Week

49

Stories To Read From FNArena

Friday, 7 December 2018

FNArena
Financial News, Data & Analysis

GPO Box 3145
Sydney NSW 2001

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Eva Brocklehurst

Contents

Opportunities Abound For Aristocrat Leisure

Aristocrat Leisure's FY18 result failed to reach hefty expectations but brokers are undaunted, believing the opportunities that abound require an increase in investment.

-FY19 result likely weighted to the second half -Casino expansion, more digital games driving higher costs -Share gains to be had in adjacent markets

By Eva Brocklehurst

Aristocrat Leisure ((ALL)) has significantly increased its digital exposure while developing titles for land-based casinos, but this has come with a need to substantially expand investment.

While the company's FY18 results failed to meet some hefty expectations, brokers are generally undaunted, as worthwhile opportunities abound. The positives of cash flow and digital acquisitions were offset in FY18 by lower-than-expected margins because of increased investment for future growth.

Morgans finds plenty to like about the stock, as it has a dominant market position in the Americas and Australasia, yet reduces expectations for the Americas and digital segments and lowers its margin forecasts.

Nevertheless, the broker acknowledges, if the company wants to maintain a leading position, it needs to invest significantly in staff and technology. Cash flow is strong and US gaming operations grew 25% in FY18, driving higher-quality recurring revenue.

The highlight for UBS was a 7% increase in the US participation installed base in the second half, the strongest addition in the company's history. Net profit was up 34%, and there are indications that the FY19 result will be weighted to the second half. This has created some weakness in the share price, which Wilsons believes is uncalled for.

As such, there is a buying opportunity, in the broker's opinion, as the outlook is constructive and there are market share gains in adjacencies. The company will soon enter American land-based products including VLTS, Washington CTS and Bar Tops, with all products to be commercialised in FY19/20.

The broker believes Aristocrat Leisure should command more than 10% growth in earnings per share, given the size of the digital opportunity. Cash generation also provides further potential returns and M&A.

Wilsons, not one of the eight stockbrokers monitored daily on the FNArena database, has a Buy rating and $30.78 target. While there are lingering concerns regarding the digital business, and it was soft versus forecasts, the broker believes the volatility is worth enduring for the longer-term growth potential and diversification.

Additional Expenditure

Ord Minnett notes, comparable companies spend around 25-35% of digital revenue on user acquisition and forecasts Aristocrat to spend an additional $100m to achieve payback in 8-10 months. The broker forecasts a majority of first half expenditure on user acquisition will occur in January to March, underpinning the skew in earnings to the second half.

Macquarie likes the growth outlook and agrees increased costs are required to position the business for growth. The broker is forecasting 19% growth in net profit in FY19. The Australasian profit margin expanded to 46% in the second half, supported by an increased take-up of the higher-margin pricing model. However, margins compressed in the Americas.

Strong Outlook For Americas, Digital

Morgan Stanley remains cautious and suggests a casino expansion in the US and new products may sustain growth in the Americas for longer but suspects Australasian growth will moderate further. The acquisitions, Plarium and Big Fish, disappointed the broker in the second half as growth moderated on a sequential basis. The company is launching more games, driving higher costs.

While the business in the Americas continues to perform strongly, digital acquisitions produced lower-quality results in FY18. Nevertheless, Morgan Stanley forecasts 26% growth in digital earnings in FY19, boosted by full year contributions from Big Fish and Plarium.

Credit Suisse does not find the stock demanding, projecting double-digit growth in FY19 and FY20. The broker acknowledges being affected by an "irrational excitement" surrounding digital and now projects more conservative numbers.

Future growth is made more certain by the inclusion for the full year of Big Fish and Plarium and the rolling out of the highly successful Dragon Link and Lightning Link casino slot machines.

UBS notes the PE multiple has de-rated to a 20% premium to the ASX 200, which has only occurred on 17 days in the past five years. Hence, with the outlook for the company not changed enough to justify such a move down in valuation, the broker retains a Buy rating.

There are six Buy ratings on FNArena's database and one Hold (Morgan Stanley). The consensus target is $31.97, suggesting 33.2% upside to the last share price. Targets range from $29.00 (Morgan Stanley) to $37.85 (Deutsche Bank).

See also, Aristocrat Leisure Poised to Take Share on October 31, 2018.

Flat Year Ahead For Coca-Cola Amatil

Coca-Cola Amatil will have another year of transition in 2019, recognising the need to invest in sales and marketing after cutting deeply into its cost base.

-Main competitive advantage is in superior network and distribution -Indonesian consumers not following traditional path of lifting consumption -Less likelihood of Lion Dairy acquisition, SPC to be sold

By Eva Brocklehurst

2019 is expected to be another difficult year for Coca-Cola Amatil ((CCL)), which understands it needs to improve business execution in Australia and its brand awareness in Indonesia.

Citi ascertains the company's goal of achieving 5% growth in earnings per share is at least two years away, with more de-rating of the stock likely to occur before the business is turned around. A longer transition to earnings growth is expected because the company has cut costs too deeply and needs to lift its sales team and marketing.

The company's trading update was largely in line with expectations, except for SPC which is now to be sold, incurring a -$10m loss. Australia beverages will be affected by the reinvestment of $40m in the implementation of a container deposit scheme in NSW, ACT in Queensland.

Still, management does not believe the challenges facing the business are any worse than five years ago when it set the current strategy. Investment in Australian beverages is producing benefits, allowing the company to be more competitive in a deflationary environment, particularly in Coca-Cola and water.

Higher costs have been generated from aluminium and PET prices. Australian cost inflation is 3% and Indonesian 10%. Morgans understands volumes would be slightly ahead in Australia, if it would not for the fact the company has lost the Domino's Pizza ((DMP)) contract. Indonesian demand is soft and has been affected by costs and a weaker currency.

On a positive note, alcohol and coffee are expected to deliver growth in line with expectations. Management expects a return to profit growth in FY20 and targets mid single-digit growth in earnings over the medium term.

Brokers were encouraged by the presentation from the chief of Australian beverages, Peter West, who has noted greater speed to market as a priority and understands that the main competitive advantage is in the company's superior network and distribution.

Ord Minnett is now more confident that revenue growth can be achieved and the missteps in execution of the past are now less likely. The broker, now the share price has declined, considers valuation support has emerged and upgrades to Hold from Lighten.

Further initiatives in 2019 in cola and water will be made but innovation will target incremental sales growth, as too many flavour changes appear to cause a rotation of sales rather than add new sales. The company will continue to focus on tea, juice and sports drinks.

NZ Success

The company is also taking on board the success of the NZ business and planning to replicate what has been learned for Australian beverages. Volume growth has been 4-5% in New Zealand which contrasts with Australia where volumes have declined. Operating earnings (EBIT) margins are 19% in NZ versus Australia's 15%.

The company does have a more dominant share in New Zealand and is larger in the juice category. Morgan Stanley suspects replicating the NZ strategy may prove the catalyst the business needs although, to become more constructive on the stock, wants to observe stability in Australian earnings.

Citi agrees with the move to simplify the portfolio and believes it will restore the reputation Coca-Cola had regarding execution a decade ago. The main issue for the broker is the fact that Indonesian consumers are not following the traditional path in lifting consumption as GDP grows. Moreover, the company is missing out in the water category there, as its share is less than 3%.

A new black tea product will be offered as well as more marketing of Sprite and Fanta. Citi suspects, with a more globally-aware population, Indonesians may have aspirations that match developed markets, not those of 20 years ago.

Deutsche Bank agrees Indonesia will remain tough for the foreseeable future, as there is no sign of volume stabilisation and the earnings base has become lower. Given the share price decline in the wake of the briefing, the broker believes the stock's multiple is de-rated to a level that is now more appropriate and upgrades to Hold.

Lion Dairy & Drinks

An acquisition of Lion Dairy & Drinks is still possible but Morgans notes there are numerous parties looking at the opportunity and there is no guarantee that Coca-Cola Amatil will be successful in obtaining parts of the business. CC Amatil has indicated it has no interest in being involved in commodity white milk. Citi agrees the probability of an acquisition is now lower and suspects the company will have difficulty accessing the brands it desires.

SPC

Following the strategic review, and given there is interest in the business, CC Amatil has now initiated a divestment process for SPC. The business has a book value of $100-150m, largely inventory. Morgans expects a sale to be achieved in the first half. SPC has been challenged because of changing consumer trends, import competition and a tough retail environment.

Moreover, SPC (largely canned fruit) does not fit strategically with a beverages company and there were few synergies between the two. The broker expects the removal of SPC will improve the underlying earnings base. That business was highly intensive in terms of working capital, representing around 15-20% of group working capital.

There are five Hold and three Sell ratings on FNArena's database. The consensus target is $8.66, signalling -0.8% downside to the last share price. The dividend yield on 2018 and 2019 forecasts is 5.1% and 5.2% respectively.

Metcash Strives For Elusive Growth Strategy

Metcash faces challenges while striving for a growth strategy after a focus on cost reductions, and brokers suspects FY20 will still be tough.

-Earnings buffer from Working Smarter and hardware synergies depleted -Unclear how prepared the business is for significant scale reductions in WA and SA -Softening of new construction and DIY activity expected to impact on hardware business

By Eva Brocklehurst

A competitive environment and weak conditions in Western Australia continue to exert pressure on food & grocery earnings for Metcash ((MTS)). The company's hardware business remains the bright spot, although brokers question for how long.

Food deflation is showing signs of improvement and the company has pointed out that fresh food inflation observed in the market is less apparent in its business, given a higher weighting to dry grocery items. The focus on fresh food is increasing, particularly on 'ready meals'. Conditions in South Australia have improved, and while WA is still declining the worst has passed. No specific earnings guidance for FY19 was provided.

Credit Suisse does not put much store in a temporary deceleration in the rate of sales decline as well as the imminent downturn in hardware. The broker, instead, looks at the extent to which cost reductions are to be balanced by the investment in growth, a decision on which appears to have been deferred until the March investor briefing.

In March, Metcash will outline a strategy to return to growth. In order to offset declining organic earnings, Citi suspects a $50-100m investment program will be announced and, if half of this is capitalised and the remainder taken through the P&L, it will probably drive -9-17% downgrades to consensus forecasts for FY20.

The broker suspects the launch of this program prior to the FY19 result in June will eliminate any prospect of a capital return for the near term and Metcash faces challenges. The earnings buffer provided by the previous "Working Smarter" program along with hardware synergies is depleted, adding to the pressure to deliver positive sales and earnings growth, and Citi retains a Sell rating.

Macquarie downgrades to Underperform from Neutral, considering earnings growth to be reasonable but limited in FY20 because of the loss of the Drakes contract. Cash conversion is expected slow further.

The company is still investing to defend against structural threats and the broker believes the market will discount the potential returns available on current expenditure, instead becoming more concerned that extra investment will be required.

Morgan Stanley agrees that a turnaround in hardware and benign supermarket competition are the key value drivers, yet considers the valuation cheap, preferring an Overweight rating. Wholesale food & grocery sales, ex tobacco, improved, declining -1.9% in the first half following a decline of -3.5% in the prior half. Still, the underlying performance was countered by cost investment, accounting changes and reclassification of credit card profit.

Morgan Stanley acknowledges the quality of earnings was not high but believes cash generation is solid and expects a move back to a net cash position by April 2020. Ord Minnett brushes aside the revelation that lease settlements and write-back of provisions have bolstered food & grocery earnings in recent times, instead focusing on the fact that deflation has eased and the east coast is in a growth phase.

It remains unclear to Credit Suisse whether the business is adequately prepared for a significant reduction in scale in Western and South Australia, as declining retailer profits create a "second-order" effect by reducing the number of retailers in the network. The broker upgrades to Neutral from Underperform, assuming cost reductions will partly mitigate the impact of declining sales revenue in outer years.

Hardware

Hardware was the highlight of the first half and the timing of synergies meant earnings beat Citi's estimates, but growth is expected to slow markedly in the second half. Hardware sales increased 3.3% in the first half and sales under the IHG banner were up 4.2%. Further softening in new construction and DIY activity is expected over the next year which will have an impact on the hardware business.

Macquarie notes the company is trying to take share in hardware, with a focus on the 'whole of house', but points out Bunnings ((WES)) has the same strategy. The company has acknowledged it will be a tough two years ahead, given the slowdown in residential markets.

Nevertheless, recent industry feedback suggests trade conditions remain elevated and, to Metcash's advantage, trade exposure is around 65% of hardware operating earnings (EBIT) which compares with Bunnings at around 20%.

Still, some of the circa 170 Thrifty Link stores are still underperforming. The company has indicated 20% of the network is responsible for only 2% of the volume, and Macquarie anticipates further closures in the future. In hardware, Morgan Stanley estimates underlying growth of 6.3%, although expects the benefit from the housing cycle and synergies will be reduced going forward.

Cost reductions are no longer sufficient to offset inflation, Deutsche Bank observes. While hardware has been robust, the broker expects sales to decline once the construction pipeline ends and this could occur at the same time food earnings are suffering the loss of the Drakes contract, making for a tough year ahead.

Liquor

The company has called out higher costs in liquor, because of fuel prices and the introduction of the container deposit scheme in the ACT and Queensland. Liquor volume growth is expected to remain at a modest level. Operating earnings were down -1% in the first half.

FNArena's database shows three Buy, one Hold (Credit Suisse) and three Sell ratings. The consensus target is $2.75, suggesting 11.4% upside to the last share price. This compares with $2.93 ahead of the results. The dividend yield on FY19 and FY20 forecasts is 5.9% and 5.7% respectively.

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

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

Ansell Embarks On Efficiency Drive

While Ansell is targeting savings by closing three manufacturing facilities, raw material costs remain the key risk for the earnings outlook.

-US decision to hold tariffs at skews me 10% de-risks FY19 guidance -Margins expected to recover in the second half -Is the market undervaluing the potential to re-gear?

By Eva Brocklehurst

Ansell ((ANN)) is rationalising manufacturing facilities as part of its transformation program but raw materials remain the key risk to earnings. The company has ascertained that three of its manufacturing facilities will not be able to meet minimum global performance benchmarks.

Two manufacturing facilities in Mexico and one in South Korea have been closed as Ansell embarks on an efficiency drive across its manufacturing base. This should yield more than US$20m in annual savings. Management will now invest significantly in facilities in Vietnam, Sri Lanka and Malaysia.

The company is observed to be on track to deliver its promised US$30m in P&L savings by FY20. UBS also points out the decision by the US government to hold tariffs at 10% during a 90-day renegotiation period with China de-risks the company's guidance for FY19 earnings.

European manufacturing activity is moderating, with the company noting weaker automotive production demand in Europe, the Middle East and Africa towards the end of the first quarter. In contrast, US activity remains robust. UBS now factors in around 4% organic growth through the industrial division.

Raw Materials

Butadiene (nitrile latex) prices have been easing since September, while natural latex prices were -23% lower in the first half and are down -17% in the second half to date, versus comparable periods. Butadiene prices remain elevated nonetheless, and were up 41% in the first half. In aggregate, latex inputs represent 36% of raw material expenditure, or 21% of the company's costs.

Raw material costs, if on a declining trend, as well as the hiatus in US import tariffs, are key factors that could mitigate any downside to guidance, Morgan Stanley assesses.

At the AGM in October the company stated that if higher raw material costs are sustained along with further increases in import tariffs, earnings per share could be in the lower end of the forecast range. EPS guidance for FY19 is US100-112c.

Raw material prices are not under the company's control and difficult to hedge. Ansell has implemented price increases for a number of products and expects margins to recover in the second half. Still, Citi suspects that, despite the company raising prices, there is an increased risk this will not be sufficient to offset the rising costs.

Re-gearing

Citi believes the market is undervaluing the potential to re-gear. The company is one of the few ASX 100 companies with an ungeared balance sheet, occurring subsequent to the sale of the company's sexual wellness business in 2017.

At the AGM, shareholders approved buyback program of up to 20% of shares outstanding. UBS believes the company's transformation programs and buyback will drive around 12% EPS growth. Ansell also intends to focus on acquisitions, noting at its results in August that opportunities were numerous. Citi continues to believe acquisitions are probable over the next 24 months.

The company has previously indicated acquisitions in the US$50-100m range in glove and personal protective equipment are more likely than one large transaction. Citi calculates capacity exists to make transactions worth US$1-14bn. Citi explicitly incorporates acquisitions worth around US$600m into forecasts.

Credit Suisse considers the risks balanced, with the share price supported by the buyback, a net cash position and potential for M&A. FNArena's database has two Buy ratings and six Hold. The consensus target is $26.13, signalling 15.9% upside to the last share price.

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

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

ResMed Propels Forward

ResMed will acquire Propeller Health, which provides connected care for patients with COPD and asthma. Brokers believe the acquisition puts ResMed at the forefront of this market.

-Provides a data platform previously missing from ResMed's portfolio -Higher growth expected from an increase in market penetration -Product suite promotes improved adherence to medication and reduced hospitalisation

By Eva Brocklehurst

Expanding services to the patient at an earlier stage in the hook-up will enable ResMed ((RMD)) to grow its share of the respiratory health market and strengthen relationships with pharmaceutical companies.

This is Deutsche Bank's view of the company's acquisition of Propeller Health for US$225m, funded by debt, which will operate separately under existing management. Propeller Health is a US-based digital therapeutics business providing connected care for patients with chronic obstructive pulmonary disease (COPD) and asthma.

Brokers assess ResMed will now have a superior position in COPD management. The digital solution compliments ResMed's portable oxygen and non-invasive ventilation hardware. While approved by the US FDA, Propeller Health is yet to commercialise its product and significantly penetrate the market. The acquisition is expected to be dilutive to FY19 earnings by around -US1-2c, with opportunities to be accretive post commercialisation.

The move makes strategic sense to Credit Suisse, who notes the acquisition provides a data platform which was previously missing from ResMed's portfolio. It also broadens the customer base, targeting patients with mild COPD and connecting with them before the disease progresses to a more severe form.

Few financial details regarding the transaction were provided but UBS models immaterial costs and an effective break-even position in operating earnings.

Market Share

This is the fourth large acquisition of a software business by ResMed, Citi notes. The company spent US$1.9bn to acquire the four, which include Brightree in 2016, HealthcareFirst in May 2018 and MatrixCare in November 2018. Credit Suisse believes ResMed could fund a further US$1bn in acquisitions with debt and still maintain its net debt/operating earnings (EBITDA) ratio below 2.0x in FY20.

Nevertheless, the broker is more of the view that the company will focus on embedding and integrating recent acquisitions. Credit Suisse factors in higher growth in the outer years on an increase in market penetration from data solutions, along with recent FX movements.

Given current market dynamics, Citi now believes it possible ResMed will grow faster than the market, for longer. Factoring in the launch of F30 Airfit, and the delay to new Fisher & Paykel Healthcare ((FPH)) masks, the company is envisaged taking market share over the remainder of FY19.

Product

Propeller Health's digital solution compliments ResMed's portable oxygen and non-invasive ventilation hardware. Asthma and COPD are highly prevalent, leading in some instances to acute hospitalisation and additional health care costs. Inhalers are important therapeutic devices, and patient training has been shown to directly relate to the efficacy of the device.

The product suite promotes improved adherence to medication and reduced hospitalisation. Propeller Health's technology consists of small sensors attached to inhalers which pair with a mobile app to track medication usage and provide personal data.

FNArena's database shows four Buy ratings, three Hold and one Sell (Macquarie, yet to comment on the transaction). The consensus target is $15.61, signalling 2.7% upside to the last share price. Targets range from $13.50 (Macquarie) to $16.80 (Morgan Stanley).

See also, ResMed Expands Presence In Home Health on November 7, 2018.

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

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

CSL Expands Therapy Pipeline

Revenue growth in core plasma products is still expected as CSL embarks on new classes of therapy in its R&D pipeline.

-Strong demand continues for Ig, Seqirus efficacy highlighted -Insufficient evidence anti-FcRn will threaten Ig franchise -Strong potential envisaged for CSL112

By Eva Brocklehurst

CSL ((CSL)) faces a slower period of product launches but earnings growth is still widely envisaged from established products, while cardiovascular/metabolic and respiratory diseases have emerged as distinct classes to be targeted in the R&D strategy.

While aware that larger opportunities are several years from commercialisation, UBS believes revenue growth should still be supported by core plasma products and the ongoing penetration of Haegarda, Idelvion and Kcentra.

The company, at its R&D briefing, has flagged strong demand for immunoglobulin (Ig), used to help patients suffering from primary and secondary immunodeficiency disorders and to combat viral and bacterial infections.

The efficacy of the company's flu vaccine, Seqirus, was highlighted, consistent with expectations. Seqirus has received US FDA approval for its next generation cell-based manufacturing process which should enable a doubling of Flucelvax production for 2019/20.

Credit Suisse observes the stock is trading below its two-year average despite double-digit earnings growth and favourable industry conditions. While there is unlikely to be a new product launch in the next 2-3 years, the company will benefit from added indications to its current portfolio, as well approval for products in multiple geographies.

R&D expenditure is now around US$900m for FY19, Citi notes, with the company continuing to forecast expenditure of around 10% of revenue on R&D annually. The broker warns there is a constant need to balance risk and reward, as not every project will succeed and projects will be stopped if they cannot be commercial.

Still, Citi has full confidence in CSL's ability in allocating shareholder funds to R&D expenditure. Life-cycle management is around one third of total expenditure while true R&D encompasses the remainder. Of the total, around $150m, or more than 15%, is currently allocated to Seqirus.

Anti-FcRn Drugs

The company's peers are currently pursuing clinical trials for a recombinant anti-FcRn protein which has potential to place a portion of Ig therapy. However, CSL points out there are long-term safety implications for this therapy.

Credit Suisse suggests it could take significant time for those trials to show clinical benefits above Ig therapy and there is insufficient evidence to conclude anti-FcRn is a viable threat to the company's franchise.

CSL management believes development of these drugs will have a place and could treat simple autoimmune diseases such as immune thrombocytopenia (ITP) and myasthenia gravis (MG) but it is unclear whether it can treat more complex diseases such as chronic inflammatory demyelinating polyneuropathy (CIDP).

Immunoglobulin is also considered to have a faster effect on ITP. CSL is currently developing a recumbent Fc multimer which may help replace Ig volumes lost to anti-FcRn drugs.

Pipeline

In 2019, CSL will explore expanded indications for several established drugs such as Hizentra, Idelvion, Zemaira and CSL842. Macquarie envisages a positive contribution from these products, which will support near-term growth.

CSL112 for cardiovascular disease will enter a phase 3 study and has the potential to be a "blockbuster" in Citi's opinion. The broker also considers the opportunity in transplants could be significant.

Morgan Stanley agrees that entry to the transplant market would leverage the company's core expertise in repurposing existing products. CSL has two items targeted for 2020-23, Berinert for acute rejection and clazakizumab for chronic rejection.

Ord Minnett notes CSL did not put a dollar figure on the opportunity in transplants although deems it to be significant. The broker estimates the market opportunity at more than US$1bn.

Patients who develop delayed graft function have a 40% increase risk of graft loss and CSL is trialling a drug, Alpha 1 antitrypsin (CSL964, currently in phase 3), for this indication.

A number of early stage opportunities have also been flagged such as a phase 2 study for the treatment of HAE, a phase 1 study for contact activated thrombosis and a phase 1b study for treatment of neutrophilic dermatoses.

The company is not progressing CSL626, ceased because of a high level of competition, while pd-FVIII for Haem A has been paused to allow for an assessment of trial data.

FNArena's database shows five Buy ratings and three Hold. The consensus target is $213.33, suggesting 19.5% upside to the last share price. Targets range from $189 (Morgan Stanley) to $230 (Macquarie, Credit Suisse).

ESG Focus: ETFs Outperform in October

As world stock markets headed for correction in October, ESG-based exchange traded funds notably outperformed.

By Greg Peel

The month of October saw the US stock market (S&P500) fall -6.8%. Given Wall Street had previously rallied to new highs, at end-October the S&P was still up 3.1% year to date.

Markets elsewhere have not fared as well. Europe fell -7.8% to be down -9.6% for the year, and emerging markets fell -7.6% to be down -15.1%.

The ASX200 fell -6.1% to be down -4.8%.

According to London-based research house EFTGI, total assets in Environmental, Social & Governance (ESG) based exchange traded funds (ETF) globally fell -2.9% in October. Despite the falling market, global ESG ETFs saw US$1.1bn of inflows during the month.

Year to date (to end October), the value of all ETFs listed globally rose by 2.5%. The value of ESG ETFs rose 25.9% in the same period.

The first ESG-based ETF was listed in 2002 in the US. At end-October there were 200 ESG-ETFs listed globally covering a diversity of assets – not just shares – and 62 of those were launched this year. October alone saw 11 new listings.

At end-October the net value of ESG ETFs was US$21.9bn.

Technical limitations

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

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

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 November 26 to Friday November 30, 2018 Total Upgrades: 20 Total Downgrades: 11 Net Ratings Breakdown: Buy 46.29%; Hold 40.15%; Sell 13.56%

Stockbroking analysts continue to issue recommendation upgrades for individual ASX-listed stocks, and in large numbers. For the week ending Friday, 28th November 2018, FNArena registered no less than 20 upgrades for 20 separate companies; only three upgrades stranded at Neutral/Hold.

At the same time, FNArena also counted ten downgrades, for ten listed companies, of which six moved to Sell. Despite the broader market clocking off on three negative months in succession, it is not a one way street for investors. At least not if we can take guidance from analysts' moves.

Equally remarkable is the fact the trend remains negative for valuations and price targets. Historically, the share market usually shows a lack of positive momentum when valuations and forecasts are under pressure, as is currently the case (more on forecasts further below).

For the week, Qantas and Mineral Resources are the only ones worth mentioning regarding upside amendments to broker price targets, while there is plenty to pay attention to on the negative side with Automotive Holdings leading the pack, in a negative sense, followed by CYBG, BlueScope Steel, Janus Henderson, Unibail-Rodamco-Westfield, and others.

The picture looks a bit rosier when we overlook tables for revisions to earnings estimates. Despite a rough treatment in the share market, Aristocrat Leisure enjoyed the largest positive adjustment to forecasts for the week, followed by Suncorp, Brickworks, Qantas, and others.

Not so lucky, and leading a large contingent of negative revisions, was Unibail-Rodamco-Westfield, followed by Mayne Pharma, Automotive Holdings, Nine Entertainment, CYBG, others.

The calendar, previously populated with AGMs, EGMs, Investor Days and out-of-season financial results, is now looking decidedly more empty, which might translate into lesser action from stockbroking analysts too. Traders and investors alike will be keeping their fingers crossed this increases the odds for a broad based share market rally leading into end-of-year holiday season.

It has been a tough environment since late August in Australia.

Upgrade

ALS LIMITED ((ALQ)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 3/3/1

The first half net profit exceeded Ord Minnett's forecasts, particularly on the commodity side. The broker upgrades estimates by 8% for FY19 and by 5% for FY20.

While the share price has come under pressure because of a lack of margin expansion in life sciences and a forecast slowdown in sales growth, the broker notes the second half will cycle a weak comparable period.

Moreover, 30%-plus growth rates off a low base were always going to be unsustainable. Ord Minnett raises the target to $8.29 from $8.19. Rating is upgraded to Accumulate from Hold.

APPEN LIMITED ((APX)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/0/0

Tech sector valuations have been de-rated markedly across the globe, UBS notes, led by a correction for the Nasdaq. Yet Appen has upgraded FY18 guidance, leading the broker to upgrade its FY19 earnings forecast by 15%. The stock is now trading in line with its average PE but positive industry feedback and tailwinds support a positive view.

Appen appears to be strengthening its market position hence UBS upgrades to Buy from Neutral. Target rises to $16.00 from $15.65.

ACCENT GROUP LIMITED ((AX1)) Upgrade to Add from Hold by Morgans .B/H/S: 2/0/0

The company has indicated like-for-like sales in the first 20 weeks of FY19 are up 2.5%. This is broadly in line with Morgans' estimates.

The broker had anticipated sales would slowdown after the FY18 result because of a reduction in clearance activity and the cycling of a strong result within Hype.

Online sales growth has been exceptionally strong as a result of the investment in this channel in recent years.

While December is an important month, the broker envisages upside risk to guidance, predominantly because of the material expansion of gross margin experience to date.

Rating is upgraded to Add from Hold. Target is reduced to $1.46 from $1.47.

BAPCOR LIMITED ((BAP)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/1/0

UBS observes commentary from retailers is becoming more cautious. Christmas is expected to be challenging, creating risks to forecasts.

Yet this appears priced into Bapcor. UBS has upgraded to Buy from Neutral and reduced the target to $7.05 from $7.10.

BLUESCOPE STEEL LIMITED ((BSL)) Upgrade to Neutral from Sell by Citi .B/H/S: 5/2/0

The company has reaffirmed first half guidance amid upbeat comments on demand conditions. The company acknowledges steel prices and spreads have moderated, which Citi believes implies a weaker second half.

Still, the stock has now priced in much of the expected moderation. Citi expects steel markets will stabilise and a further share buyback will be announced as well as approval for the North Star expansion.

Rating is upgraded to Neutral from Sell and the target is reduced to $14 from $15.

LINK ADMINISTRATION HOLDINGS LIMITED ((LNK)) Upgrade to Outperform from Neutral by Credit Suisse .B/H/S: 5/1/0

The company has had an eventful 18 months, with several large acquisitions, equity raising and regulatory changes. Credit Suisse estimates that M&A is the largest driver of growth and PEXA the most significant contributor.

Organic growth is also expected to contribute over coming years, driven by inflation-linked pricing and growth in industry fund members. The broker's analysis centres on FY22 earnings but the growth trajectory is unlikely to be even.

The pull back in the share price has increased the value appeal and the broker upgrades to Outperform from Neutral. Target is unchanged at $8.30.

NINE ENTERTAINMENT CO. HOLDINGS LIMITED ((NEC)) Upgrade to Neutral from Sell by Citi .B/H/S: 2/2/0

Following the acquisition of Fairfax, Citi updates forecasts and now expects pro forma operating earnings (EBITDA) of $487m in FY19. Domain ((DHG)) as well as merger synergies are expected to drive growth in the longer term.

In the short term the broker envisages downside risk to earnings as advertising revenue is already slowing down. The broker upgrades to Neutral from Sell and reduces the target to $1.85 from $2.10.

ORORA LIMITED ((ORA)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/5/0

UBS believes the value driver in the near term is execution on the North American growth strategy. The broker envisages little scope for strategic M&A in the core Australasian segment, given its low growth outlook.

In contrast, the highly fragmented North American packaging distribution industry provides an opportunity. UBS upgrades to Buy from Neutral. Target is raised to $3.90 from $3.74.

Orora has announced the acquisition of Pollock Packaging, which has distribution centres in Texas, California, New Jersey and Georgia. The broker notes this is Orora's largest M&A transaction and follows the recent US$24m acquisition of Bronco Packaging.

ORIGIN ENERGY LIMITED ((ORG)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 5/2/0

Ord Minnett believes the recent pull back in benchmark oil prices and the slump in energy-exposed stocks has made the Australian energy sector significantly more attractive.

The broker was previously concerned about full valuations but all oil stocks under coverage are now trading below net present value.

Ord Minnett upgrades to Buy from Accumulate and reduces the target to $8.85 from $9.25.

OIL SEARCH LIMITED ((OSH)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/3/0

Ord Minnett believes the recent pull back in benchmark oil prices and the slump in energy-exposed stocks has made the Australian energy sector significantly more attractive.

The broker was previously concerned about full valuations but all oil stocks under coverage are now trading below net present value.

The company is expected to increase gearing to pay for the PNG LNG expansion but the broker does not envisage any need for an equity raising.

Ord Minnett upgrades to Buy from Hold and reduces the target to $8.65 from $9.10.

PREMIER INVESTMENTS LIMITED ((PMV)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/3/1

UBS observes commentary from retailers is becoming more cautious. Christmas is expected to be challenging, creating risks to forecasts.

Yet this appears priced into Premier Investments. UBS has upgraded to Buy from Neutral. Target is reduced to $19.80 from $20.20.

QANTAS AIRWAYS LIMITED ((QAN)) Upgrade to Buy from Hold by Deutsche Bank .B/H/S: 4/1/1

Deutsche Bank rolls forward fuel costs and its hedging model to incorporate an increased level of hedging and a lower average Brent oil price for FY19 and FY20.

In addition, the broker notes Qantas continues to benefit from strong demand as well as higher domestic ticket prices.

The broker upgrades earnings estimates and raises the target to $6.90 from $6.15. Rating is upgraded to Buy from Hold.

SOMNOMED LIMITED ((SOM)) Upgrade to Add from Hold by Morgans .B/H/S: 1/0/0

Morgans was pleasantly surprised at the AGM as the company has announced the full closure of all RSS centres from January 1, 2019. The broker believes this move, after the company called a halt to the roll-out and closed underperforming centres, shows the increasing level of difficulty in navigating this channel.

The securing of a large working capital facility is also a positive as it removes a query over any capital raising. This will also allow the company to focus on the profitable core business. Guidance for breaking even in underlying operating earnings (EBITDA) has been reconfirmed.

Morgans upgrades to Add from Hold and reduces the target to $2.15 from $2.23.

SANTOS LIMITED ((STO)) Upgrade to Buy from Hold by Ord Minnett .B/H/S: 3/2/1

Ord Minnett believes the recent pull back in benchmark oil prices and the slump in energy-exposed stocks has made the Australian energy sector significantly more attractive.

The broker was previously concerned about full valuations but all oil stocks under coverage are now trading below net present value.

The broker believes the stock offers growth, with production expected to increase more than 75% over the next six years. Ord Minnett upgrades Santos to Buy from Hold, while reducing the target to $7.10 from $7.35.

SUPER RETAIL GROUP LIMITED ((SUL)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/4/0

UBS observes commentary from retailers is becoming more cautious. Christmas is expected to be challenging, creating risks to forecasts.

Yet this appears priced into Super Retail. UBS has upgraded to Buy from Neutral. Target is reduced to $8.65 from $9.30.

SENEX ENERGY LIMITED ((SXY)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/1/0

Ord Minnett believes the recent pull back in benchmark oil prices and the slump in energy-exposed stocks has made the Australian energy sector significantly more attractive.

The broker was previously concerned about full valuations but all oil stocks under coverage are now trading below net present value.

Ord Minnett upgrades to Accumulate from Hold and reduces the target to $0.42 from $0.43.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Upgrade to Neutral from Underperform by Credit Suisse .B/H/S: 4/3/1

Credit Suisse has changed its view somewhat regarding the potential for change after the Productivity Commission review. While there is a higher probability of changes to airport regulation versus past reviews the probability of significant change is considered low.

This time around there are no specific behaviours, such as poor customer relations at Sydney Airport, in question and therefore the broker deduces the risk of changes is lower than in the 2012 inquiry.

Rating is upgraded to Neutral from Underperform. Target is steady at $6.80. The broker also believes lower oil prices are favourable for international capacity additions to and from Sydney Airport particularly in 2019-20.

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

Morgans removes Coles ((COL)) from earnings forecasts, resulting in FY19 operating earnings falling by -31%. The broker suggests that, with a number of divestments over the last 12 months, Bunnings will now be a more important driver of earnings.

Regardless of the slowdown in residential building activity the broker expects renovations and replacements will remain resilient, given many of the products sold by Bunnings focus on maintenance.

The broker envisages a greater focus on the company's other businesses as a positive for longer-term growth. Rating is upgraded to Add from Hold. Target is reduced to $33.64 from $48.40.

See also WES downgrade.

WOOLWORTHS LIMITED ((WOW)) Upgrade to Buy from Neutral by UBS .B/H/S: 2/4/2

UBS does not believe the market is correctly pricing in expected capital management and an improving competitive backdrop for Woolworths. The broker expects an off-market buyback next year, notes deflation is easing and discounting is becoming more rational in the supermarkets, and that capex spent on "catch up" with its rival should begin to yield returns.

While a 20x multiple is the historical average, UBS' FY19-20 forecasts are some 6% above consensus. Target rises to $31.25 from $28.20, upgrade to Buy.

WOODSIDE PETROLEUM LIMITED ((WPL)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 4/2/1

Ord Minnett believes the recent pull back in benchmark oil prices and the slump in energy-exposed stocks has made the Australian energy sector significantly more attractive.

The broker was previously concerned about full valuations but all oil stocks under coverage are now trading below net present value.

Ord Minnett upgrades to Accumulate from Hold and reduces the target to $35.50 from $37.00.

Downgrade

AINSWORTH GAME TECHNOLOGY LIMITED ((AGI)) Downgrade to Underperform from Neutral by Macquarie .B/H/S: 0/0/2

Ainsworth's initial FY19 profit guidance of $22m compares to Macquarie's prior forecast $33m and consensus $38m. With Ainsworth more than 70% leveraged to outright sales, new game performance is critical in driving revenues, the broker notes. Australia continues to lose market share in early FY19 and the broker suspects improvement in North America is being driven by increased overall volumes rather than increased share.

The company plans to beef up its R&D spend which Macquarie sees as a positive, but any benefits will not be near-term. Downgrade to Underperform from Neutral. Target falls to 75c from $1.10.

AUTOMOTIVE HOLDINGS GROUP LIMITED ((AHG)) Downgrade to Hold from Accumulate by Ord Minnett .B/H/S: 0/5/2

Management has indicated trading has been below expectations because of a weak private buyer market, particularly in NSW and Victoria. In FY19 the company is also experiencing structural changes in finance & insurance regulation as well as lower car sales.

The company is guiding to a fall in operating net profit of around -23% for FY19. Ord Minnett calculates this implies a recovery in profitability for the remainder of the year. In the automotive division operating earnings (EBITDA) fell -16.1% for the four months to October.

Ord Minnett downgrades to Hold from Accumulate and reduces the target to $1.90 from $3.00.

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

UBS observes commentary from retailers is becoming more cautious. Christmas is expected to be challenging, creating risks to forecasts.

UBS has downgraded to Sell from Neutral. Target is reduced to $11.20 from $13.70.

COCA-COLA AMATIL LIMITED ((CCL)) Downgrade to Sell from Neutral by Citi .B/H/S: 0/3/4

Citi expects earnings growth to remain below the 5% target over FY19 and FY20, given the prospects in the Indonesian market. Australian volume growth is also likely to slow while the potential acquisition of Lion Dairy & Drink is by no means certain.

The broker makes no changes to estimates but downgrades to Sell from Neutral, as the stock is trading at a 20% premium despite Indonesia offering limited growth. Target is reduced to $8.90 from $9.50.

CSR LIMITED ((CSR)) Downgrade to Underweight from Equal-weight by Morgan Stanley .B/H/S: 2/3/1

Morgan Stanley observes the sale of Viridian Glass ends a difficult chapter for CSR. Cash flow may facilitate future capital management although concerns around Australian housing and aluminium makes the broker cautious.

CSR has sold its Viridian business for $155m and a future sale of the property is estimated to deliver $60m. While the sale removes one issue, the broker suggests other pressures are now mounting.

Rating is downgraded to Underweight from Equal-weight. Target is reduced to $3.00 from $3.75. Industry view: Cautious.

HRL HOLDINGS LTD ((HRL)) Downgrade to Hold from Add by Morgans .B/H/S: 0/1/0

The impact of lost methamphetamine testing revenue is materially greater than Morgans expected. New revenue is lower margin and the geotechnical business remains challenged.

The broker was very disappointed with the company's update. HRL has quantified the expected earnings impact from the reduction in methamphetamine testing volumes, with revenue expected to decline by around -$2.7m.

The broker suspects the market may question the timeliness in quantifying the extent of the earnings impact and plans to revisit M&A are likely to be put on hold in the short term.

The strength of the Analytical business should provide some near-term valuation support. Rating is downgraded to Hold from Add. Target is reduced to $0.12 from $0.22.

JANUS HENDERSON GROUP PLC. ((JHG)) Downgrade to Equal-weight from Overweight by Morgan Stanley .B/H/S: 2/2/1

Morgan Stanley downgrades to Equal-weight from Overweight, expecting flows will get worse before they get better. Factors supporting this view include increased volatility in markets, a sustained soft performance and concerns about INTECH.

Morgan Stanley expects INTECH to return to outflows despite the tailwinds for quant strategies. The former Henderson retail funds have also experienced a sustained period of challenges versus the benchmark.

Meanwhile, positive catalysts are longer-dated. Target is reduced to $35 and $50. Industry view is In-Line.

MILLENNIUM SERVICES GROUP LIMITED ((MIL)) Downgrade to Hold from Buy by Ord Minnett .B/H/S: 0/1/0

The company provided a very weak outlook at its AGM update. Operating earnings are anticipated, if current trends persist, to be near breakeven levels versus prior guidance for $15.5-17.5m.

Ord Minnett interprets this as suggesting gross margins are now in the range of 9-10% versus historical rates of over 17%. The new board has committed to restoring profitability but there is little visibility to date on when margins and cash flow will stabilise.

Ord Minnett downgrades to Hold from Buy and reduces the target to $0.23 from $1.16.

MYER HOLDINGS LIMITED ((MYR)) Downgrade to Sell from Neutral by UBS .B/H/S: 0/1/4

UBS observes commentary from retailers is becoming more cautious. Christmas is expected to be challenging, creating risks to forecasts.

UBS has downgraded Myer to Sell from Neutral. Target is reduced to $0.38 from $0.41.

SARACEN MINERAL HOLDINGS LIMITED ((SAR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 0/1/1

Saracen has provided a strong exploration update featuring positive drilling results in all areas, Macquarie notes. The broker anticipates mine life extension at Deep South and expects Thunderbox to accelerate now underground drilling is underway.

An improved earnings outlook sees Macquarie's target rise to $2.60 from $2.50 but current valuation leads to a pullback to Neutral from Outperform.

WESFARMERS LIMITED ((WES)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 3/1/3

Following a review of its investment thesis post the de-merger of Coles ((COL)), Ord Minnett has a cautious outlook on Wesfarmers and questions capital allocation and the lack of valuation support.

The broker finds the appropriate PE multiple difficult to determine but believes a de-rating is likely, given the removal of a more defensive earnings stream and portfolio diversity.

Bunnings appears to be trading at a higher multiple versus other housing-related companies and other divisions appear to be more discount multiple businesses.

The broker downgrades to Lighten from Hold and reduces the target to $29 from $47.

See also WES upgrade.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company New Rating Old Rating Broker Upgrade 1 ACCENT GROUP LIMITED Buy Neutral Morgans 2 ALS LIMITED Buy Neutral Ord Minnett 3 APPEN LIMITED Buy Neutral UBS 4 BAPCOR LIMITED Buy Neutral UBS 5 BLUESCOPE STEEL LIMITED Neutral Sell Citi 6 LINK ADMINISTRATION HOLDINGS LIMITED Buy Neutral Credit Suisse 7 NINE ENTERTAINMENT CO. HOLDINGS LIMITED Neutral Sell Citi 8 OIL SEARCH LIMITED Buy Neutral Ord Minnett 9 ORIGIN ENERGY LIMITED Buy Buy Ord Minnett 10 ORORA LIMITED Buy Neutral UBS 11 PREMIER INVESTMENTS LIMITED Buy Neutral UBS 12 QANTAS AIRWAYS LIMITED Buy Neutral Deutsche Bank 13 SANTOS LIMITED Buy Neutral Ord Minnett 14 SENEX ENERGY LIMITED Buy Neutral Ord Minnett 15 SOMNOMED LIMITED Buy Neutral Morgans 16 SUPER RETAIL GROUP LIMITED Buy Neutral UBS 17 SYDNEY AIRPORT HOLDINGS LIMITED Neutral Sell Credit Suisse 18 WESFARMERS LIMITED Buy Neutral Morgans 19 WOODSIDE PETROLEUM LIMITED Buy Neutral Ord Minnett 20 WOOLWORTHS LIMITED Buy Neutral UBS Downgrade 21 AINSWORTH GAME TECHNOLOGY LIMITED Sell Neutral Macquarie 22 AUTOMOTIVE HOLDINGS GROUP LIMITED Neutral Buy Ord Minnett 23 BREVILLE GROUP LIMITED Sell Neutral UBS 24 COCA-COLA AMATIL LIMITED Sell Neutral Citi 25 CSR LIMITED Sell Neutral Morgan Stanley 26 HRL HOLDINGS LTD Neutral Buy Morgans 27 JANUS HENDERSON GROUP PLC. Neutral Buy Morgan Stanley 28 MILLENNIUM SERVICES GROUP LIMITED Neutral Buy Ord Minnett 29 MYER HOLDINGS LIMITED Sell Neutral UBS 30 SARACEN MINERAL HOLDINGS LIMITED Neutral Buy Macquarie 31 WESFARMERS LIMITED Sell Neutral Ord Minnett Recommendation Positive Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 MIN MINERAL RESOURCES LIMITED 83.0% 50.0% 33.0% 3 2 ARB ARB CORPORATION LIMITED 38.0% 13.0% 25.0% 4 3 CGC COSTA GROUP HOLDINGS LIMITED 50.0% 25.0% 25.0% 4 4 BAP BAPCOR LIMITED 75.0% 50.0% 25.0% 4 5 NEC NINE ENTERTAINMENT CO. HOLDINGS LIMITED 50.0% 25.0% 25.0% 4 6 OSH OIL SEARCH LIMITED 50.0% 33.0% 17.0% 6 7 URW UNIBAIL-RODAMCO-WESTFIELD 50.0% 33.0% 17.0% 4 8 QAN QANTAS AIRWAYS LIMITED 50.0% 33.0% 17.0% 6 9 LNK LINK ADMINISTRATION HOLDINGS LIMITED 64.0% 50.0% 14.0% 7 10 BSL BLUESCOPE STEEL LIMITED 64.0% 50.0% 14.0% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Rating Previous Rating Change Recs 1 JHG JANUS HENDERSON GROUP PLC. 20.0% 40.0% -20.0% 5 2 MYR MYER HOLDINGS LIMITED -75.0% -58.0% -17.0% 6 3 CSR CSR LIMITED 17.0% 33.0% -16.0% 6 4 CCL COCA-COLA AMATIL LIMITED -56.0% -44.0% -12.0% 8 5 APA APA GROUP 50.0% 60.0% -10.0% 6 6 CYB CYBG PLC 67.0% 75.0% -8.0% 3 7 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED -29.0% -21.0% -8.0% 7 Target Price Positive Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 QAN QANTAS AIRWAYS LIMITED 6.608 6.258 5.59% 6 2 MIN MINERAL RESOURCES LIMITED 19.667 18.833 4.43% 3 3 ORA ORORA LIMITED 3.625 3.596 0.81% 8 4 ALQ ALS LIMITED 8.160 8.124 0.44% 7 Negative Change Covered by > 2 Brokers Order Symbol Company New Target Previous Target Change Recs 1 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 1.811 2.229 -18.75% 7 2 CYB CYBG PLC 4.695 5.597 -16.12% 3 3 BSL BLUESCOPE STEEL LIMITED 17.893 19.650 -8.94% 7 4 JHG JANUS HENDERSON GROUP PLC. 38.463 42.213 -8.88% 5 5 URW UNIBAIL-RODAMCO-WESTFIELD 15.645 16.290 -3.96% 4 6 ARB ARB CORPORATION LIMITED 19.120 19.813 -3.50% 4 7 NEC NINE ENTERTAINMENT CO. HOLDINGS LIMITED 2.088 2.150 -2.88% 4 8 CSR CSR LIMITED 3.667 3.742 -2.00% 6 9 CGC COSTA GROUP HOLDINGS LIMITED 7.503 7.653 -1.96% 4 10 APA APA GROUP 10.138 10.330 -1.86% 6 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 ALL ARISTOCRAT LEISURE LIMITED 132.500 115.450 14.77% 7 2 SUN SUNCORP GROUP LIMITED 85.683 75.017 14.22% 8 3 BKW BRICKWORKS LIMITED 153.467 135.533 13.23% 4 4 QAN QANTAS AIRWAYS LIMITED 62.570 58.902 6.23% 6 5 NWH NRW HOLDINGS LIMITED 15.600 14.800 5.41% 3 6 LLC LENDLEASE GROUP 84.760 80.760 4.95% 6 7 OML OOH!MEDIA LIMITED 22.150 21.725 1.96% 4 8 ORA ORORA LIMITED 18.783 18.611 0.92% 8 9 ARB ARB CORPORATION LIMITED 75.055 74.373 0.92% 4 10 FPH FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED 33.812 33.551 0.78% 5 Negative Change Covered by > 2 Brokers Order Symbol Company New EF Previous EF Change Recs 1 URW UNIBAIL-RODAMCO-WESTFIELD 80.870 101.090 -20.00% 4 2 MYX MAYNE PHARMA GROUP LIMITED 3.943 4.593 -14.15% 3 3 AHG AUTOMOTIVE HOLDINGS GROUP LIMITED 16.992 19.092 -11.00% 7 4 NEC NINE ENTERTAINMENT CO. HOLDINGS LIMITED 18.146 20.286 -10.55% 4 5 CYB CYBG PLC 49.236 52.651 -6.49% 3 6 BSL BLUESCOPE STEEL LIMITED 206.583 215.400 -4.09% 7 7 CL1 CLASS LIMITED 6.967 7.200 -3.24% 3 8 CKF COLLINS FOODS LIMITED 38.950 39.950 -2.50% 3 9 IVC INVOCARE LIMITED 48.800 49.967 -2.34% 7 10 BAP BAPCOR LIMITED 34.775 35.440 -1.88% 4 Technical limitations

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

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

Uranium Week: Volumes Surge

Uranium spot market volumes in 2018 are almost 40% above record 2015 volumes with another month to run.

-2018 volumes surge -Unfamiliar players in the market -Spot price continues to rise

By Greg Peel

By the end of November, over 62mlbs U3O8 equivalent had changed hands in the uranium spot market. That's almost 40% above the record annual volume set in 2015, industry consultant TradeTech notes, and there's still December to come.

March of 2015 saw the spot price peak out around US$39/lb before falling slowly to US$34/lb by year-end. Selling began to accelerate in 2016 to a low under US$18/lb in December that year. An attempt to rally in 2017 failed and by March 2018, the spot price was back at US$20/lb once more.

The price has done nothing but move up ever since.

Over the period, uranium producers responded by cutting production, mothballing mines or shutting down altogether. Those with delivery contract obligations began buying uranium in the spot market rather than producing it at a higher cost. The more production was shut down, the more producers appeared as buyers in the market.

This year has also seen the rise of the new uranium speculator, via listed investment funds which have bought and stored product on the assumption the price will rise in future.

Back in 2015 actual consumers of uranium were well stocked and saw little need to rush into purchases despite historically low prices on offer. By 2018, as prices continued to rise, utilities started to become a little more anxious.

The end result is a current spot price that is 33% above the 2017 average price of US$21.94/lb.

Nearly 1mlbs U3O8 equivalent changed hands in the spot market last week, 500,000lbs of which was traded on the last day of the month. The spot price shot up early in the week but this brought in the sellers, such that TradeTech's weekly spot price indicator closed the week up US10c at US$29.10/lb, and up US$1.10 from end-October.

Uranium term markets saw three transactions completed in November totalling 4mlbs. TradeTech's term market indicators remain unchanged at US$30.00/lb (mid) and US$31.00/lb (long).

Macron Slows Down

French president Emmanuel Macron has been forced to rethink the country's nuclear energy policy. A prior policy set in the wake of Fukushima committed France to a reduction of nuclear power as a percentage of total electricity generation to 50% by 2025. Last week Macron confirmed the timing for that target will be extended to 2035.

Macron nevertheless outlined plans for the closure of 14 reactors in the 2020-35 period, beginning with Fessenheim units 1 and 2, France's oldest reactors.

Meanwhile, Poland has become the latest emerging market to jump on the nuclear bandwagon. The country's energy ministry last week announced plans for Poland's first reactor to be completed by 2033, pending government approval.

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. Percentages 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 November 29, 2018

Last week the ASX200 posted another, ultimately failed, comeback.

Last week I noted Monadelphous ((MND)) shorts had jumped to 11.1% from 6.9% and Blackmores' ((BKL)) had jumped to 9.6% from 6.5% but I was not prepared to trust these moves unless they were confirmed this week, given ASIC data has been untrustworthy of late.

Monadelphous shorts have fallen back to 6.7% and Blackmores to 6.8%.

So it is with trepidation I note last week saw Domino’s Pizza ((DMP)) shorts fall to 9.5% from 11.0% and G8 Education ((GEM)) shorts fell to 7.6% from 9.2%.

It was earlier in November when Domino’s share price plunged on a weak trading update. The stock has only drifted lower since, so this can be justified as short covering for profit.

By contrast, G8 has had a strong November against the market tide and the stock has risen 45% from its lows on signs of child care occupancy improvement. So this can be justified as short covering for loss.

We’ll have to see.

Otherwise we might note milk was off last week, with all of Bellamy’s ((BAL)), a2 Milk ((A2M)) and Bega Cheese ((BGA)) moving up a notch on the table. Funnily enough, all three share prices shot up on a Chinese e-commerce regulation update, but that was this week, not last.

No Movers & Shakers this week.

Weekly short positions as a percentage of market cap:

10%+

JBH 19.3 GXY 16.3 SYR 16.2 ORE 14.0 BWX 13.7 ING 13.1 MTS 12.7 MYR 11.5 IVC 11.8 NXT 11.0 MND 11.1 DMP 11.0 IFL 10.5

Out: MND, DMP, IFL

9.0-9.9

IFL, DMP, SUL, NUF, SDA, BAL

In: DMP, IFL, BAL Out: CSR, BKL, GEM 8.0-8.9%

HVN, CSR, NWS, NAN

In: CSR Out: BAL

7.0-7.9%

KDR, GEM, PLS, FLT, AMC

In: GEM Out: APT

6.0-6.9%

BKL, A2M, APT, MSB, MND, BOQ, CGF, KAR, AHG, AMP, AAC, CCP, HT1, BGA

In: MND, BKL, APT, A2M, AHG, BGA Out: NEC, GMA

5.0-5.9%

GMA, MLX, SEK, RWC, CLQ, PTM, MOC, BIN, CAB, RSG, DHG, BEN, CLH, PPT, SGM, RFG

In: RFG Out: BGA, A2M, AHG, IGO

Movers & Shakers

See above.

ASX20 Short Positions (%)

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

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering" may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio – a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option ("buy-write") position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a "long" position in that stock.

Another popular trading strategy is that of "pairs trading" in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a "net neutral" market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

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

The Wrap: Banks, Slots, China And Contractors

Weekly Broker Wrap: banks; slot manufacturers; China consumer; contractors; Alliance Minerals; and GR Engineering.

-Conflicting signals for Australia's banking sector -Aristocrat Leisure continues to lead slot manufacturer performance -New period of grace for cross-border e-commerce in China factored in -Activity levels improve for contractor sector

By Eva Brocklehurst

Banks

Profitability across mortgage portfolios has improved. Macquarie reports the Lendi Mortgage Pricing Index shows owner occupier rates in November were around three basis points higher than the second half FY18 average.

This survey also indicates that while competition for owner occupier product is intense, banks have not passed on the full amount of re-pricing to new customers. Macquarie also notes the funding gap continues to widen as deposit growth moderates further.

Morgan Stanley is negative on major banks and expects growth to slow to around 2% in FY19 and FY20. System housing loan growth dropped to 5.3% in October, down from 7% a year ago.

While major bank growth is slowing in terms of owner occupier loans, it is slowing even faster for investor property lending. The broker suggests this is negative for bank margins, given lower prices and more front book competition in owner occupier loans.

Morgan Stanley believes the effect of restrictions on high debt-to-income customers and more scrutiny on income and expenses is now materialising. This underpins an expectation that major banks will continue to lose share.

In contrast, market share losses from the major banks are starting to abate, in Macquarie's opinion, and the slowdown in system credit growth is likely to be stemming from the non-banks implementing tighter lending standards.

Morgan Stanley points out system credit is a broad measure that captures business as well as corporate and institutional loans. The broker cites evidence that leverage to stronger business banking revenue has decreased for major banks in recent years, as they have skewed the business mix towards retail and mortgage lending.

Credit Suisse remains tactically constructive on the sector, believing the market is over estimating the structural impact of the Hayne Royal Commission. Together with margin benefits in the first half, the broker believes there will be a net benefit to earnings after an additional round of remediation in FY19.

This should mean the current -40% discount to the ASX industrials narrows. In the medium term, the prospect of a change in government is likely to limit a substantial re-rating of the sector, the broker suggests, until more clarity is forthcoming.

Slot Manufacturers

Macquarie has reviewed the performance of slot machine games within Australia over October. Overall, Aristocrat Leisure's ((ALL)) new games are performing 60% above floor average. The Dragon series leads performance across all states.

Meanwhile, games released over the last 12 months by Ainsworth Game ((AGI)) have performed below floor averages in October. Macquarie observes this underperformance continues to affect sales.

That said, the company intends to step up R&D investment, which the broker considers is a positive development although does not expect increased levels of product for 12-24 months. The ongoing outperformance of the Aristocrat land-based slot products in Australia makes Macquarie confident that a greater market share can be obtained in North America.

China Consumer

China's finance ministry has announced a new expanded list and extended the period of grace for cross-border e-commerce. The new list will be effective from January 1, 2019 and the grace period will be in place until March 31, 2019.

The list outlines goods that will be treated as personal items and, Citi notes, appears to include infant formula and a variety of health supplements, although it is currently unclear how this will apply to the broader health food category.

This indicates a lower-risk and longer-term policy than Citi had initially expected. Still, the introduction of a separate system for high-risk categories, such as infant formula and health foods, is likely over the medium term, as China clamps down on product quality and safety and promotes domestic consumption.

The period of grace has already been factored into relevant stocks but the longer-term policy alleviates earnings risk over the short term, in the broker's opinion. Still, further information is required as to how the list applies to the large number of units sold by Blackmores ((BKL)) and Swisse. Freedom Foods ((FNP)) is considered less exposed to the regulation as it operates in lower-risk categories.

Contractors

Ord Minnett is generally positive on the contractor sector after meeting with a large number of companies in Perth. Activity levels appear robust and price rises are in train for some. Large iron ore projects have been confirmed for FY20 and beyond. On the negative side, labour cost increases remain a concern and conditions are competitive in some areas, which indicates margin expansion may be more limited and slower than the market expects.

The broker also noted generally supportive commentary for aftermarket activity and, therefore, puts Seven Group ((SVW)) at the top of its preferences in the sector. Still, following the voluntary administration by RCR Tomlinson, Ord Minnett is wary of owning contractor companies that are entering into material fixed-price contracts in new areas of work.

Those that are winning large amounts of fixed-price work in competitive conditions should be scrutinised, in the broker's opinion, considering the extra risk being taken on. Meanwhile, Austal ((ASB)) is experiencing opportunities with defence contracts and has highlighted new sites in Vietnam and the Philippines are offering more capacity.

Alliance Mineral

Canaccord Genuity initiates coverage of Alliance Mineral Assets ((A40)) with a Speculative Buy rating and $0.50 target. This follows completion of the merger with Tawana Resources. The company now has full ownership of the Bald Hill hard rock lithium operation in Western Australia, which has an initial reserve life of over nine years.

It was commissioned in March with initial spodumene concentrate production capacity of 155,000tpa. The broker also notes an opportunity to extend the mine life through infill drilling and/or conversion of inferred resources.

GR Engineering

Moelis initiates coverage of GR Engineering Services ((GNG)) with a Buy rating and $1.47 target. The contractor specialises in fixed-price, design and construction of mineral processing plants and mine infrastructure, in Australia and internationally.

While the broker expects FY19 earnings to be affected by the completion of a large contract in FY18 and a slower start to new projects, a recovery from the second half should be forthcoming. The broker believes the valuation and PE of 9.5x FY20 operating earnings (EBITDA) does not reflect this high-quality and high-margin business.

Treasure Chest: TechnologyOne Profit To Lift?

Is TechnologyOne on the cusp of delivering a substantial uplift in profit? Bell Potter believes so.

-Turnaround in margins clearly evident -Earnings growth of over 15% highly likely -Main risks centre on volatile investor sentiment

By Eva Brocklehurst

Is there more to come from TechnologyOne ((TNE))? The company has consistently grown net profit by 10-15% in each of the last nine years, with the exception of FY17 when net profit grew 8%.

The company believes it can increase the annual rate of growth to 15-20% and sustain this for a number of years. Bell Potter wonders whether the uplift may already be happening, given reported net profit growth of 15% in FY18 appeared understated. At present, the broker forecasts growth of 16% in FY19.

Moreover, headwinds in the last few years that have negatively affected earnings growth appear to be easing, such as reduced consulting margins, lack of substantial earnings from new cloud business and increasing losses in the UK.

Pre-tax profit margins in consulting increased to 10.4% in FY18, from 8.3% in the prior year. Bell Potter suspects this increase in margin is likely understated as there was only modest take-up of work in the segment. Hence, a turnaround is clearly evident.

UBS agrees TechnologyOne can deliver earnings growth of more than 15% over the next three years but a recovery in utilisation rates within the consulting division and stability in R&D costs are required to support this view.

Cloud Business

Margins in the cloud business also increased, to 26.6% from 15.1% over the same period. This was the second highest margin in all divisions, with only R&D higher. Bell Potter suggests a rapid rise in the cloud margin over recent years signals the potential to break through 30% in FY19 and even head to 40% in the next few years.

Ord Minnett also notes that management is increasingly confident regarding momentum in the cloud, which is encouraging because migrating new and existing customers to the cloud supports a positive investment thesis. UBS agrees the company has a good proposition to take to the cloud as its product is configurable and modular, as opposed to being highly customised.

Another aspect is improving losses in the UK, which Bell Potter anticipates may turn into a modest profit by FY20. Macquarie is not completely sure the UK is out of the woods but suggests that, given the recent rally, justifying the stock price hinges on success in the UK market. This would provide the necessary confidence that the company can succeed offshore.

Bell Potter acknowledges that not all aspects of the business will perform strongly in FY19, but a combined turnaround should have a positive impact. UBS, on the other hand, prefers to wait and obtain evidence of an acceleration in momentum before becoming more positive in its view.

Bell Potter, not one of the eight stockbrokers monitored daily on the FNArena database, removes the -5% discount applied to relative valuation and increases the terminal growth rate applied in the valuation to 5.0% from 4.0%. The net result is a 15% increase to its target, to $7.50, with a Buy rating maintained. Morgans acknowledges the fundamentals remain strong and envisages the main risk centres on the volatility in investor sentiment.

The database has three Hold ratings and one Buy (Ord Minnett). The consensus target is $5.59, signalling -11.9% downside to the last share price. Targets range from $5.01 (Morgans) to $6.00 (Ord Minnett).

See also, Confidence Grows In TechnologyOne on November 21, 2018.

Rudi's View: 'Cheap' Banks, Slowing China, High Volatility

By Rudi Filapek-Vandyck, Editor FNArena

I feel like the come-back kid who cannot down his tools, even after he has publicly announced he will. Holidays are beckoning, still, but a series of updates on Conviction Calls and Model Portfolios by stockbrokers and investment bankers this past week are triggering one more general update from me, after which I will surely take my year-end holiday break. That's a promise.

Market strategists at Citi have turned positive on the Big Four banks in Australia, an event that hadn't been witnessed for over a decade, on the firm's own admission. It's not a case of halcyon days are about to return, but more of so much bad news has been priced in, it is difficult to see how share prices can fall a lot lower from November's beaten down levels.

Ironically, this implies that were the share market to weaken a lot further in 2019, Australian banks should offer relative protection to the downside, assisted by those above-average yield/income promises. Citi's positive, value-inspired stance on Australian banks is matched by equally positive views by (some) peers elsewhere, like Shaw and Partners' Brett Le Mesurier and Bell Potter's TS Lim, to name but a few (but not Morgan Stanley and UBS).

In order to provide the complete picture: Le Mesurier at Shaw has currently Buy ratings for all of the Big Four, plus regionals Bendigo and Adalaide Bank ((BEN)), Bank of Queensland ((BOQ)) and Suncorp ((SUN)), while CYBG ((CYB)) is rated Hold. The three main insurers are all rated Sell, as is Challenger ((CGF)).

At Bell Potter, both ANZ Bank ((ANZ)) and Westpac ((WBC)) are rated Buy, with Hold ratings for CommBank ((CBA)) and National Australia Bank ((NAB)).

It is a popular trait in a "value" oriented climate as is the Australian share market to treat weakening share prices as an incentive to jump on board, but the obvious warning applies here too: should investors focus a bit more on the reason(s) as to why share prices are weaker, or is the fact of the weakening enough to unleash "value" in the foreseeable future?

Take banking industry veteran Brian Johnson and his team at CLSA, for instance. They released a 360 pages tome on the sector late in November, with the intriguing title of "Will Bill Kill? How will Shorten's platform reshape the Aussie investor?'.

CLSA's conclusion is there should be no hurry whatsoever to jump onto dragged down banking share prices. Sure, they all look "cheap", but fact of the matter is they are not as cheap as they might seem. From an historical angle, CLSA notes present valuations are much closer to long term averages than is likely being appreciated by most market watchers and commentators.

Plus banks' abilities to restrain cost input seems limited, while downward pressure on the sector's EPS outlook profile very much remains. Plus we all know Bill Shorten is most likely the next prime minister, right?

Equally important, Johnson & Co do not see any serious calamities on the horizon. So no recession, no collapse in property prices, etc. But still: no need to hurry in. Final recommendation: stay Underweight the sector. Favourites are Macquarie Group ((MQG)) and CYBG.

Amongst the larger "traditional" banks, CLSA prefers CommBank and National Australia Bank, both rated Outperform.

****

Strategists at the aforementioned Citi have replaced Rio Tinto ((RIO)) with South32 ((S32)) on the Citi Focus List Australia/NZ. Their move was inspired by more potential upside for the latter combined with a more benign house view on the outlook for iron ore prices.

South32 is also exposed to steel manufacturing but manganese is a smaller exposure in comparison with Rio Tinto, Citi strategists point out.

Other names that kept their presence on the Focus List are Charter Hall ((CHC)), Newcrest Mining ((NCM)), Nufarm ((NUF)), NextDC ((NXT)), Qantas ((QAN)), and Trade Me Group ((TME)).

****

If you thought the above dispersion in views regarding Australian banks is unique to that particular sector, better think again. On the same day the team of commodity experts at UBS reiterated their Overweight stance on the sector, triggering recommendation upgrades for Independence Group ((IGO)), Northern Star ((NST)) and South32, peers at JPMorgan/Ord Minnett turned a whole heap more cautious, arguing instead concerns around China's growth outlook are most likely to feed through into lower commodity prices, with follow-through impact on share prices for Australia's producers.

As such, the recommendation for BHP Group ((BHP)) has been pulled back to Hold, with a fresh price target of $35 (instead of $38). Mind you, this is still well above the share price on Thursday.

There are some glaring similarities between the two, with key preferences for the sector at JPM/Ord Minnett being Rio Tinto, Newcrest Mining, Northern Star, Independence Group, and Mineral Resources ((MIN)). In addition to BHP, the recommendations for Alumina ltd ((AWC)) and Evolution Mining (EVN)) were equally downgraded to Hold.

****

Update on Conviction Calls at Wilsons: no changes. Remain on the list: ARQ Group ((ARQ)), Bravura Solutions ((BVS)), Noni B ((NBL)), GWA Group ((GWA)), Collins Foods ((CKF)), Ruralco ((RHL)), Ridley Corp ((RIC)), Nanosonics ((NAN)), ImpediMed ((IPD)), Pinnacle Investment ((PNI)), Equity Trustees ((EQT)), Ausdrill ((ASL)), Mastermyne ((MYE)), and NRW Holdings ((NWH)).

****

Market strategists and Model Portfolio managers at UBS continue to recommend investment portfolios are Overweighted towards Defensives, Metals & Mining, and Energy, while retaining Underweight positions for Banks and Other Financials, as well as for REITs (note: not included under Defensives).

As far as individual stocks are concerned, UBS reports BHP Group, Woodside Petroleum ((WPL)) and Woolworths ((WOW)) screen well, with Bank of Queensland, Medibank Private ((MPL)) and Mirvac Group ((MGR)) on the other end of the spectrum.

Equally noteworthy is the fact UBS is also recommending to be Underweight gold, while Ord Minnett (see earlier) has actually started warming towards the gold sector again. Other Cyclicals, which I assume includes the likes of Incitec Pivot ((IPL)) and Orica ((ORI)), also remain in the Underweight basket at UBS.

The stand-out observation about UBS's present Model Portfolio positioning/recommendation is, however, that the largest sectorial Underweight exposure is reserved for Australian banks. Clearly, UBS does not share the more optimistic view that most, if not all, of the bad news has now been accounted for in today's share prices.

Peers at Morgan Stanley simply cannot get overly excited about the Australian share market in 2019. The freshly set target of 6000 for the ASX200 by year-end next year does suggest there should be upside, which provides some comfort in light of the disappointingly weak performance over the past three months (and counting), leading the strategists to label themselves "Constructively Cautious".

On Morgan Stanley's projections, 4% EPS growth is the realistic assumption for corporate Australia in the year ahead, with "caution around multiples" considered warranted.

As far as the Model Portfolio is concerned, Morgan Stanley's remains Underweight banks, and has now moved Overweight healthcare as well as Overweight bulk commodities. Exposure to residential housing has been further reduced by selling out of Boral ((BLD)), while the forecast of lower US bond yields in 2019 has supported adding exposure to Charter Hall, Spark Infrastructure ((SKI)) and AusNet Services ((AST)).

Young and upcoming technology disruptor Xero ((XRO)) was added to the Portfolio on "analyst conviction".

****

Emerging companies specialists at Ord Minnett remain stuck in the same lane, holding on to their Top Pick preference in favour of Seven Group ((SVW)) while their Bottom Pick (least preferred) is still Tassal Group ((TGR)).

****

December's update on stockbroker Morgans' High Conviction Calls involved the inclusion of Cleanaway Waste Management ((CWY)) and the removal of CML Group ((CGR)). Morgans suggests there is but one certainty for investors right now and that is that volatility will remain high.

Apart from Cleanaway Waste Management, the list of Conviction Buys also consists of ResMed ((RMD)), OZ Minerals ((OZL)), Westpac, Reliance Worldwide Corp ((RWC)), Lovisa Holdings ((LOV)), PWR Holdings ((PWH)), Volpara Health Technologies ((VHT)), Kina Securities ((KSL)), and Australian Finance Group ((AFG)).

The stockbroker has also one active trading idea, which is to buy into beaten-down Corporate Travel ((CTD)) shares.

****

The Australia/New Zealand Conviction List at Goldman Sachs currently comprises of Afterpay Touch ((APT)), ANZ Bank, Aristocrat Leisure ((ALL)), Crown Resorts ((CWN)), Huon Aquaculture ((HUO)), IMF Bentham ((IMF)), Lendlease Group ((LLC)), Lifestyle Communities ((LIC)), Metcash ((MTS)), Origin Energy ((ORG)), Orora ((ORA)), Pushpay Holdings ((PPH)), and .. Telstra ((TLS)).

This week Goldman Sachs added BHP Group to the Conviction List, explaining the move as "due to its favourable commodity mix (we are most positive on oil), superior margins (c.55%), non-core divestment potential, oil exploration upside and likely further share buybacks from February 2019 onwards".

****

And finally, for all investors sick and tired of gazing at weakening share prices, there is still hope with quant modeling at Longview Economics suggesting the late-in-the-year Santa rally is still a genuine prospect.

Longview Economics even dares to predict this year's Santa rally might be a "strong" one.

The not so positive news is that while Longview Economics can see a bout of short-term optimism pushing up global equities into the opening quarter of 2019, the humans behind these models remain very much concerned about global liquidity which is seen tightening, and already deemed too tight for comfort.

Enjoy the festive season. See you all back on the other end of it, in early 2019.

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

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

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

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

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

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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