The broker notes in FY20 the pulse is modest, at $2bn.

Given capacity constraints, this holds activity levels high rather than increases them. The broker finds it positive for job security in exposed sectors but the ability of infrastructure expenditure to absorb additional weakness in other parts of the economy is limited.

There was also a $1.1bn lift in primary care funding announced in the budget and a $309m boost to imaging. JPMorgan suggests Healius ((HLS)) and, to a lesser degree, Sonic Healthcare ((SHL)) should be beneficiaries of the initiatives. A boost of $320m in aged care funding, via a one-off lift to ACFI rates in the June quarter, was pre-announced.

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Treasure Chest: EclipX Rising Or Eclipsed?

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Risks for EclipX remain elevated, brokers agree, but has the market reaction presented an opportunity?

-Corporate interest may reappear if fleet and novated businesses are proven stable -Addressing concerns through the sale of Right2Drive and Grays appears the most favourable outcome -Until further detail is provided, a material discount is likely to be applied

By Eva Brocklehurst

EclipX Group ((ECX)) felt the wrath of investors recently, after announcing a precipitous fall in its net profit for the first five months of FY19. Nevertheless, most brokers believe, while the risks are elevated, they are manageable through self-help initiatives, asset sales or a potential equity raising.

Subsequent to the news, McMillan Shakespeare ((MMS)) advised it does not expect to complete its takeover bid, although the scheme implementation agreement remains in place until April 30, 2019. The likelihood the merger will not proceed is clearly a negative signal but if EclipX can prove its fleet and novated businesses are stable, Credit Suisse suspects corporate interests may reappear.

Citi agrees, suspecting consolidation potential remains and upgrading EclipX to Buy/High Risk in the wake of the announcement. The broker considers the stock oversold, although acknowledges ambiguity exists. Restructuring, cost reductions and disposing non-core assets offer scope for improved profitability, although Credit Suisse emphasises the momentum is very negative.

While the company has materially underperformed peers in recent trading, a softer economic backdrop means the broader sector sentiment has declined over the past 6-9 months and is now trading on an historically high discount to the Small Ordinaries index, UBS notes.

Grays and Right2Drive were the main culprits in the downfall and are currently progressing through a sales process. Management has confirmed potential interest from a number of parties.

Morgan Stanley believes a sale of these companies could provide the much-needed catalyst for the company, although suspects the market will take a "wait-and-see" approach and, while there is strategic value in the core fleet business, qualitative concerns remain in focus.

Macquarie agrees that until the company can provide more information, including audited accounts, a material discount will be applied and any corporate activity will be on hold. Still, the market reaction may have presented an opportunity, in the broker's view.

Balance Sheet

The company is in compliance with its covenants of February 28, 2019 and Morgan Stanley believes this will be the focus for the market at the interim result.

UBS assesses material upside potential from current levels, although balance sheet stresses need to be dealt with. Addressing these concerns, through the sale of the two non-core businesses, would be the most favourable outcome. The broker calculates a $50m-plus sale would address the problems and mean the core business trades on a pro forma FY19 PE of less than 4x.

UBS does not believe the company will breach its corporate debt covenants at the first half results. A goodwill or net asset reduction of over -$173m would be required to risk the covenant, considered unlikely.

UBS envisages greater risk at the FY19 result and a $33m-plus improvement, via general performance, in asset sale or sale of mezzanine debt is required to prevent a breach. The broker reduces FY19-21 estimates for earnings per share by -38-44% to reflect near-term performance trends and break-even operations at R2D and Grays from FY21.

That said, UBS assesses the company has a solid market position in its valuable core fleet offering across Australasia and good visibility, as around 70% of earnings are generated by the book in place at the start of the year.

FNArena's database shows three Buy ratings and two Hold. The consensus target is $1.05, signalling 53.8% upside to the last share price. Targets range from $0.88 (Credit Suisse) to $1.29 (Citi).

Disclaimer: the writer has shares in the company.

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The Art Of Selling Non-Performing Stocks

In this week's Weekly Insights:

-The Art Of Selling Non-Performing Stocks -Conviction Calls -Have Your Say - The CSL Challenge -Rudi On TV -Rudi On Tour

The Art Of Selling Non-Performing Stocks

By Rudi Filapek-Vandyck, Editor FNArena

It is undoubtedly the most difficult decision to make for investors in the share market: when is it time to sell?

I am not talking about when to jump off perennial high-flyers such as a2 Milk ((A2M)) or Altium ((ALU)), where the decision most likely translates into when do I start crystallising some of my profits, and by how much? - I am talking about that part of the investment portfolio that is least talked about: the dogs, the bad decisions, the 'it looked a good idea at the time' losing positions that continuously test our character, our resolve and confidence, and possibly our mental sanity.

Just to be clear: owning a few bad apples in portfolio is not something that happens to inexperienced, unlucky or lesser informed investors only. It happens to all investors of all colours, shapes, and levels of experience.

If we take guidance from the fact that, as a general rule, good stock pickers average six out of ten winners, with five (50%) more likely and seven being exceptional (also: exceptionally lucky), simple logic tells us not every investment decision lives up to its potential or expectations. At least not right away.

Impatience seems seldom the correct response, but then a lot of investment capital goes out the window each year from investors holding out for a share price recovery that simply won't arrive.

After losing in excess of -60% between February 2015 and mid last year, Telstra shares have recovered somewhat and stabilised between $3-$3.30, but this still leaves faithful hangers-on with a big hole in their pocket, requiring many years of dividends to possibly make up for the gap.

Things are looking a lot worse for loyal shareholders in AMP, or iSentia, or Retail Food Group.

"Don't fight the tape" and "don't ignore the trend" are typical statements heard from shorter-term traders, but not every share price that falls is doomed. Take one of my favourite stocks in the share market as an example; TechnologyOne ((TNE)).

Between September 2016 and September last year the stock simply could not attract any positive momentum. Today the share price is up by 50%, and it all happened in a heartbeat, really, without major new developments or a major announcement from the company.

One of my other portfolio constituents, Bapcor ((BAP)), could literally do no wrong throughout the whole of 2015 and up until the third quarter of 2016. During this period Bapcor shares turned into a popular go to destination for many an investor in small caps. Then followed a period of absolutely no appetite among investors, until the share price exploded to the upside between April and September last year. Currently we're back to "no appetite" again.

My most famous observation relates to late 2016 when CSL ((CSL)) shares, having temporarily peaked at $120, continued to fall ever deeper and all the talk on TV was how far down the share price would ultimately end up. As it happened, CSL shares sniffed at $90, then quickly turned around and hardly ever looked back. They are close to $200 today.

As an investor, you'd feel mightily guilty if you had allowed short term "noise" (because that's what it is) to infect your mindset, leading to the misguided decision to sell all your shares in CSL. I'd wager, the same applies to the expert who last year declared he'd sold out of TechnologyOne because the share price "wasn't doing anything".

The offset is, you'd feel far worse if you are still holding shares in AMP, iSentia or Retail Food Group. So how do we distinguish the latter from the former? When do we sell and when do we hold on and possibly buy even more shares?

Judging from my own experiences, there is no single golden rule, but a lot of confidence stems from thoroughly understanding what the company is about; what it does, how it operates, how it compares to its peers, whether industry dynamics are changing and who's benefiting, et cetera.

Admittedly, it's not always clear, nor easily established what exactly is weighing upon a given share price, in particular not when other parts of the market are trending upwards.

But if your company in question is of high quality, with a robust growth outlook under the belt, and there is no particular bad news or negative development impacting on it, you are able to feel a lot more relaxed about the falling share price. In the case of TechnologyOne, this company -virtually without exception- grows at around 15% per annum, and has been doing exactly that for well beyond a decade now.

When management announced growth would be less for the financial year ending in June 2017 -only at 7%- this was interpreted as very negative news by the market. As it came on top of a project dispute with Brisbane Council plus a dismissal court case by a former executive, it was all too much for most. By now the company is growing back at double digit speed, and guess where the share price is?

All-time high.

Sometimes, however, the company in question does not own that same high quality label, and its growth profile has been impaired. Maybe the facts have changed since we jumped on board, or maybe we just erred in our judgment. All too often our interest is triggered by a seemingly attractive looking share price, and all too often do we find out, the hard way, there was a very good reason why the share price looked "cheap".

Most investors try not to over-pay when making purchases in the share market, but according to my long-standing market observations many more unfavourable investment decisions are made, every single day, by investors trying to jump on "cheap" bargains. The problem often then becomes that the share price simply becomes even cheaper. Now, what should we do?

Let me first point out that making mistakes is simply par for the course. It will happen, and it will happen again. Take this prime piece of advice from someone who in the past has allocated positions in Slater & Gordon ((SGH)), Vocus Group ((VOC)), Pact Group ((PGH)), and EclipX Group ((ECX)): it never is too late to sell.

So rule number one should be that every decision and judgment needs to be made independently from what we've paid for our shares. All too often investors won't sell at a loss, which can be the ideal starting point for accumulating much larger losses. Have a look at price charts for the companies I just mentioned. Can you see why I am happy today the portfolio no longer hold these shares?

It always can get worse, still. Companies on occasion are forced to call in administrators, instantly making their shares worthless as happened last year with RCR Tomlinson.

Time to also call out averaging down as a high risk and very dangerous practice, all too often employed by investors trying to cover up an error. What you are in fact trying to do is make a dud investment better by throwing more money at it. Probably the best warning is through going back to the price charts of iSentia, AMP, Retail Food Group, and the like, and see for yourself how this practice can lead to ruin - only because you cannot admit to yourself that you have made an error.

Why risk making it far, far worse? Get over yourself!

I have never averaged down on a dud investment, and I will never do it. On occasion, I increase positions after a pullback, but that's because I remain convinced I am buying more of a good opportunity. I am not throwing good money after bad at the risk of incurring even larger losses (while your average price might fall, your total exposure increases).

One of the clearest warning signs I have found stems from companies issuing disappointing statements. Looking back at the early days of my allocation in iSentia, small disappointments seemed always included, and they simply grew bigger until it could no longer be denied here was a company in deep troubles (by then I had already jumped ship, thank goodness).

It's a harsh lesson also experienced recently by shareholders in Pact Group and EclipX Group, with both management teams issuing yet more bad news announcements, further depressing the share price. "Value" in a share price is directly linked to how the business is operating. If there is no trust left in what the company actually can and is likely to achieve, do you still want to be around hoping for the best?

Probably the second most common error is investors being hoodwinked by a seemingly high dividend yield, too often ignoring the fact that an above average yield can be a warning signal indicating the dividend might not be sustainable.

AMP used to be a dividend staple, until it wasn't. Telstra used to be everyone's go to non-bank dividend favourite, until the share price eroded by -60%-plus. Investors should understand that Bank of Queensland ((BOQ)) shares are

offering 8% plus franking at the present share price because the market sees a prolonged period of declining profits and cashflows.

It doesn't mean Bank of Queensland will 100% guaranteed announce a dividend reduction at its upcoming interim report release; but the risk of such a cut being announced while industry dynamics keep the squeeze on is certainly rising. Do you want to be exposed to such risk? In similar vein, National Australia Bank ((NAB)) is offering the highest yield among the Big Four (7.4% plus franking), for exact the same reason.

I have often pointed out in the past, and happily repeat the warning here again: the share market signals risk through yield. A low yield means the company has strong growth prospects, and is likely to deliver. A high yield, in particular during times of low interest rates and low yields on government bonds globally, means the company has very little prospects for growth, and investors better watch its cash flows.

If anyone's looking for examples for both extremes, consider Goodman Group ((GMG)) and Charter Hall ((CHC)) as part of the low yielding, robust looking, quality growth performers, whereas SG Fleet, Michael Hill and Apollo Tourism & Leisure are offering yields well, well above the market average.

Another observation is that all major banks in Australia are now either offering 6% plus franking (CBA and ANZ) or 7%+ plus franking (Westpac and NAB) which in itself is the market expressing its concern regarding the local housing downturn and ongoing impact on Australian households' savings, budgets and spending.

The best protection against a perennially bad investment remains, of course, to only buy high quality companies with a proven, robust track record, but during times of disruption and rapidly changing global trends any list of such companies on the ASX will always have a limited number of names on it.

And then there is the wide dispersion in views and opinions about what exactly makes a company high quality. Few will deny CSL is one such high quality achiever, but is BHP Group ((BHP))? JB Hi-Fi ((JBH))? What about Macquarie Group ((MQG))?

One thing can be put forward without the slightest hint of ambiguity: quality companies do not issue a profit warning by -42% seven weeks after repeating guidance for the year. This takes me back to earlier observations: share prices can come under pressure for all kinds of reasons; management teams can disappoint in many ways. CSL, for example, disappointed in February because it didn't upgrade guidance for the full year. TechnologyOne in 2017 disappointed because growth would be lower than in prior years.

Sometimes all market participants want to hear is "they missed", or "they disappointed", or "earnings estimates are being cut" and thus share prices can remain out of favour for much longer than we'd like or expect. But there is a big difference between the market getting all hyped up over a lot of short term noise and a company missing its own forecast by -42%. I'd hope we can all agree the latter is not characteristic of a high quality company.

Sometimes, during times of ultimate despair and confusion, we can also take guidance from the share price. I am loathe to put too much "value" on share price movements in the short term, as they can deceive as much as they can guide, but there is one trend that should be on every investor's radar; when a share price continues to trend lower, following up with lower highs and lower lows, it is time to put your ego aside and take your losses, before they become too large.

In line with the yield-risk indicator I mentioned earlier, this too is the share market sending you an unambiguously clear signal that all is not well with this company.

Which brings me to the number of reader/subscriber inquiries that inspired me to write this story: what the hell is happening with the Aristocrat Leisure ((ALL)) share price?

As many inquirers have pointed out, up until August last year it seemed everyone was in awe about the company's growth profile and ongoing potential, yet since then all that glamour seems to have evaporated and the share price remains stuck in the low to mid-$20s when it was trading above $30 last year, and still a while off broker target prices.

To the best of my knowledge, I think what we are witnessing is yet another example of market sentiment fading after the release of FY18 financials in late November last year that "disappointed" in the same fashion as CSL disappointed in February. Higher costs, question marks about the last acquisition announced, tougher times for casinos in general, and potentially more scrutiny for social gaming; it all adds up to less enthusiasm among investors for what remains one of the prime growth stories in the Australian share market.

Similar to what has happened to CSL, TechnologyOne, NextDC ((NXT)), and other quality high growth achievers, sometimes the market's attention is focused elsewhere. Sometimes "the company disappointed" is lingering in our collective mindset, and the share price needs a catalyst to remove that stigma.

I am hoping that catalyst will be the company's interim results update in May, which is still nearly two months out.

In the meantime, as I do with most of the stocks I recommend, I draw confidence from analysts who continue to update their forecasts and their views. In the case of Aristocrat Leisure, earnings estimates and valuations have pulled back post November, but they remain well above today's share price, in terms of valuations and price targets, and well above the market's broad average when it comes to projected growth for the years ahead.

The latest to update has been Deutsche Bank. Reading between the lines, analyst Mark Wilson doesn't understand where the current stasis in share price comes from, but he maintains "Aristocrat provides above-market rates of growth, increasing free cashflow generation, and exposure to the higher-growth Digital segment".

He also points out recurring revenue streams are climbing to 72% of group earnings, while earnings certainty for the next three years is set to increase. On his observation, and this is mirrored by analysts elsewhere, Aristocrat Leisure continues to perform well in the land-based and social casino segments, which represent circa 90% of total earnings.

Social Casual appears to be underperforming, but this makes up less than 10%. The company is mostly gaining market share.

If current projections prove reasonably accurate, the share price will, at some point, close that gap between where broker targets suggest the share price should be, and where it is currently at. FNArena's consensus target price sits at $31.39, suggesting the gap that needs to be closed is circa 23%. Deutsche Bank's price target sits at $37.75 which takes the gap to near 48%.

It is well possible that the market is hesitant because margins might be lower for operations in the Americas and for the digital division, while new title releases by Plarium and Big Fish might be slightly delayed. These are all valid considerations, up to a point. But Deutsche Bank's update already includes lower margins and slight delays.

Yet projected growth remains in the double digit percentages for each of the years ahead, and the (reduced) target sits some 48% above the current share price.

It is always possible all of us are missing something big and important, and we don't know it as yet; or something disastrous might occur from left field. But what are the chances?

Meanwhile, I am keeping my allocation and the faith. If the share price retreats, I might add some more. For all the right reasons (I believe).

Conviction Calls

This is not an occurrence we witness often. After the share price of Jumbo Interactive ((JIN)) nearly doubled since December, analysts at Morgan Stanley have initiated coverage with high conviction, suggesting there could still be another 40%-plus on the horizon before this share price starts looking too expensive.

Yes, you read that correctly, on Tuesday Morgan Stanley initiated with a high-conviction Overweight rating and a maiden price target of $20. The idea here is that investors have yet to properly account for the growth that is on offer, either through rising online lotteries market penetration, or through adding Queensland to the company's geographic reach, or through additional products.

For those investors who are as yet not familiar with Jumbo Interactive, this company is the officially sanctioned online lottery reseller in all of Australia, except Queensland, currently responsible for 20% of all online lottery ticket sales. Purchases are processed through its proprietary platform, which the company has begun to license to lottery operators in a software-as-a-service (SaaS) format.

Morgan Stanley sees operational leverage as one dominant feature colouring the outlook, backed up by a long term view that, eventually, all lottery tickets will be sold online. A massive growth opportunity thus, supported by the broker's forecast of 63% FY18-21 EPS CAGR.

The extra kicker to this story is that, while Jumbo Interactive is developing itself into tomorrow's Seek, Carsales or REA Group of online lotteries, this will also benefit 12.5% shareholder and license fee receiver Tabcorp ((TAH)).

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Over at Wilsons Advisory and Stockbroking, analysts have updated their shortlist of Conviction Calls, comprising of ARQ Group ((ARQ)), Bravura Solutions ((BVS)), EML Payments ((EML)), Collins Foods ((CKF)), Ridley Corp ((RIC)), Citadel Group ((CGL)), ImpediMed ((IPD)), EQT Holdings ((EQT)), Pinnacle Investment ((PNI)), Noni B ((NBL)), Ausdrill ((ASL)), Mastermyne ((MYE)), and NRW Holdings ((NWH)).

Have Your Say - The CSL Challenge

It's probably one of my key achievements since starting FNArena in 2002; to get investors interested in owning shares in CSL ((CSL)) and similar robust, high quality, sustainable growth stories, in defiance of general perception that stocks trading on a high PE multiple can never be owned but for a short term momentum play.

Over the years I have received many supportive emails and vocal encouragement from FNArena subscribers and investors elsewhere. At the end of last week's presentation to ASA members in Sydney, one elderly investor approached me with the words "CSL is such a wonderful company, why would you ever sell it?"

I think time has arrived we started sharing some of those stories with investors who are new to the CSL Challenge. From investors to investors. I am hereby asking those who own CSL shares to write down their motivation, memories, experiences, et cetera in order to share them with other investors.

Make it as detailed/generalised and as long/short as you like. Send it to info@fnarena.com, preferably with reference "CSL Challenge".

You don't have to do it completely pro bono. An innocent hand at the FNArena office will pick at random three contributions that will receive one bottle of wine each. To be eligible, make sure you also indicate whether you prefer red, white or rose. We'll pick one winner for each choice.

I'd say we close this invitation by April 15th, but let's not procrastinate too long. Get onto it right away! We take care of the wine selection.

Rudi On TV

My weekly appearance on Your Money is now on Mondays, midday-2pm.

Rudi On Tour In 2019

-ASA Melbourne, May 1 -ASA Toowoomba, Qld, May 20 -U3A Investor Group Toowoomba, Qld, May 22 -AIA Adelaide, SA, June 11 -AIA National Conference, Gold Coast, Qld, 28-31 July -AIA and ASA, Perth, WA, October 1

(This story was written on Tuesday 2nd April 2019. It was published on the day in the form of an email to paying subscribers, and will be again on Thursday as a story on the website).

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

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